PJSC “FGC UES”

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED 31 DECEMBER 2018

AND INDEPENDENT AUDITORS’ REPORT

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Independent auditor's report

To Shareholders and Board of Directors of
Public Joint-Stock Company
"Federal Grid Company of Unified Energy System"

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company "Federal Grid Company of Unified Energy System" (PJSC "FGC UES") and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed the matter
Allowance for expected credit losses on trade receivables	
The matter of creating allowance for expected credit losses on trade receivables is one of the most significant matters for our audit due to the material balances of trade receivables as of 31 December 2018, as well as due to the fact that management's assessment of the possible recoverability of these receivables is based on assumptions, in particular, on the projected solvency of the Group's customers. Information on allowance for expected credit losses on trade receivables is disclosed in Notes 10, 13 and 27 to the consolidated financial statements.	We analyzed the adequacy of the Group's accounting policy on the trade receivables with respect to the creation of allowance for expected credit losses on trade receivables, as well as procedures to confirm the appropriateness of measurements made by the Group's management, including the analysis of repayment of trade receivables, the analysis of maturity and delayed performance of obligations, and the analysis of customers' solvency. We performed audit procedures in respect of the information used by the Group to determine the allowance for expected credit losses on trade receivables, the structure of receivables by age and maturity, and tested the correctness of the charged allowance amounts based on management's estimates.

Key audit matter	How our audit addressed the matter
Impairment of non-current assets	
Due to the existence of the impairment indicators of non-current assets as of 31 December 2018, the Group performed impairment testing. The value-in-use of property, plant and equipment, forming a significant share of the Group's non-current assets, as of 31 December 2018, was determined by the projected cash flow method. The matter of impairment testing of property, plant and equipment was one of the most significant matters for our audit because the property, plant and equipment balance forms a significant part of the Group's assets at the reporting date, and because management's assessment of the value-in-use is complex and largely subjective and is based on assumptions, in particular, on the projected electricity transmission volumes, transmission fees, as well as operating and capital expenditures that depend on the expected future market or economic conditions in the Russian Federation. Information on the results of the impairment analysis of non-current assets is disclosed by the Group in Note 6 to the consolidated financial statements.	As part of our audit procedures, we also assessed the assumptions and methodologies applied by the Group, in particular, those relating to projected total revenue from the electricity transmission, tariff regulations, operating and capital expenditures, long-term growth rate and discount rate. We tested the input data incorporated in the model and the mathematical accuracy of the model used to determine the recoverable amount in the impairment test of fixed assets. We engaged valuation specialists to analyze the model used to determine the recoverable amount in the impairment test of property, plant and equipment. We also analyzed the sensitivity of the model to changes in the main indicators of assessment and the Group's disclosures of assumptions on which the results of impairment testing largely depend.

Key audit matter	How our audit addressed the matter
Assessment of retirement and other liabilities to employees	
The Group has defined benefit pension plans. Assessment of retirement and other liabilities to employees is a significant audit matter as management determines carrying values of defined benefit pension plans and the discounted value of respective liabilities on the basis of actuarial valuation that includes certain assumptions, and the amount of liabilities under defined benefit pension plans at the reporting date is highly sensitive to changes in those assumptions. Such assumptions include, but are not limited to, mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels as well as the expected return on plan asset. Information on pension liabilities is disclosed in Note 18 to the consolidated financial statements.	In the course of our audit procedures we also analyzed the applied assumptions, made sample testing of the Group's employee data used for actuarial calculations, as well as performed analytical procedures in respect of the carrying value of liabilities under the defined benefit pension plans and their changes during the period. We engaged the professional actuaries to provide assistance with these audit procedures. We also reviewed the respective disclosures in the consolidated financial statements.

Other matters

The financial statements of the PJSC "FGC UES" and its subsidiaries for 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 23 March 2018.

The financial statements of the PJSC "FGC UES" and its subsidiaries for 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 21 March 2017.

Other information included in the Company's annual report

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

T.L. Okolotina
Partner
Ernst & Young LLC

15 March 2019

Details of the audited entity

Name: PJSC "FGC UES"
Record made in the State Register of Legal Entities on 20 August 2002, State Registration Number 1024701893336.
Address: Russia 117630, Moscow, Akademika Chelomeya street, 5A.

Details of the auditor

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

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

	Notes	31 December 2018	31 December 2017 (restated*)	1 January 2017 (restated*)
ASSETS				
Non-current assets				
Property, plant and equipment	6	937,277	879,293	809,645
Intangible assets	7	6,638	6,303	7,320
Investments in associates and joint ventures	8	1,442	1,136	1,160
Financial investments	9	37,956	67,403	76,537
Deferred income tax assets	16	207	55	14
Long-term accounts receivable	10	72,699	69,350	45,145
Other non-current assets		1,306	960	1,853
Total non-current assets		**1,057,525**	**1,024,500**	**941,674**
Current assets				
Cash and cash equivalents	11	37,618	42,535	44,404
Bank deposits	12	3,811	-	450
Accounts receivable and prepayments	13	71,417	45,437	58,187
Income tax prepayments		56	211	305
Inventories	14	17,037	15,907	14,900
Other current assets		111	111	140
		130,050	**104,201**	**118,386**
Assets held for sale	30	21,467	-	-
Total current assets		**151,517**	**104,201**	**118,386**
TOTAL ASSETS		**1,209,042**	**1,128,701**	**1,060,060**
EQUITY AND LIABILITIES				
Equity				
Share capital: Ordinary shares	15	637,333	637,333	637,333
Treasury shares	15	(4,719)	(4,719)	(4,719)
Share premium		10,501	10,501	10,501
Reserves	15	25,167	40,482	49,093
Retained earnings		170,699	74,152	6,829
Equity attributable to shareholders of FGC		**838,981**	**757,749**	**699,037**
Non-controlling interest		181	(603)	(837)
Total equity		**839,162**	**757,146**	**698,200**
Non-current liabilities				
Deferred income tax liabilities	16	29,586	25,528	18,600
Non-current debt	17	224,585	233,862	236,954
Long-term accounts payable	20	15,001	14,864	-
Government grants		867	966	919
Retirement benefit obligations	18	5,950	7,617	5,959
Total non-current liabilities		**275,989**	**282,837**	**262,432**
Current liabilities				
Accounts payable to shareholders of FGC UES		213	146	73
Current debt and current portion of non-current debt	17,19	22,224	23,988	29,660
Accounts payable and accrued charges	20	67,608	60,925	62,059
Income tax payable		3,846	3,659	7,636
Total current liabilities		**93,891**	**88,718**	**99,428**
Total liabilities		**369,880**	**371,555**	**361,860**
TOTAL EQUITY AND LIABILITIES		**1,209,042**	**1,128,701**	**1,060,060**

* The amounts shown here do not correspond to the 2017 consolidated financial statements and reflect change in accounting policy for measuring property, plant and equipment (for details see Note 3).

Authorised for issue and signed on behalf of the Management Board:

15 March 2019

Chairman of the Management Board A.E. Murov

Head of Accounting and Financial Reporting – Chief Accountant A.P. Noskov

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

	Notes	Year ended 31 December 2018	Year ended 31 December 2017 (restated*)
Revenues	21	253,979	242,186
Other operating income	21	6,474	6,405
Operating expenses	22	(155,844)	(135,505)
Loss on derecognition of subsidiary		-	(52)
Reversal of impairment/(impairment) of property, plant and equipment, net	6	2,248	(11,121)
Operating profit		**106,857**	**101,913**
Finance income	23	12,981	12,587
Finance costs	24	(4,862)	(4,501)
Share of profit of associates and joint ventures	8	125	28
Profit before income tax		**115,101**	**110,027**
Income tax expense	16	(22,256)	(22,210)
Profit for the year		**92,845**	**87,817**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss			
Change in fair value of financial investments	9	1,613	-
Remeasurements of retirement benefit obligations	18	(134)	(1,395)
Income tax relating to items that will not be reclassified	16	6,717	145
Total items that will not be reclassified to profit or loss		**8,196**	**(1,250)**
Items that are or may be reclassified subsequently to profit or loss			
Change in fair value of financial investments	9	-	(9,134)
Foreign currency translation difference	8	181	(53)
Income tax relating to items that may be reclassified	16	-	1,826
Total items that are or may be reclassified to profit or loss		**181**	**(7,361)**
Other comprehensive income/(loss) for the period, net of income tax		**8,377**	**(8,611)**
Total comprehensive income for the year		**101,222**	**79,206**
Profit attributable to:			
Shareholders of FGC UES	25	92,809	87,744
Non-controlling interests		36	73
Total comprehensive income attributable to:			
Shareholders of FGC UES		101,186	79,133
Non-controlling interests		36	73
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	25	**0.074**	**0.070**

* The amounts shown here do not correspond to the 2017 consolidated financial statements and reflect change in accounting policy for measuring property, plant and equipment (for details see Note 3).

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

	Notes	Year ended 31 December 2018	Year ended 31 December 2017 (restated*)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**115,101**	**110,027**
Adjustments to reconcile profit before income tax to net cash provided by operations			
Depreciation of property, plant and equipment	22	32,346	28,428
(Gain)/loss on disposal of property, plant and equipment	22	(310)	1,093
Amortisation of intangible assets	22	1,154	1,220
(Reversal of impairment)/Impairment of property, plant and equipment, net	6	(2,248)	11,121
Loss on derecognition of subsidiary		-	52
Share of result of associates	8	(125)	(28)
Accrual/(reversal) of allowance for expected credit losses	22	4,634	(3,813)
Reversal of other provision for liabilities and charges	20	(778)	(1,320)
Finance income	23	(12,981)	(12,587)
Finance costs	24	4,862	4,501
Other non-cash operating income		(2)	(241)
Operating cash flows before working capital changes and income tax paid		**141,653**	**138,453**
Working capital changes:			
Increase in accounts receivable and prepayments		(7,458)	(3,959)
Increase in inventories		(1,130)	(1,007)
Decrease in other current assets		265	719
Increase in accounts payable and accrued charges		2,093	3,796
Income tax paid		(11,286)	(17,235)
Net cash generated by operating activities		**124,137**	**120,767**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(88,941)	(86,970)
Proceeds from disposal of property, plant and equipment		1,029	1,446
Purchase of intangible assets		(2,049)	(1,011)
Redemption of promissory notes		10	10
Placement of bank deposits		(24,134)	(9,566)
Redemption of bank deposits		20,323	10,016
Dividends received		2,251	2,579
Loans given		(53)	(1)
Repayment of loans given		23	1,002
Proceeds from sale of financial investments		3,708	-
Interest received		3,194	5,959
Net cash used in investing activities		**(84,639)**	**(76,536)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from current and non-current borrowings	17	10,054	16,074
Repayment of current and non-current borrowings	17	(20,436)	(23,795)
Repayment of lease	17	(115)	(149)
Dividends paid	15	(18,702)	(19,354)
Interest paid		(14,712)	(18,164)
Acquisition of non-controlling interests		(504)	(817)
Government grants		-	105
Net cash used in financing activities		**(44,415)**	**(46,100)**
Net decrease in cash and cash equivalents		**(4,917)**	**(1,869)**
Cash and cash equivalents at the beginning of the period	11	**42,535**	**44,404**
Cash and cash equivalents at the end of the period	11	**37,618**	**42,535**

* The amounts shown here do not correspond to the 2017 consolidated financial statements and reflect change in accounting policy for measuring property, plant and equipment (for details see Note 3).

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

		Attributable to shareholders of FGC UES							
	Notes	**Share capital**	**Share premium**	**Treasury shares**	**Reserves**	**(Accumulated deficit)/ Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
As at 1 January 2018, as previously reported		**637,333**	**10,501**	**(4,719)**	**302,099**	**(144,118)**	**801,096**	**672**	**801,768**
Effect of changes in accounting policies	3	-	-	-	(261,617)	218,270	**(43,347)**	(1,275)	**(44,622)**
As at 1 January 2018 (restated*)		**637,333**	**10,501**	**(4,719)**	**40,482**	**74,152**	**757,749**	**(603)**	**757,146**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	92,809	**92,809**	36	**92,845**
Other comprehensive income/(loss), net of related income tax									
Change in fair value of financial investments, net of tax	9, 15	-	-	-	8,458	-	**8,458**	-	**8,458**
Remeasurements of retirement benefit obligations, net of tax	15, 18	-	-	-	(262)	-	**(262)**	-	**(262)**
Foreign currency translation difference	8, 15	-	-	-	181	-	**181**	-	**181**
Total other comprehensive income		-	-	-	*8,377*	-	***8,377***	-	***8,377***
Total comprehensive income for the year		-	-	-	8,377	92,809	**101,186**	36	**101,222**
Transfer of accumulated revaluation reserve at disposal of financial investments	9	-	-	-	(23,692)	23,692	**-**	-	**-**
Dividends declared		-	-	-	-	(18,702)	**(18,702)**	-	**(18,702)**
Acquisition of non-controlling interests		-	-	-	-	(1,252)	**(1,252)**	748	**(504)**
As at 31 December 2018		**637,333**	**10,501**	**(4,719)**	**25,167**	**170,699**	**838,981**	**181**	**839,162**

* The amounts shown here do not correspond to the 2017 consolidated financial statements and reflect change in accounting policy for measuring property, plant and equipment (for details see Note 3).

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

		Attributable to shareholders of FGC UES							
	Notes	**Share capital**	**Share premium**	**Treasury shares**	**Reserves**	**(Accumulated deficit)/Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
As at 1 January 2017, as previously reportet		**637,333**	**10,501**	**(4,719)**	**281,759**	**(198,273)**	**726,601**	**1,816**	**728,417**
Effect of changes in accounting policies	3	-	-	-	(232,666)	205,102	**(27,564)**	(2,653)	**(30,217)**
As at 1 January 2017 (restated*)		**637,333**	**10,501**	**(4,719)**	**49,093**	**6,829**	**699,037**	**(837)**	**698,200**
Total comprehensive income for the year									
Profit for the year (restated*)		**-**	**-**	**-**	**-**	**87,744**	**87,744**	**73**	**87,817**
Other comprehensive income/(loss), net of related income tax									
Change in fair value of financial investments, net of tax	9, 15	-	-	-	(7,308)	-	**(7,308)**	-	**(7,308)**
Remeasurements of retirement benefit obligations, net of tax	15, 18	-	-	-	(1,252)	-	**(1,252)**	-	**(1,252)**
Foreign currency translation difference	8, 15	-	-	-	(51)	-	**(51)**	-	**(51)**
Total other comprehensive income (restated*)		**-**	**-**	**-**	***(8,611)***	**-**	***(8,611)***	**-**	***(8,611)***
Total comprehensive income for the year (restated*)		-	-	-	(8,611)	87,744	**79,133**	73	**79,206**
Dividends declared		-	-	-	-	(19,424)	**(19,424)**	(3)	**(19,427)**
Aquisition of non-controlling interests		-	-	-	-	(997)	**(997)**	180	**(817)**
Loss on derecognition of subsidiary		-	-	-	-	-	-	(16)	**(16)**
As at 31 December 2017 (restated*)		**637,333**	**10,501**	**(4,719)**	**40,482**	**74,152**	**757,749**	**(603)**	**757,146**

* The amounts shown here do not correspond to the 2017 consolidated financial statements and reflect change in accounting policy for measuring property, plant and equipment (for details see Note 3)

Note 1. PJSC “FGC UES” and its operations

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

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

On 14 June 2013 the Government of the Russian Federation (the “RF”) transferred its stake in FGC UES to PJSC “ROSSETI” (former OJSC “IDGC Holding”), the holding company of an electricity distribution group, controlled by the Government of the RF. As at 31 December 2018, FGC UES was 80.13% owned and controlled by PJSC “ROSSETI”. The remaining shares are traded on Moscow Exchange and as Global Depository Receipts on the London Stock Exchange.

The registered office of the Company is located at 5A Akademika Chelomeya Street, Moscow 117630, Russian Federation.

Relationships with the state. The Government of the RF is the ultimate controlling party of FGC UES. The Government directly affects the Group's operations via regulation over tariff by the FAS and its investment program is subject to approval by both the FAS and the Ministry of Energy. Ultimately the Government supports the Group due to its strategic position in the Russian Federation. The Government's economic, social and other policies could have a material impact on the Group’s operations.

Business environment. The Group’s operations are primarily located in the Russian Federation. Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by sanctions imposed on Russia by a number of countries. The Rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

The consolidated financial statements (“Consolidated Financial Statements”) reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

Note 2. Basis of preparation

Statement of compliance. These Consolidated Financial Statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (“IFRS”).

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the RF (“RAR”). The accompanying Consolidated Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency. The Russian Rouble (“RR”) is functional currency for FGC UES and the currency in which these Consolidated Financial Statements are presented. All financial information presented in RR have been rounded to the nearest million, unless otherwise stated.

New accounting developments not yet adopted. A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2018 and have not been applied in preparing these Consolidated Financial Statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective.

Note 2. Basis of preparation (continued)

IFRS 16 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single, on-balance lease sheet accounting model. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessee will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. There are optional recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 was issued in January 2016 and replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 Operating Leases—Incentives and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.
The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.
The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

The following new or amended standards are not expected to have a significant impact of the Group’s consolidated financial statements.

- *Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.*
- *IFRS 17 Insurance contracts*
- *Amendments to IFRS 9: Prepayment Features with Negative Compensation*
- *Amendments to IAS 19:Plan amendment, Curtailment or settlement*
- *Amendments to IAS 28: Long-term interests in associates and joint ventures*
- *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- *IFRIC 23: Uncertainty over Income Tax Treatments.*
- *Amendments to IFRS 3: Definition of a Business.*
- *Amendments to IAS 1 and IAS 8: Definition of Material*
- *The Conceptual Framework for Financial Reporting.*

Critical accounting estimates and assumptions Management makes a number of estimates and assumptions that are continually evaluated and may differ from the related actual results. The estimates 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:

Note 2. Basis of preparation (continued)

Carrying value of property, plant and equipment. As at 31 December 2018 the Group has tested property, plant and equipment for impairment (Note 6).

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group’s tax positions cannot be sustained, an appropriate amount is accrued in the Consolidated Financial Statements. The possible tax claims in respect of certain open tax positions of the Group companies are disclosed in Note 26.

Measurement of fair values. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised 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 categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 10 – Long-term receivables;
- Note 13 – Accounts receivable and prepayments;
- Note 17 – Non-current debt;
- Note 27 – Financial instruments and financial risks.

(in millions of Russian Rouble unless otherwise stated)

Note 3. Summary of significant accounting policies

Except for adoption of new standards and change in accounting policy described below the accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently by Group entities.

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

Change in accounting policies. From 1 January 2018 the Group changed its accounting policy to measuring property, plant and equipment at cost less accumulated depreciation and impairment losses. Management believes that transition from revaluation model to cost model results in a more relevant and reliable presentation of the Group's financial position and financial performance as the cost model is adopted by parent company of FGC UES – PJSC "ROSSETI", as well widely used in utilities industry and by major foreign electricity transmission companies.

In accordance with IAS 8 "Accounting policies, Changes in Accounting Estimates and errors" change in accounting policy is applied retrospectively and the comparative data have been restated. The retrospective application of the change in accounting policy had the following impact on the Group's financial position.

Changes to the Consolidated Statement of Financial Position*:

As at 1 January 2017:	As previously reported	Effect of changes in accounting policy	As restated
Property, plant and equipment	846,695	(37,050)	809,645
Total non-current assets	**978,724**	**(37,050)**	**941,674**
Total assets	**1,097,110**	**(37,050)**	**1,060,060**
Reserves	281,759	(232,666)	49,093
(Accumulated deficit) / Retained earnings	(198,273)	205,102	6,829
Equity attributable to shareholders of FGC UES	**726,601**	**(27,564)**	**699,037**
Non-controlling interests	1,816	(2,653)	(837)
Total equity	**728,417**	**(30,217)**	**698,200**
Deferred income tax liabilities	25,433	(6,833)	18,600
Total non-current liabilities	**269,265**	**(6,833)**	**262,432**
Total liabilities	**368,693**	**(6,833)**	**361,860**
Total equity and liabilities	**1,097,110**	**(37,050)**	**1,060,060**

As at 31 December 2017:	As previously reported	Effect of changes in accounting policy	As restated
Property, plant and equipment	934,417	(55,124)	879,293
Total non-current assets	**1,079,624**	**(55,124)**	**1,024,500**
Total assets	**1,183,825**	**(55,124)**	**1,128,701**
Reserves	302,099	(261,617)	40,482
(Accumulated deficit) / Retained earnings	(144,118)	218,270	74,152
Equity attributable to shareholders of FGC UES	**801,096**	**(43,347)**	**757,749**
Non-controlling interests	672	(1,275)	(603)
Total equity	**801,768**	**(44,622)**	**757,146**
Deferred income tax liabilities	36,030	(10,502)	25,528
Total non-current liabilities	**293,339**	**(10,502)**	**282,837**
Total liabilities	**382,057**	**(10,502)**	**371,555**
Total equity and liabilities	**1,183,825**	**(55,124)**	**1,128,701**

*The amounts shown here do not correspond to the condensed consolidated interim financial statements for the periods ended 3, 6 and 9 months 2018 as reflect correction of error related to certain cash flows from technological connection in the discounted cash flows model used in impairment testing.

(in millions of Russian Rouble unless otherwise stated)

Note 3. Summary of significant accounting policies (continued)

Changes to the Consolidated Statement of Profit or Loss and Other Comprehensive income:

For the year ended 31 December 2017:	As previously reported	Effect of changes in accounting policy	As restated
Operating expenses	(151,656)	16,151	(135,505)
Impairment of PPE	(13,862)	2,741	(11,121)
Operating profit	**83,021**	**18,892**	**101,913**
Profit before income tax	**91,135**	**18,892**	**110,027**
Income tax expense	(18,485)	(3,725)	(22,210)
Profit for the period	**72,650**	**15,167**	**87,817**
Change in revaluation reserve for property, plant and equipment	36,967	(36,967)	-
Income tax relating to items that will not be reclassified	(7,251)	7,396	145
Total items that will not be reclassified to profit or loss	***28,321***	***(29,571)***	***(1,250)***
Other comprehensive income, net of income tax	**20,961**	**(29,572)**	**(8,611)**
Total comprehensive income for the period	**93,611**	**(14,405)**	**79,206**
Profit / (loss) attributable to:			
Shareholders of FGC UES	72,832	14,912	87,744
Non-controlling interests	(182)	255	73
Total comprehensive income / (loss) attributable to:			
Shareholders of FGC UES	93,571	(14,438)	79,133
Non-controlling interests	42	31	73
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	**0.058**	**0.012**	**0.07**

Application of new standards. The following new standards were adopted by the Group starting from the annual period beginning on 1 January 2018: IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers”.

Financial Instruments. The financial assets are classified in the following measurement categories: those to be measured subsequently at amortised cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The classification depends on the Group’s business model for managing the financial assets and the contractual terms of the cash flows. If a hybrid contract contains a host that is a financial asset, the classification requirements apply to the entire hybrid contract.

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

The Group’s available–for–sale investments were reclassified as financial assets measured at fair value through other comprehensive income. The remaining financial assets are measured at amortised cost.

Subsequent to the initial recognition the Group’s financial liabilities are measured at amortised cost.

Expected credit losses (ECL). An allowance for expected credit losses shall be recorded for financial assets classified as at amortised cost. Loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument. For trade receivables and contract assets, the Group measures loss allowances applying a simplified approach at an amount equal to lifetime ECLs. For other financial assets classified as at amortised cost loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

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

Note 3. Summary of significant accounting policies (continued)

Revenue from Contracts with Customers. The Group recognises revenue when (or as) satisfies a performance obligation by transferring a promised goods or services (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 goods or services, net of value added tax.

Electricity transmission services and electricity sales. Revenue from rendering the electricity transmission services is recognized over the period (billing month) and measured by output method (based on the volume of electricity transmitted). Tariff for the electricity transmission services is set by FAS.

Revenue from sales of electricity and capacity is recognized over the period (billing month) and measured by output method (based on the volume of electricity or capacity sold). Electricity is being sold on Russian regulated wholesale market at rates calculated by trading operator based on the regulatory mechanisms established by the Government of RF.

Technological connection services. Revenue from connection services represents non-refundable fee for connecting the customer to electricity gird network and recognized when the customer is connected to the network. Both payment for technological connection based on individual project and standard tariffs for connection to the grid are approved by FAS and do not depend on tariff for electricity transmission.

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

Construction services. Revenue from construction services are recognised over time as the Group creates or enhances an assets that is controlled by the customer and those assets has no alternative use to the entity and the Group has an enforceable right to payment for performance completed to date.

Other revenue. Other revenues are recognized when the customer obtains control over the asset.

Contract assets. A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivable. A receivable represents the Group’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section Trade and other receivables.

Contract liabilities. A contract liability is the 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” line item included in accounts payable and accrued charges. Advances received are primarily a deferred income for the future connection services and construction contracts and are stated at nominal amount.

In accordance with IFRS 15 transition requirements, the Group applied new Standard using modified retrospective approach with cumulative effect of initially applying a Standard to be recognized as adjustment to retained earnings as at 1 January 2018.

The application of the standard had no material impact on the Group’s consolidated financial statements and therefore the retained earnings as at 1 January 2018 were not restated.

Principles of consolidation. Subsidiaries are entities (including structured entities) controlled by the Group. The Group controls an entity when it is exposed to, or has 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 the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Note 3. Summary of significant accounting policies (continued)

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined prospectively from the date on which business combination between entities under common control occurred. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity’s carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary’s IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity’s original acquisitions is also recorded in the consolidated financial statements. Any consideration for the acquisition is accounted for in the consolidated financial statements as an adjustment to retained earnings within equity.

Associates and joint ventures. Associates and joint ventures are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates and joint ventures includes goodwill identified on acquisition and is reduced by accumulated impairment losses, if any. The Group discontinues the use of the equity method of accounting from the date when it ceases to have significant influence in the associate.

The Group’s share of the post-acquisition profits or losses of associates and joint ventures is recorded in profit or loss, and its share of other comprehensive income of associates and joint ventures is recognised in the Group’s other comprehensive income. When the Group’s share of losses in an associate and joint ventures equals or exceeds its interest in the associate and joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates and joint ventures.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group’s interest in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency. Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Roubles at the official exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

As at 31 December 2018, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar was RR 69.47:US Dollar 1.00 (31 December 2017: RR 57.60:US Dollar 1.00); between the Russian Rouble and Euro: RR 79.46:Euro 1.00 (31 December 2017: RR 68.87:Euro 1.00).

Property, plant and equipment. Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and any subsequent accumulated impairment losses, where required.

Renewals and improvements are capitalised and the assets replaced are retired. The cost of minor repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in profit or loss as incurred.

Note 3. Summary of significant accounting policies (continued)

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. The useful lives are reviewed at each financial year end and, if expectations differ from previous estimates, the changes are recognised prospectively.

The useful lives, in years, of assets by type of facility are as follows:

	Useful lives
Buildings	50-80
Electric power transmission grids	20-50
Substations	15-30
Other	5-50

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised as current period loss.

An impairment loss recognised for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised.

Intangible assets. All of the Group’s intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits, are recognised as intangible assets. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful lives.

At each reporting date the management assesses whether there is any indication of impairment of intangible assets. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

Research costs are recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure incurred during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. The carrying value of development costs is reviewed for impairment annually.

Cash and cash equivalents. Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of origination and are subject to insignificant changes in value. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Bank deposits. Bank deposits comprise cash deposited at banks with a maturity date of more than three months from the acquisition date. Bank deposits are carried at amortised cost using the effective interest method.

Promissory notes. Promissory notes are financial assets with fixed or determinable cash flows recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

Trade and other receivables. Trade and other receivables are recorded inclusive of value added tax (VAT). Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Note 3. Summary of significant accounting policies (continued)

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Inventories. Inventories mostly include repair materials and spare parts for transmission assets. Inventories are valued at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

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. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a net basis and disclosed as an asset or liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Income taxes. Income taxes have been provided for in these Consolidated Financial Statements in accordance with Russian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits/losses for the current and prior periods. Taxes other than on income are recorded as operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Note 3. Summary of significant accounting policies (continued)

The Group's uncertain tax positions are reassessed by management at each end of the reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Trade accounts payable and accrued charges. Trade accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract. Accounts payable are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Debt. Debt is recognised initially at its fair value plus transaction costs that are directly attributable to its issue. Fair value is determined using the prevailing market rates of interest for similar instruments, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the debt obligation.

Borrowing costs are expensed in the period in which they are incurred if not related to purchase or construction of qualifying assets. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. The commencement date for capitalisation is when the Group (a) incurs expenditures for the qualifying asset; (b) incurs borrowing costs; and (c) undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Pension and post-employment benefits. In the normal course of business the Group makes mandatory social security contributions to the Pension Fund of the RF on behalf of its employees. These contributions are expensed when incurred and included in employee benefit expenses and payroll taxes in profit or loss.

In addition, the Group maintains a number of post-employment and other long-term benefit plans which are defined benefit in nature. These plans include life pension, lump sum upon retirement, financial support after retirement, jubilee and death benefits and cover majority of the Group’s employees. Under the pension plan amount of pension benefits that an employee will receive after retirement depends on his date of birth, number of years of service, position, salary and presence of awards. The Group settles its liability to provide life pension through a non-state pension fund. The assets held in the non-state pension fund are recognized within other non current assets. Other benefits, apart from life pension payable via the non-state pension fund, are provided when they are due directly by the Group.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that have terms to maturity approximating the terms of the related pension liabilities.

Note 3. Summary of significant accounting policies (continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit or loss.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in debts. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Treasury shares. Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders’ equity.

Dividends. Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared (approved by shareholders) before or on the end of the reporting period. Dividends are disclosed when they are declared after the end of the reporting period, but before the consolidated financial statements are authorised for issue.

Non-controlling interest. Non-controlling interest represents minority’s proportionate share of the equity and comprehensive income of the Group’s subsidiaries. This has been calculated based upon the non-controlling interests’ ownership percentage of these subsidiaries. Specific rights on liquidation for preference shareholders of subsidiaries are included in the calculation of non-controlling interests. The Group uses the ‘economic entity’ approach to the recognition of non-controlling interest. Any gains or losses resulting from the purchases and sales of the non-controlling interests are recognised in the consolidated statement of changes in equity.

Government grants. Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

Share capital. Ordinary shares with discretionary dividends are classified as equity upon completion of share issue and registration of the issue in the Federal Financial Markets Service. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating ordinary shares outstanding during the reporting period.

(in millions of Russian Rouble unless otherwise stated)

Note 4. Principal subsidiaries

The principal subsidiaries as at 31 December 2018 and 31 December 2017 are presented below:

	31 December 2018		31 December 2017	
Name	**Ownership, %**	**Voting, %**	**Ownership, %**	**Voting, %**
Transmission companies:				
OJSC “The Kuban trunk grids”	100.0	100.0	75.3	75.3
OJSC “The Tomsk trunk grids”	87.2	96.2	77.9	85.5
Other companies				
JSC “Mobile gas-turbine electricity plants”	100.0	100.0	100.0	100.0
JSC “Research and development centre of FGC UES”	100.0	100.0	100.0	100.0
JSC “Specialised electricity transmission service company of the UNEG”	100.0	100.0	100.0	100.0
JSC “Engineering and construction management centre of Unified Energy System”	100.0	100.0	100.0	100.0

Transmission companies. OJSC “The Kuban trunk grids” and OJSC “The Tomsk trunk grids” own the UNEG assets which are maintained and operated by the Company.

In 2018 the Group had increased its holdings in OJSC “The Kuban trunk grids” and OJSC “The Tomsk trunk grids” from 75.3% and 77.9% to 100% and 87.2% respectively with the acquisition cost of additional shares of RR 504 million.

JSC “Mobile gas-turbine electricity plants”. The primary activity of the company is generating and sale of electricity provided by mobile gas-turbine electricity plants used in power deficient points of the power system or in peak periods as temporary source of additional capacity.

JSC “Research and development centre of FGC UES” is a research and development project institution in the sphere of electric power.

JSC “Specialised electricity transmission service company of the UNEG”. The main activities of this company are technical inspection, maintenance and regular and emergency repairs of power grids and other electric power facilities of the UNEG.

JSC “Engineering and construction management centre of Unified Energy System”. The main activity of this company is functioning as a customer-developer in capital construction projects associated with the reconstruction and technical modernisation of electricity supply facilities and infrastructure.

Note 5. Balances and transactions with related parties

Government-related entities. In the normal course of business the Group enters into transactions with government-related entities – entities, controlled, jointly controlled or significantly influenced by the Government of the Russian Federation. Large portion of the Group's primary activity – transmission services are rendered to government-related entities at the regulated tariffs. The Group borrows funds from government-related banks at the prevailing market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

During the years ended 31 December 2018 and 31 December 2017 the Group had the following significant transactions with government-related entities:

	Year ended 31 December 2018	Year ended 31 December 2017
Transmission revenue	170,026	158,971
Electricity sales	4,213	3,633
Construction services	4,832	11,221
Connection services	16,870	17,959
Dividend income	2,251	2,579
Interest income	3,200	4,663
Net (acrual) / reversal of allowance for expected credit losses	(1,167)	3,498
Purchased electricity for production needs	(6,255)	(5,896)
Rent	(993)	(926)

(in millions of Russian Rouble unless otherwise stated)

Note 5. Balances and transactions with related parties (continued)

Significant balances with government-related entities are presented below:

	31 December 2018	31 December 2017
Cash and cash equivalents	33,598	33,750
Bank deposits	2,615	-
Long-term accounts receivable (net of allowance for expected credit losses of RR 49 million as at 31 December 2018 and RR 1 596 million as at 31 December 2017)	71,522	67,126
Other non-current assets	6	12
Other current assets	7	7
Trade receivables (net of allowance for expected credit losses of RR 5,426 million as at 31 December 2018 and RR 4,431 million as at 31 December 2017)	31,096	29,175
Other receivables (net of allowance for expected credit losses of RR 1,384 million as at 31 December 2018 and RR 1,399 million as at 31 December 2017)	20,863	1,728
Advances to suppliers (net of allowance for doubtful debtors of RR 66 million as at 31 December 2018 and RR 834 million as at 31 December 2018)	190	125
Financial investments	37,956	67,403
Advances to construction companies and suppliers of property, plant and equipment (included in construction in progress)	433	360
Accounts payable to the shareholders of FGC UES	(213)	(146)
Non-current debt	(123)	(1)
Current debt	(86)	(300)
Long-term accounts payable	(2,304)	(211)
Accounts payable and accrued charges	(13,210)	(15,713)

As at 31 December 2018 the Group had long-term undrawn committed financing facilities with government-related banks of RR 65,000 million (31 December 2017: RR 95,000 million) with the interest rates not exceeding 14.95% and the maturity dates in 2020. Short-term undrawn committed financing facilities with government-related banks amounted to RR 90,050 million as at 31 December 2018 (31 December 2017: RR 25,350 million) with the interest rates not exceeding 14%.

Tax balances and charges are disclosed in Notes 16, 20 and 22. Tax transactions are disclosed in the Consolidated Statement of Profit of Loss or Other Comprehensive Income.

Parent company. During the years ended 31 December 2018 and 31 December 2017 the Group had the following significant transactions with the parent company of FGC UES - PJSC “ROSSETI”:

	Year ended 31 December 2018	Year ended 31 December 2017
Revenues	-	439
Operating expenses	(358)	(724)

Significant balances with the parent company are presented below:

	31 December 2018	31 December 2017
Trade receivables	173	10
Financial investments	426	1,380
Accounts payable and accrued charges	-	(41)

Directors’ compensation. Compensation is paid to the members of the Management Board for their services in full time management position. The compensation is made up of a contractual salary, non-cash benefits, and a performance bonus depending on results for the period according to Russian statutory financial statements. Also, additional medical coverage is provided to the members of Management Board and their close family members.

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year. Fees, compensation or allowances, are not paid to the members of the Board of Directors who are government employees.

(in millions of Russian Rouble unless otherwise stated)

Note 5. Balances and transactions with related parties (continued)

Total remuneration in the form of salary, bonuses and non-cash benefits (social security contributions are not included) provided to the members of the Management Board for the year ended 31 December 2018 and 31 December 2017 was as follows:

	Year ended 31 December 2018	Year ended 31 December 2018
Short-term compensation, including salary and bonuses	352	352
Post-employment benefits and other long-term benefits	10	14
Total	**362**	**366**

The amount of the short-term compensation to members of the Management Board represents remuneration accrued during the respective period. Remuneration provided to the members of the Board of Directors for the year ended 31 December 2018 amounted to RR 7 million (31 December 2017: RR 7 million).

Note 6. Property, plant and equipment

	Buildings	Power trans-mission grids	Substations	Construction in progress	Other	Total
Cost						
Balance as at 1 January 2018 (restated)	30,887	565,705	663,753	283,267	78,345	1,621,957
Additions	2	191	87	101,650	2,954	104,884
Transfers	1,275	53,905	76,859	(135,755)	3,716	-
Reclassification to assets held for sale	(130)	(14,859)	(14,388)	-	(1,893)	(31,270)
Disposals	(225)	(194)	(784)	(596)	(336)	(2,135)
Balance as at 31 December 2018	31,809	604,748	725,527	248,566	82,786	1,693,436
Including PPE under finance lease	-	-	-	-	914	914
Accumulated depreciation and impairment						
Balance as at 1 January 2018 (restated)	(7,150)	(280,150)	(339,214)	(67,957)	(48,193)	(742,664)
Depreciation charge	(428)	(9,217)	(18,851)	-	(3,850)	(32,346)
Reversal of impairment	-	-	-	2,248	-	2,248
Reclassification to assets held for sale	35	6,048	7,684	-	1,422	15,189
Transfers	(93)	(2,760)	(6,094)	9,120	(173)	-
Disposals	19	81	717	155	442	1,414
Balance as at 31 December 2018	(7,617)	(285,998)	(355,758)	(56,434)	(50,353)	(756,160)
Including PPE under finance lease	-	-	-	-	(428)	(428)
Net book value as at 1 January 2018 (restated)	23,737	285,555	324,539	215,310	30,152	879,293
Net book value as at 31 December 2018	24,192	318,750	369,769	192,132	32,434	937,277

(in millions of Russian Rouble unless otherwise stated)

Note 6. Property, plant and equipment (continued)

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Cost (restated)						
Balance as at 1 January 2017	29,673	548,502	615,499	247,003	74,451	1,515,128
Additions	503	11,595	3,952	92,484	3,297	111,831
Transfers	739	5,811	45,738	(53,962)	1,674	-
Disposals	(28)	(203)	(1,436)	(2,258)	(1,077)	(5,002)
Balance as at 31 December 2017	30,887	565,705	663,753	283,267	78,345	1,621,957
Including PPE under finance lease	-	-	-	-	914	914
Accumulated depreciation and impairment (restated)						
Balance as at 1 January 2017	(6,559)	(268,131)	(315,948)	(69,750)	(45,095)	(705,483)
Depreciation charge	(367)	(8,387)	(16,027)	-	(3,647)	(28,428)
Impairment loss	(120)	(3,409)	(3,417)	(3,918)	(257)	(11,121)
Transfers	(115)	(357)	(4,994)	5,694	(228)	-
Disposals	11	134	1,172	17	1,034	2,368
Balance as at 31 December 2017 (restated)	(7,150)	(280,150)	(339,214)	(67,957)	(48,193)	(742,664)
Including PPE under finance lease	-	-	-	-	(399)	(399)
Net book value as at 1 January 2017 (restated)	23,114	280,371	299,551	177,253	29,356	809,645
Net book value as at 31 December 2017 (restated)	23,737	285,555	324,539	215,310	30,152	879,293

Borrowing costs of RR 10,270 million for the year ended 31 December 2018 were capitalised within additions (for the year ended 31 December 2017: RR 13,287 million). A capitalisation rate of 5.33% was used for the year ended 31 December 2018 (for the year ended 31 December 2017: 6.99%) to determine the amount of borrowing costs eligible for capitalisation, representing the weighted average of the borrowing costs applicable to the borrowings of the Group that were outstanding during the periods.

Construction in progress is represented by the carrying amount of property, plant and equipment that has not yet been put into operation and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2018 such advances amounted to RR 15,390 million (as at 31 December 2017: RR 14,684 million).

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment. Land plots are classified together with items of property, plant and equipment located on them.

In 2018 the reversal of impairment loss of RR 2,248 million represent reversing of impairment loss for an individual assets.

Impairment. The Group performed the impairment test of property, plant and equipment as at 31 December 2018.

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

Consequently the recoverable amount of property, plant and equipment was primarily determined as value-in-use using discounted cashflows method. The Group’s Transmission segment (Note 29) was considered as a single cash generating unit.

(in millions of Russian Rouble unless otherwise stated)

Note 6. Property, plant and equipment (continued)

The following key assumptions were used in performing the cash flow testing of Transmission segment:

- Forecast period is determined as 10 years – from 2019 to 2028 (for the year ended 31 December 2017: from 2018 to 2027).
- A nominal after-tax discount rate of 9.47% (31 December 2017: 9.08%) was determined based on the weighted average cost of capital.
- Revenue projections are based on following assumptions:
  - Approved Regulatory Asset Base tariff calculation for 2019 (31 December 2017: 2018-2019)
  - Key parameters for tariff-setting (rates of return for "old" and "new" capital (10%); normal useful live for calculation of return of capital (35 years); Net Working Capital to revenue ratio (7.9%) (31 December 2017: the same);
  - Increase of operating expenses at a compound annual growth rate of 3% (31 December 2017: 3.4%) that is determined with reference to expected inflation rate in Russian Federation and takes into account planned economy on controllable costs;
  - Decrease of the volume of "old" capital employed under RAB methodology;
  - Fixed volume of contracted capacity from 2023 onwards.
- Terminal value was determined based on Gordon growth model with terminal growth rate of 4% (31 December 2017: 2.82%) (in line with long-term consumer price index forecast published by Ministry of Economic Development).

As a result of impairment test no additional impairment of property, plant and equipment was recognized in 2018.

The sensitivity of the recoverable amount of property, plant and equipment included in Transmission segment to changes in the weighted principal assumptions is as follows:

	Year ended 31 December 2018		Year ended 31 December 2017	
	Increase	**Decrease**	**Increase**	**Decrease**
Discount rate (0.5% movement)	(8.2%)	9.8%	(7.2%)	8.4%
Terminal growth rate (1% movement)	13.6%	(9.4%)	10.8%	(7.8%)
Tariff growth rate (3% movement)	8.9%	(8.9%)	8.1%	(8.1%)

Leased property, plant and equipment. Included in property, plant and equipment are certain items under finance leases. As at 31 December 2018 the net book value of leased property, plant and equipment was RR 486 million (as at 31 December 2017: RR 515 million). The leased equipment is pledged as security for the lease obligations.

Operating leases. The Group leases a number of land areas owned by local governments under operating lease. The expected lease payments due are determined based on the lease agreements and are payable as follows:

	31 December 2018	31 December 2017
Under one year	849	645
Between one and five years	1,677	1,287
Over five years	9,503	9,199
Total	**12,029**	**11,131**

The above lease agreements are usually signed for a period of 1 to 49 years and may be extended for a longer period. The lease payments are subject to review on a regular basis to reflect market rent prices.

As at 31 December 2018 the carrying value of property, plant and equipment leased out under operating lease was RR 10,496 million (as at 31 December 2017: RR 10,150 million).

(in millions of Russian Rouble unless otherwise stated)

Note 7. Intangible assets

	Software	Other intangible assets	Total
Cost as at 1 January 2018	10,755	6,047	16,802
Accumulated amortisation	(7,953)	(2,546)	(10,499)
Carrying value as at 1 January 2018	2,802	3,501	6,303
Additions	1,494	555	2,049
Disposals – cost	(54)	(582)	(636)
Disposals - accumulated amortisation	53	23	76
Amortisation charge	(911)	(243)	(1,154)
Carrying value as at 31 December 2018	3,384	3,254	6,638
Cost as at 31 December 2018	12,195	6,020	18,215
Accumulated amortisation	(8,811)	(2,766)	(11,577)
Carrying value as at 31 December 2018	3,384	3,254	6,638

	Software	Other intangible assets	Total
Cost as at 1 January 2017	10,259	6,506	16,765
Accumulated amortisation	(7,096)	(2,349)	(9,445)
Carrying value as at 1 January 2017	3,163	4,157	7,320
Additions	606	406	1,012
Transfers	(48)	48	-
Disposals – cost	(62)	(913)	(975)
Disposals - accumulated amortisation	165	1	166
Amortisation charge	(1,022)	(198)	(1,220)
Carrying value as at 31 December 2017	2,802	3,501	6,303
Cost as at 31 December 2017	10,755	6,047	16,802
Accumulated amortisation	(7,953)	(2,546)	(10,499)
Carrying value as at 31 December 2017	2,802	3,501	6,303

The software consists of several sub aplications and related licences. As at 31 December 2018 only certain sub aplications were placed in operation and are subject to amortisation. These sub aplications are amortised during 5 years, on a straight-line basis. Software includes development costs of RR 1,135 million as at 31 December 2018 (as at 31 December 2017: RR 766 million).

Other intangible assets include capitalised development costs that meet the definition of an intangible asset of RR 403 million as at 31 December 2018 (as at 31 December 2017: RR 505 million).

Note 8. Investments in associates and joint ventures

The movements in the carrying value of investments in associates and joint ventures are as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Carrying value as at 1 January	**1,136**	**1,160**
Share of result of associates and joint ventures	125	28
Translation difference	181	(52)
Carrying value as at 31 December	**1,442**	**1,136**

The carrying value of investments in associates and joint ventures is as follows:

	31 December 2018	31 December 2017
JSC UES "SakRusEnergo"	1,376	1,030
Other associates	66	106
Total investments in associates	**1,442**	**1,136**

(in millions of Russian Rouble unless otherwise stated)

Note 9. Financial investments

	1 January 2018	Change in fair value	Disposals	31 December 2018
PJSC “INTER RAO UES”	65,912	1,667	(30,160)	37,419
PJSC “ROSSETI”	1,380	(54)	(900)	426
Other	111	-	-	111
Total	**67,403**	**1,613**	**(31,060)**	**37,956**

	1 January 2017	Change in fair value	31 December 2017
PJSC “INTER RAO UES”	74,520	(8,608)	65,912
PJSC “ROSSETI”	1,906	(526)	1,380
Other	111	-	111
Total	**76,537**	**(9,134)**	**67,403**

Valuation of PJSC “INTER RAO UES” and PJSC “ROSSETI” is made on a recurring basis using quoted market prices (Level 1 inputs) at the end of each reporting period.

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

During the 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 recognized change in fair value for financial investments amounted to RR 2,957 million relating to the part of financial investment in PJSC “INTER RAO UES” shares sold to JSC “Inter RAO Capital” and “DVB Leasing” LLC on 29 June 2018 and on 31 July 2018 respectively. Accumulated revaluation reserve, net of tax, relating to shares disposed and amounted to RR 23,247 million has been reclassified from reserves to retained earnings.

Sale of financial investments in PJSC “ROSSETI”. On 28 August 2018 the Group has concluded sales agreement to sell 1,080,647 thousand shares or 0.538% financial investment in PJSC “ROSSETI” to “GENNORD PROJECTS LIMITED” for the price of RR 0.8328 per share. As at 31 December 2018 shares were transferred to “GENNORD PROJECTS LIMITED”.

During the year ended 31 December 2018 the Group has recognized revaluation gain for financial investments amounted to RR 13 million relating to financial investment in PJSC “ROSSETI” shares sold to “GENNORD PROJECTS LIMITED” on 28 August 2018. Accumulated revaluation reserve, net of tax, relating to shares disposed and amounted to RR 445 million has been reclassified from reserves to retained earnings.

Note 10. Long-term accounts receivable

	31 December 2018	31 December 2017
Long-term trade receivables (net of allowance for expected credit losses of RR 24 million as at 31 December 2018 and RR 1,906 million as at 31 December 2017)	72,507	68,530
Long-term other receivables (net of allowance for expected credit losses of RR 64 million as at 31 December 2018 and RR 368 million as at 31 December 2017)	192	820
Total	**72,699**	**69,350**

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

As at 31 December 2018 long-term receivables in the amount of RR 67,994 million (as at 31 December 2017: RR 56,577 million) relating to the contracts of technological connection are being paid in equal parts every six months with an interest accrued on the actual outstanding balances at the rate of 6% per annum.

(in millions of Russian Rouble unless otherwise stated)

Note 10. Long-term accounts receivable (continued)

Fair value of consideration receivable for these contracts is determined using present value technique based on estimated future cash flows and the discount rates of 8.2-9.63%.

As at 31 December 2018 long-term receivables in the amount of RR 3,452 million (as at 31 December 2017: RR 7,381 million) represent restructured balances for transmission services from related parties for which debt restructuring agreements were signed in 2016-2018 with a payment terms of 2018-2022 years and an interest rate varying from Central bank key interest rate to 14% (Note 5).

Note 11. Cash and cash equivalents

	31 December 2018	31 December 2017
Cash at bank and in hand	22,285	13,259
Cash equivalents	15,333	29,276
Total cash and cash equivalents	**37,618**	**42,535**

Cash at bank and in hand	Rating	Rating agency	31 December 2018	31 December 2017
JSC “Gazprombank”	BB+	Fitch Ratings	6,690	3,365
PJSC “VTB”	Ba1	Moody’s	5,491	366
PJSC “Sberbank”	Ba1	Moody’s	4,253	2,216
Federal Treasury Department	-	-	2,290	2,964
PJSC "RNCB"	A (RU)	Acra	2,234	3,354
JSC “Alfa-Bank”	Ba1	Moody’s	798	766
JSC "Bank “ROSSIYA”	A+ (RU)	Acra	511	222
Other banks			1	1
Cash in hand			17	5
Total cash at bank and in hand			**22,285**	**13,259**

Cash equivalents include short-term investments in bank deposits:

Bank deposits	Interest rate	Rating	Rating agency	31 December 2018	31 December 2017
PJSC “Sberbank”	4.07-7.9%	Ba1	Moody’s	7,067	8,105
JSC “Gazprombank”	4.50-8.05%	BB+	Fitch Ratings	4,597	6,112
JSC "Russian regional development bank"	8.00%	Ba1/Np	Moody’s	2,202	-
PJSC “VTB”	0.01-7.91%	Ba1	Moody’s	795	5,040
JSC "Rosselkhozbank"	6.75-7.30%	BB+	Fitch Ratings	181	2,201
JSC "Bank “ROSSIYA”	6.75-7.10%	A+ (RU)	Acra	-	4,402
JSC “Alfa-Bank”	6.75%	Ba1	Moody’s	-	3,302
PJSC “Bank Otkritie Financial Corporation”	7.75%	Ba2	Moody’s	-	27
Total bank deposits				**14,842**	**29,189**

As at 31 December 2018 cash and cash equivalents include amounts denominated in foreign currency totalling RR 88 million (as at 31 December 2017: RR 77 million).

Note 12. Bank deposits

	Interest rate	Rating	Rating agency	31 December 2018	31 December 2017
JSC "Rosselkhozbank"	6.55-8.20%	Ba2	Moody’s	1,694	-
JSC “Alfa-Bank”	7.50-8.15%	Ba1	Moody’s	1,196	-
JSC “Gazprombank”	7.46%	BB+	Fitch Ratings	921	-
Total bank deposits				**3,811**	**-**

The carrying amount of bank deposits approximates their fair value.

There were no bank deposits denominated in foreign currency as at 31 December 2018 and 31 December 2017.

(in millions of Russian Rouble unless otherwise stated)

Note 13. Accounts receivable and prepayments

	31 December 2018	31 December 2017
Trade receivables		
(net of allowance for expected credit losses of RR 10,725 million as at 31 December 2018 and RR 6,764 million as at 31 December 2017)	35,855	35,445
Other receivables		
(net of allowance for expected credit losses of RR 4,250 million as at 31 December 2018 and RR 2,895 million as at 31 December 2017)	32,059	4,267
Total financial assets	**67,914**	**39,712**
VAT recoverable	702	1,791
Advances to suppliers		
(net of allowance for doubtful debtors of RR 245 million as at 31 December 2018 and RR 888 million as at 31 December 2017)	2,638	3,801
Tax prepayments	163	133
Total accounts receivable and prepayments	**71,417**	**45,437**

As at 31 December 2018 other receivables includes RR 28,389 million due from JSC “Inter RAO Capital” and “DVB Leasing” LLC under the PJSC “INTER RAO UES” share sales agreement.

Trade and other receivables are largely due in 30 to 90 days. Given the short period of the trade and other receivables repayment, the fair value of such receivables approximates their book value.

Management has determined the provision for expected credit losses based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. The effects of discounting are reflected in the expected credit losses allowance and expense. Management believes that the Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded value of receivables approximates their fair value.

The movements of the provision for expected credit losses for the year ended 31 December 2018 are shown below:

Year ended 31 December 2018	Long-term receivables	Short-term trade receivables	Other short-term receivables	Total
As at 1 January	**2,274**	**6,764**	**2,895**	**11,933**
Provision accrual	60	4,022	1,546	5,628
Provision reversal	(18)	(869)	(107)	(994)
Debt written-off	-	(87)	(140)	(227)
Reclassification to assets held for sale	(1,193)	(50)	(34)	(1,277)
Reclassifications	(1,035)	945	90	-
As at 31 December	**88**	**10,725**	**4,250**	**15,063**

The movements of the provision for doubtful debtors for the year ended 31 December 2017 are shown below:

Year ended 31 December 2017	Long-term receivables	Short-term trade receivables	Other short-term receivables	Advances to suppliers	Total
As at 1 January	**524**	**12,117**	**3,513**	**2,054**	**18,208**
Provision accrual	1,586	1,010	475	52	3,123
Provision reversal	(294)	(5,597)	(992)	(53)	(6,936)
Debt written-off	(173)	(171)	(103)	(1,127)	(1,574)
Reclassifications	631	(595)	2	(38)	-
As at 31 December	**2,274**	**6,764**	**2,895**	**888**	**12,821**

(in millions of Russian Rouble unless otherwise stated)

Note 13. Accounts receivable and prepayments (continued)

The ageing of trade and other receivables at the reporting date was as follows:

	31 December 2018	31 December 2017
Not overdue	59,466	32,502
Past due:		
Less than 3 months	3,302	2,542
3 to 6 months	943	1,810
6 to 12 months	2,548	2,672
1 year to 3 years	2,085	3,501
Total	**68,344**	**43,027**

As at 31 December 2018 overdue accounts receivable for the total amount of RR 430 million were presented within long-term accounts receivable based on management’s expectation of future settlement (as at 31 December 2017: RR 3,315 million).

Note 14. Inventories

	31 December 2018	31 December 2017
Spare parts	4,588	4,009
Repair materials	5,338	4,876
Work in progress on construction contracts	981	2,271
Other inventories	6,130	4,751
Total inventories	**17,037**	**15,907**

The cost of inventories is shown net of write-down to net realizable value for RR 208 million as at 31 December 2018 (as at 31 December 2017: RR 18 million). As at 31 December 2018 and 31 December 2017 the Group had no inventories pledged as security under loan and other agreements.

Note 15. Equity

Share capital

	Number of shares issued and fully paid		Share capital	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Ordinary shares	1,274,665,323,063	1,274,665,323,063	637,333	637,333

As at 31 December 2018 the authorised share capital comprised 1,346,805,824 thousand ordinary shares with a nominal value of RR 0.5 per share.

Treasury shares. As at 31 December 2018 the Group held through a subsidiary 13,727,165 thousand ordinary shares in treasury at the total cost of RR 4,719 million (as at 31 December 2017: RR 4,719 million).

Reserves. Reserves included Revaluation reserve for financial investments, foreign currency translation reserve and remeasurement reserve for retirement benefit obligations. The Foreign currency translation reserve relates to the exchange differences arising on translation of net assets of a foreign associate.

(in millions of Russian Rouble unless otherwise stated)

Note 15. Equity (continued)

Reserves comprised the following:

	31 December 2018	31 December 2017 (restated)
Revaluation reserve for financial investments (Note 9)	27,092	42,326
Remeasurement reserve for retirement benefit obligations (Note 18)	(2,426)	(2,164)
Foreign currency translation reserve (Note 8)	501	320
Total reserves	**25,167**	**40,482**

Reserves for the year ended 31 December 2018 (net of tax):

	Revaluation reserve for Financial investments (Note 9)	Remeasure-ment reserve for retirement benefit obligations (Note 18)	Foreign currency translation reserve (Note 8)	Total reserves
As at 1 January 2018 (restated)	**42,326**	**(2,164)**	**320**	**40,482**
Change in fair value of financial investments	8,458	-	-	**8,458**
Sale of financial investments	(23,692)	-	-	**(23,692)**
Remeasurements of retirement benefit obligations	-	(262)	-	**(262)**
Foreign currency translation difference	-	-	181	**181**
As at 31 December 2018	**27,092**	**(2,426)**	**501**	**25,167**

Reserves for the year ended 31 December 2017 (net of tax):

	Revaluation reserve for Financial investments (Note 9)	Remeasure-ment reserve for retirement benefit obligations (Note 18)	Foreign currency translation reserve (Note 8)	Total reserves
As at 1 January 2017 (restated)	**49,634**	**(912)**	**371**	**49,093**
Change in fair value of financial investments	(7,308)	-	-	**(7,308)**
Remeasurements of retirement benefit obligations	-	(1,252)	-	**(1,252)**
Foreign currency translation difference	-	-	(51)	**(51)**
As at 31 December 2017 (restated)	**42,326**	**(2,164)**	**320**	**40,482**

Dividends. The annual statutory accounts of the parent company, FGC UES, form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2018, the net profit of FGC UES, as reported in the published statutory financial statements, was RR 56,187 million (net profit for the year ended 31 December 2017: RR 42,362 million).

At the Annual General Meeting in June 2018 shareholders approved the decision to distribute dividends for the year 2017 in the total amount of RR 18,884 million, RR 182 million of them relate to treasury shares. Dividends per ordinary share amounted to RR 0.01482.

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

(in millions of Russian Rouble unless otherwise stated)

Note 16. Income tax

Income tax expense comprises the following:

	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
Current income tax charge	(11,633)	(13,352)
Deferred income tax charge	(10,623)	(8,858)
Total income tax expense	**(22,256)**	**(22,210)**

During the years ended 31 December 2018 and 31 December 2017 the Company and its principal subsidiaries were subject to tax rate of 20 percent on taxable profit.

In accordance with Russian tax legislation, tax losses in some Group companies may not be offset against taxable profits of other Group companies.

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

	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
Profit before income tax	**115,101**	**110,027**
Theoretical income tax charge at the statutory tax rate of 20 percent	(23,020)	(22,005)
Tax effect of items which are not deductible for taxation purposes	603	(381)
Movement in unrecognised deferred tax assets	161	176
Total income tax expense	**(22,256)**	**(22,210)**

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. As at 31 December 2018 deferred income tax assets and liabilities were measured at 20 percent , the rates expected to be applicable when the asset or liability will reverse, except for deferred income tax assets and liabilities related to financial instruments which are measured at 13 percent (31 December 2017: 20 percent).

Deferred income tax assets and liabilities for the year ended 31 December 2018:

	31 December 2018	Recognised in profit or loss	Recognised in other compre-hensive income	1 January 2018 (restated)
Deferred income tax liabilities				
Property, plant and equipment	34,757	9,274	-	25,483
Investments in associates	13	(9)	-	22
Financial investments	2,190	(47)	(6,844)	9,081
Other	986	319	-	667
Asset held for sale	4,293	4,293	-	-
Less: deferred tax liabilies offset	*(12,653)*	*(2,928)*		*(9,725)*
Total deferred income tax liabilities	**29,586**	**10,902**	**(6,844)**	**25,528**
Deferred income tax assets				
Property, plant and equipment	(1,056)	120	-	(1,176)
Long-term promissory notes	(4,074)	6	-	(4,080)
Accounts receivable and prepayments	(6,678)	(3,578)	-	(3,100)
Intangible assets	(325)	155	-	(480)
Retirement benefit obligation	(397)	1	127	(525)
Current and non-current debt	(42)	18	-	(60)
Accounts payable and accruals	(1,321)	83	-	(1,404)
Other	(174)	(10)	-	(164)
Tax losses	(669)	159	-	(828)
Less: deferred tax assets offset	*12,653*	*2,928*		*9,725*
Unrecognised deferred tax assets	1,876	(161)	-	2,037
Total deferred income tax assets	**(207)**	**(279)**	**127**	**(55)**
Deferred income tax liabilities, net	**29,379**	**10,623**	**(6,717)**	**25,473**

(in millions of Russian Rouble unless otherwise stated)

Note 16. Income tax (continued)

Deferred income tax assets and liabilities for the year ended 31 December 2017:

	31 December 2017 (restated)	Recognised in profit or loss (restated)	Recognised in other compre-hensive income (restated)	1 January 2017 (restated)
Deferred income tax liabilities				
Property, plant and equipment	25,483	10,812	-	14,671
Investments in associates	22	-	-	22
Financial investments	9,081	(440)	(1,826)	11,347
Other	667	484	-	183
Less: deferred tax liabilies offset	*(9,725)*	*(2,102)*	-	*(7,623)*
Total deferred income tax liabilities	**25,528**	**8,754**	**(1,826)**	**18,600**
Deferred income tax assets				
Property, plant and equipment	(1,176)	383	-	(1,559)
Long-term promissory notes	(4,080)	5	-	(4,085)
Accounts receivable and prepayments	(3,100)	(1,727)	-	(1,373)
Intangible assets	(480)	(93)	-	(387)
Retirement benefit obligation	(525)	42	(145)	(422)
Current and non-current debt	(60)	23	-	(83)
Accounts payable and accruals	(1,404)	(86)	-	(1,318)
Other	(164)	(207)	-	43
Tax losses	(828)	(162)	-	(666)
Less: deferred tax assets offset	*9,725*	*2,102*	-	*7,623*
Unrecognised deferred tax assets	2,037	(176)	-	2,213
Total deferred income tax assets	**(55)**	**104**	**(145)**	**(14)**
Deferred income tax liabilities, net	**25,473**	**8,858**	**(1,971)**	**18,586**

Unrecognised deferred tax assets in the amount of RR 1,876 million as at 31 December 2018 (as at 31 December 2017: RR 2,037 million) include deferred income tax assets on tax losses carried forward and deferred income tax assets on temporary differences arising in respect of loss-making subsidiaries. These deferred tax assets are not recognised because it is not probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

Tax losses carried forward in respect of which deferred tax assets were not recognised are presented by companies in the table below:

	31 December 2018	31 December 2017
JSC “Mobile gas-turbine electricity plants”	2,017	2,733
Others	1,328	1,407
Total tax losses carried forward	**3,345**	**4,140**

(in millions of Russian Rouble unless otherwise stated)

Note 17. Non-current debt

	Effective interest rate	Due	31 December 2018	31 December 2017
Certified interest-bearing non-convertible bearer bonds:				
with fixed rates	0.1-9.35%	2019-2052	77,410	88,298
with variable rates	CPI+1-2.5%	2027-2050	151,027	151,019
Loan participation notes (LPNs)	8.45%	2019	17,943	17,943
Non-bank loans	0.1-3%	2019-2026	220	289
Finance lease liabilities	9.50%	2021	209	301
Total debt			**246,809**	**257,850**
Less: current portion of non-current bonds and LPNs			(22,132)	(23,575)
Less: current portion of non-bank loans			(5)	(112)
Less: current portion of finance lease liabilities			(87)	(301)
Total non-current debt			**224,585**	**233,862**

All debt instruments are denominated in Russian Rouble.

Reconciliation between carrying and fair values of financial liabilities is presented below. Fair value of level 1 bonds are determined based on quoted market prices at Moscow Exchange and Irish Stock Exchange.

		31 December 2018		31 December 2017	
	Level	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Non-convertible bearer bonds with fixed rates and loan participation notes	1	93,601	95,353	104,761	106,241
Non-convertible bearer bonds with variable rates	1	9,650	10,200	9,296	10,285
Total debt classified into fair value hierarchy level 1		**103,251**	**105,553**	**114,057**	**116,526**

Certified interest-bearing non-convertible bearer bonds with floating rates classified into fair value hierarchy level 3 represent non-quoted non-convertible bearer bonds with floating rate lined to inflation with a premium of 1-2.5%, which is a unique instrument with specific market. Hence, the management believes carrying amount of these instruments approximates its fair value.

As at 31 December 2018 the Group had long-term undrawn committed financing facilities of RR 66,500 million (as at 31 December 2017: RR 90,050 million) which could be used for the general purposes of the Group.

Finance lease. Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments as at 31 December 2018	**106**	**132**	**-**	**238**
Less future finance charges	**(19)**	**(10)**	-	**(29)**
Present value of minimum lease payments as at 31 December 2018	**87**	**122**	**-**	**209**
Minimum lease payments as at 31 December 2017	**308**	**-**	**-**	**308**
Less future finance charges	**(7)**	-	-	**(7)**
Present value of minimum lease payments as at 31 December 2017	**301**	**-**	**-**	**301**

Leased assets with carrying amount disclosed in Note 6 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

(in millions of Russian Rouble unless otherwise stated)

Note 17. Non-current debt (continued)

Reconciliation of movements of liabilities to cash flows arising from financing activities is presented below.

	Non-current debt	Current debt and current portion of non-current debt	Interest payable	Finance lease liabilities	Dividend payable
Balance at 1 January 2018	**233,863**	**20,420**	**3,266**	**301**	**146**
Changes from financing cash flows					
Proceeds from borrowings	10,041	13	-	-	-
Repayment of borrowings	(2)	(20,434)	-	-	-
Payment of finance lease liabilities	-	-	-	(115)	-
Interest paid	-	-	(13,973)	-	-
Dividend paid	-	-	-	-	(18,635)
Total changes from financing cash flows	**10,039**	**(20,421)**	**(13,973)**	**(115)**	**(18,635)**
Transfers	**(19,438)**	**19,438**	**-**	**-**	**-**
Other changes	-	-		-	-
Capitalised borrowing costs	-	-	10,270	-	-
Interest expense	-	-	3,135	23	-
Dividend accrued	-	-	-	-	18,702
Total other changes	**-**	**-**	**13,405**	**23**	**18,702**
Balance at 31 December 2018	**224,464**	**19,438**	**2,699**	**209**	**213**

	Non-current debt	Current debt and current portion of non-current debt	Interest payable	Finance lease liabilities	Dividend payable
Balance at 1 January 2017	**236,654**	**25,350**	**4,195**	**415**	**73**
Changes from financing cash flows					
Proceeds from borrowings	16,022	52	-	-	-
Repayment of borrowings	-	(23,795)	-	-	-
Payment of finance lease liabilities	-	-	-	(149)	-
Interest paid	-	-	(18,164)	-	-
Dividend paid	-	-	-	-	(19,354)
Total changes from financing cash flows	**16,021**	**(23,742)**	**(18,164)**	**(149)**	**(19,354)**
Transfers	**(18,813)**	**18,813**	**-**	**-**	**-**
Other changes					
Capitalised borrowing costs	-	-	13,287	-	-
Interest expense	-	-	3,948	35	-
Dividend accrued	-	-	-	-	19,427
Total other changes	**-**	**-**	**17,235**	**35**	**19,427**
Balance at 31 December 2017	**233,863**	**20,420**	**3,266**	**301**	**146**

Note 18. Retirement benefit obligations

The Group’s post-employment benefits policy includes the employee pension scheme and other various post-employment, retirement and jubilee payments. The post-employment and retirement benefit system is a defined benefit program as part of which every participating employee receives benefits calculated in accordance with certain formula or rules. The program’s core element is the corporate pension scheme implemented by the Group in cooperation with the Non-State Pension Fund of Electric Power Industry.

The Group also pays various other long-term post-employment benefits, including lump sum benefits in case of death of employees or former employees receiving pensions, lump sum benefits upon retirement and in connection with jubilees.

(in millions of Russian Rouble unless otherwise stated)

Note 18. Retirement benefit obligations (continued)

Additionally, financial aid in the form of defined benefits is provided to former employees who have state, industry or corporate awards. Such financial aid is provided both to employees entitled and not entitled to non-state pensions.

The most recent actuarial valuation was performed as at 31 December 2018.

The tables below provide information about benefit obligations and actuarial assumptions as at 31 December 2018 and 31 December 2017.

The amounts recognised in the Consolidated Statement of Financial Position are determined as follows:

	Year ended 31 December 2018	**Year ended 31 December 2017**
Present value of defined benefit obligation	5,574	7,290
Present value of other long-term employee benefit obligation	376	327
Total net defined benefit liability	**5,950**	**7,617**

The movement in the net defined benefit obligation over the year is as follows:

	Year ended 31 December 2018	**Year ended 31 December 2018**
Defined benefit obligations at 1 January	**7,617**	**5,959**
Included in profit or loss		
Current service cost	474	382
Past service cost	(2,193)	20
Interest expense	537	453
	(1,182)	855
Remeasurements of defined benefit liability		
Remeasurements:		
Loss/(Gain) from change in demographic assumptions	57	(23)
(Gain)/Loss from change in financial assumptions	(1,037)	278
Experience losses	1,136	1,204
	156	1,459
Benefits paid by the plan	(641)	(656)
Defined benefit obligations at 31 December	**5,950**	**7,617**

Amounts recognized in profit or loss:

	Year ended 31 December 2018	**Year ended 31 December 2017**
Service cost	(1,719)	403
Remeasurements of other long-term employee benefit obligations	20	64
Interest expense	537	453
Total	**(1,162)**	**920**

Amounts recognized in other comprehensive income:

	Year ended 31 December 2018	**Year ended 31 December 2017**
Loss/(Gain) from change in demografic assumptions	51	(20)
(Gain)/Loss from change in financial assumptions	(1,003)	269
Experience losses	1,086	1,146
Total	**134**	**1,395**

(in millions of Russian Rouble unless otherwise stated)

Note 18. Retirement benefit obligations (continued)

The movement of remeasurements in other comprehensive income are as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
At 1 January	2,924	1,528
Movement of remeasurements	134	1,395
At 31 December	**3,058**	**2,923**

The significant actuarial assumptions are as follows:

Financial actuarial assumptions:	Year ended 31 December 2018	Year ended 31 December 2017
Discount rate (nominal)	8.80%	7.70%
Future financial support benefit increases	4.00%	4.30%
Future salary increases (nominal)	4.00%	4.30%

Financial assumptions are based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The average period over which the Group obligations are to be settled is 13 years.

Demographic actuarial assumptions:

	Year ended 31 December 2018	Year ended 31 December 2017
Expected retirement age		
Male	65	60
Female	60	55
Employee turnover	4.5%	5.5%
Mortality table	2017 _adjusted	1998_adjusted

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions used as at 31 December 2018 is as follows:

	Change in assumption		Impact on defined benefit liability	
Discount rate	Increase/decrease by	0.5%	Decrease/increase by	4.55%
Future salary increases (nominal)	Increase/decrease by	0.5%	Increase/decrease by	2.71%
Future pension increases (nominal)	Increase/decrease by	0.5%	Increase/decrease by	2.05%
Employee turnover	Increase/decrease by	10%	Decrease/increase by	2.25%
Mortality level	Increase/decrease by	10%	Decrease/increase by	1.14%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the consolidated statement of financial position.

Note 19. Current debt and current portion of non-current debt

	31 December 2018	31 December 2017
Current portion of non-current debt (Note 17)	22,224	23,988
Total current debt and current portion of non-current debt	**22,224**	**23,988**

As at 31 December 2018 the Group had short-term undrawn committed financing facilities of RR 90,050 million (as at 31 December 2017: RR 57,850 million) which could be used for the general purposes of the Group.

(in millions of Russian Rouble unless otherwise stated)

Note 20. Accounts payable and accrued charges

Long-term accounts payable:

	31 December 2018	31 December 2017
Long-term accounts payable to construction companies and suppliers of property, plant and equipment	12,055	14,340
Total financial liabilities	**12,055**	**14,340**
Long-term advances received	2,441	524
Long term VAT payable	505	-
Total long-term accounts payable	**15,001**	**14,864**

Long-term accounts payable to construction companies and suppliers of property, plant and equipment includes RR 1,821 million (as at 31 December 2017: RR 1,740 million) of guarantee deposits made by suppliers of property, plant and equipment refundable in 2020-2037. Fair value of consideration payable for these deposits has been determined using present value technique based on estimated future cash flows and the discount rates of 5.38-5.68%.

Long-term accounts payable to construction companies and suppliers of property, plant and equipment includes RR 10,234 million (as at 31 December 2017: RR 12,600 million) related to to contracts of purchase of property, plant and equipment. Amounts are payable in instalments in 2020-2025. Fair value of consideration payable for these accounts payable has been determined using present value technique based on estimated future cash flows and the discount rate of 8.75%.

Short-term accounts payable:

	31 December 2018	31 December 2017
Accounts payable to construction companies and suppliers of property, plant and equipment	29,967	22,598
Trade payables	12,920	12,452
Accrued liabilities	60	272
Other creditors	1,207	1,754
Total financial liabilities	**44,154**	**37,076**
Advances received	13,227	16,123
Accounts payable to employees	2,681	2,515
Taxes other than on income payable	6,863	3,294
Other provisions for liabilities and charges	683	1,917
Total accounts payable and accrued charges	**67,608**	**60,925**

Movement in other provisions for liabilities and charges:

	Year ended 31 December 2018	Year ended 31 December 2017
Carrying amount at 1 January	**1,917**	**3,692**
Additional amounts charged to profit or loss	326	1,318
Unused amounts reversed	(1,104)	(2,638)
Utilisation of provision	(456)	(455)
Carrying amount at 31 December	**683**	**1,917**

(in millions of Russian Rouble unless otherwise stated)

Note 21. Revenues and other operating income

	Year ended 31 December 2018	Year ended 31 December 2017
Transmission fee	213,131	192,243
Connection services	21,500	19,400
Electricity sales	9,409	8,197
Construction services	6,062	19,051
Rental income	1,395	1,090
Grids repair and maintenance services	1,362	930
Communication services	630	554
Design works	342	437
Research and development services	148	284
Total revenue	**253,979**	**242,186**

Other operating income primarily includes income from non-core activities.

	Year ended 31 December 2018	Year ended 31 December 2017
Penalties and fines	4,883	4,603
Insurance compensation	551	893
Other income	1,040	909
Total other operating income	**6,474**	**6,405**

Note 22. Operating expenses

	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
Purchased electricity	38,102	24,289
Depreciation of property, plant and equipment	32,346	28,428
Employee benefit expenses and payroll taxes	29,121	28,372
Property tax	14,594	10,798
Fuel for mobile gas-turbine electricity plants	6,568	6,364
Subcontract works for construction contracts	3,910	12,626
Repairs and maintenance of equipment	3,288	2,587
Materials for repair	2,627	2,197
Accrual/(reversal) of allowance for expected credit losses and allowance for doubtful debtors	4,634	(3,813)
Business trips and transportation expenses	2,391	2,066
Materials for construction contracts	1,994	5,454
Rent	1,849	1,808
Consulting, legal and auditing services	1,791	1,647
Other materials	1,605	1,607
Security services	1,547	1,501
Electricity transit	1,471	1,109
Amortisation of intangible assets	1,154	1,220
(Gain)/Loss on disposal of property, plant and equipment	(310)	1,093
Other expenses	7,162	6,152
Total	**155,844**	**135,505**

Employee benefit expenses and payroll taxes include the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Wages and salaries	24,329	22,012
Social security contributions to the Pension Fund	4,687	4,272
Social security contributions to other state non-budgetary funds	1,804	1,621
Pension costs – defined benefit plans	(1,699)	467
Total employee benefit expenses and payroll taxes	**29,121**	**28,372**

(in millions of Russian Rouble unless otherwise stated)

Note 23. Finance income

	Year ended 31 December 2018	Year ended 31 December 2017
Unwind of discount of accounts receivable	6,595	4,443
Interest income	3,679	5,142
Dividend income	2,251	2,579
Foreign currency exchange differences	13	20
Other finance income	443	403
Total finance income	**12,981**	**12,587**

Note 24. Finance costs

	Year ended 31 December 2018	Year ended 31 December 2017
Interest expense	14,271	17,270
Net interest on defined benefit liability	537	453
Foreign currency exchange differences	46	65
Other finance costs	278	-
Total finance costs	**15,132**	**17,788**
Less capitalised interest expenses on borrowings related to qualifying assets (Note 6)	(10,270)	(13,287)
Total finance costs recognised in profit or loss	**4,862**	**4,501**

Note 25. Earnings per ordinary share for profit attributable to shareholders of FGC UES

	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
Weighted average number of ordinary shares (millions of shares)	1,260,938	1,260,938
Profit attributable to shareholders of FGC UES (millions of RR)	92,809	87,744
Weighted average earnings per share – basic and diluted (in RR)	**0.074**	**0.070**

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Note 26. Contingencies, commitments and operating risks

Political environment. The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by the political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russian Federation.

Insurance. The Group held limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks for which it does not have insurance.

Legal proceedings. In the normal course of business the Group entities may be a party to certain legal proceedings. As at 31 December 2018 claims made by suppliers of property, plant and equipment and other counterparties to the Group amounted to RR 3,503 million. Management belives the likelyhood of negative outcome for the Group and the respecive outflow of financial resources to settle such claims, if any, is not probable and, consequently, no provision has been made in these financial statements.

Management believes that it has made adequate provision for other probable claims (Note 20). In the opinion of management, currently there are no other existing legal proceedings or claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

Tax contingency. Russian tax and customs legislation is subject to varying interpretation when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by the relevant regional and federal authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax 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.

Note 26. Contingencies, commitments and operating risks (continued)

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

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect on these Consolidated Financial Statements.

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 management of the Group is unable to assess the ultimate outcome and the outflow of financial resources to settle potential tax claims.

As at 31 December 2018 management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency and customs positions will be sustained.

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Capital commitments related to construction of property, plant and equipment. Future capital expenditures for which contracts have been signed amount to RR 180,617 million as at 31 December 2018 (as at 31 December 2017: RR 172,392 million) including VAT. These amounts include accounts payable to construction companies and suppliers of property, plant and equipment in the amount of RR 42,257 million as at 31 December 2018 (as at 31 December 2017: RR 36,938 million) (Note 20).

Note 27. Financial instruments and financial risks

Financial risk factors. The Group’s ordinary financial and business activities expose it to a variety of financial risks, including but not limited to the following: market risk (foreign exchange risk, interest rate risks related to changes in the fair value of the interest rate and the cash flow interest rate, and price risk), credit risk, and liquidity risk. Such risks give rise to the fluctuations of profit, reserves and equity and cash flows from one period to another. The Group’s financial management policy aims to minimise or eliminate possible negative consequences of the risks for the financial results of the Group. The Group could use derivative financial instruments from time to time for such purposes as part of its risk management strategy.

(in millions of Russian Rouble unless otherwise stated)

Note 27. Financial instruments and financial risks (continued)

Financial instruments by categories:

31 December 2018	**Financial assets measured at amortised cost**	**Financial assets measured at fair value through other comprehensive income**	**Financial liabilities measured at amortised cost**	**Total**
Financial assets				
Financial investments (Note 9)	-	37,956	-	37,956
Long-term promissory notes	258	-	-	258
Long-term receivables (Note 10)	72,699	-	-	72,699
Cash and cash equivalents (Note 11)	37,618	-	-	37,618
Bank deposits	3,811	-	-	3,811
Short-term promissory notes	10	-	-	10
Loans given	131	-	-	131
Accounts receivable (Note 13)	67,914	-	-	67,914
Total financial assets	**182,441**	**37,956**	**-**	**220,397**
Financial liabilities				
Non-current debt (Note 17)	-	-	224,585	224,585
Long-term accounts payable (Note 20)	-	-	12,055	12,055
Accounts payable to the shareholders of FGC UES	-	-	213	213
Current debt and current portion of non-current debt (Note 19)	-	-	22,224	22,224
Accounts payable and accrued charges (Note 20)	-	-	44,154	44,154
Total financial liabilities	**-**	**-**	**303,231**	**303,231**

31 December 2017	**Financial assets measured at amortised cost**	**Investments available for sale**	**Financial liabilities measured at amortised cost**	**Total**
Financial assets				
Financial investments (Note 9)	-	67,403	-	67,403
Long-term promissory notes	238	-	-	238
Long-term receivables (Note 10)	69,350	-	-	69,350
Cash and cash equivalents (Note 11)	42,535	-	-	42,535
Short-term promissory notes	10	-	-	10
Loans given	101	-	-	101
Accounts receivable (Note 13)	39,712	-	-	39,712
Total financial assets	**151,946**	**67,403**	**-**	**219,349**
Financial liabilities				
Non-current debt (Note 17)	-	-	233,862	233,862
Long-term accounts payable (Note 20)	-	-	14,340	14,340
Accounts payable to the shareholders of FGC UES	-	-	146	146
Current debt and current portion of non-current debt (Note 19)	-	-	23,988	23,988
Accounts payable and accrued charges (Note 20)	-	-	37,076	37,076
Total financial liabilities	**-**	**-**	**309,412**	**309,412**

(in millions of Russian Rouble unless otherwise stated)

Note 27. Financial instruments and financial risks (continued)
(a) Market risk

(i) Foreign exchange risk. The Group operates within the Russian Federation. The major part of the Group's purchases is denominated in Russian Roubles. Therefore, the Group's exposure to foreign exchange risk is insignificant.

(ii) Interest rate risk. The Group's operating profits and cash flows from operating activity are not largely dependent on the changes in market interest rates. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The Group does not account for any fixed-rate borrowings at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity. There is no significant impact on the Group's profit or loss or equity from the change in interest rates for variable rate borrowings as most of the Group's interest on borrowings is being capitalised in property, plant and equipment.

The increase of inflation by 1% will result in additional cash outflow of RR 1,500 million per year.

(iii) Price risk. Equity price risk arises from financial investments. Management of the Group monitors its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are taken by the management of the Group. The primary goal of the Group's investment strategy is to maximise investment returns in order to meet partially the Group's investment program needs. Transactions in investments in equity shares are monitored and authorised by the Group's corporate finance department. As at 31 December 2018, the total amount of financial investments exposed to the market risk equals RR 37,845 million. If equity prices at that date had been 10% higher (lower), with all other variables held constant, the Group's other comprehensive income would increase (decrease) by RR 3,785 million.

(b) Credit risk.

The amounts exposed to credit risk are as follows:

31 December 2018	Long-term promissory notes	Long-term receivables (Note 10)	Cash and cash equivalents (Note 11)	Bank deposits (Note 12)	Short-term promissory notes	Loans given	Accounts receivable (Note 13)
Not overdue:							
- gross amount	258	72,787	37,618	3,811	10	131	59,850
- less impairment provision	-	(88)	-	-	-	-	(384)
Overdue:							
- gross amount	-	-	-	-	12,022	-	23,039
- less impairment provision	-	-	-	-	(12,022)	-	(14,591)
Total amount	**258**	**72,699**	**37,618**	**3,811**	**10**	**131**	**67,914**

31 December 2017	Long-term promissory notes	Long-term receivables (Note 10)	Cash and cash equivalents (Note 11)	Bank deposits (Note 12)	Short-term promissory notes	Loans given	Accounts receivable (Note 13)
Not overdue, but impaired:							
- gross amount	238	68,309	42,535	-	10	101	32,759
- less impairment provision	-	(2,274)	-	-	-	-	(257)
Overdue and impaired:							
- gross amount	-	3,315	-	-	12,022	-	16,612
- less impairment provision	-	-	-	-	(12,022)	-	(9,402)
Total amount	**238**	**69,350**	**42,535**	**-**	**10**	**101**	**39,712**

(in millions of Russian Rouble unless otherwise stated)

Note 27. Financial instruments and financial risks (continued)

As at 31 December 2018 the amount of financial assets, which were exposed to credit risk, was RR 182,441 million (as at 31 December 2017: RR 151,946 million). Although collection of receivables could be influenced by economic factors, management of the Group believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

The Group’s trade debtors are quite homogenous as regards their credit quality and concentration of credit risk. They are primarily comprised of large, reputable customers, most of which are controlled by, or related to the Government of the RF. Historical data, including payment histories during the recent credit crisis, would suggest that the risk of default from such customers is very low.

Credit risk is managed at the Group level. In most cases the Group calculates their customers’ credit status based on their creditworthiness on the basis of the financial position, prior experience and other factors. The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. Although some of the banks and companies have no international credit rating, management believes that they are reliable counterparties with a stable position on the Russian market.

(c) Liquidity risk. Liquidity risk is managed at the Group level and includes maintaining the appropriate volume of monetary funds, conservative approach to excess liquidity management, and access to financial resources by securing credit facilities and limiting the concentrations of cash in banks. The table below analyses the Group’s financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including estimated interest payments. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
As at 31 December 2018					
Non-current and current debt and interest payable (Notes 17, 19)	34,702	40,536	84,684	301,048	460,970
Accounts payable to the shareholders of FGC UES	213	-	-	-	213
Accounts payable and accrued charges (Note 20)	45,028	4,306	8,027	1,728	59,089
Total as at 31 December 2018	**79,943**	**44,842**	**92,711**	**302,776**	**520,272**
As at 31 December 2017					
Non-current and current debt and interest payable (Notes 17, 19)	35,982	33,768	99,188	296,230	465,168
Accounts payable to the shareholders of FGC UES	146	-	-	-	146
Accounts payable and accrued charges (Note 20)	38,357	3,504	11,199	3,581	56,641
Total as at 31 December 2017	**74,485**	**37,272**	**110,387**	**299,811**	**521,955**

(d) Fair value. Management believes that the fair value of financial assets and liabilities carried at amortised cost is not significantly different from their carrying amounts (unless otherwise stated in the Notes to these Consolidated Financial Statements). The carrying value of trade payables and trade receivables less provision for expected credit losses is assumed to approximate their fair value due to their short-term nature. The financial instruments of the Group carried at fair value represent financial investments (Note 9). The fair value of the financial investments is determined by the quoted prices (Level 1 inputs) in active markets for identical financial assets. There are no significant unobservable inputs used in measuring fair values of financial assets and liabilities.

(in millions of Russian Rouble unless otherwise stated)

Note 28. Capital risk management

The Group's management of the capital of its entities aims to comply with the capital requirements established by the legislation of the Russian Federation for joint stock companies, in particular:

- share capital cannot be lower than RR 100 thousand;
- in case the share capital of an entity is greater than statutory net assets of the entity, such entity must reduce its share capital to the value not exceeding its statutory net assets;
- in case the minimum allowed share capital exceeds the entity's statutory net assets, such entity is subject for liquidation.

As at 31 December 2018 several companies of the Group namely OJSC "The Kuban trunk grids", JSC "Specialised electricity transmission service company of the UNEG", JSC "APBE", were not in compliance with all requirements mentioned above. Management of the Group is currently implementing measures to ensure compliance with all legislation requirements. Management considers that a breach of above mentioned requirements does not have material effect on the Group's Consolidated Financial Statements. The Group's capital management objectives are to ensure that its operations be continued at a profit for the shareholders and with benefits for other stakeholders, and to maintain the optimal capital structure with a view to reduce the cost of capital.

The Group monitors capital ratios, including the gearing ratio, calculated on the basis of figures of financial statements prepared under the Russian Accounting Regulations. The Group should ensure that its gearing ratio, being the total debt divided by the total equity, does not exceed 0.50. As at 31 December 2018 the Company's gearing ratio calculated under Russian Accounting Regulations was 0.23 (as at 31 December 2017: 0.25).

Note 29. Segment information

The Group operates within one operating segment. The Group's single primary activity is provision of electricity transmission services within the Russian Federation which is represented as Transmission segment.

The Board of Directors of the Company has been determined as chief operating decision maker (the "CODM") of the Group which generally analyses information relating to Transmission segment. The Board of Directors does not evaluate financial information of other components of the Group to allocate resources or assess performance and does not determine these components as segments. The key indicator of the transmission segment performance is return on equity ratio (ROE). It is calculated based on the statutory financial statements prepared according to Russian Accounting Regulations (RAR) as net profit divided by net assets. Accordingly, the measure of transmission segment profit or loss analysed by the CODM is net profit of segment based on the statutory financial statements prepared according to RAR. The other information provided to the CODM is also based on statutory financial statements prepared according to RAR.

	Transmission segment – based on statutory financial statements prepared according to RAR	
	Year ended 31 December 2018	**Year ended 31 December 2017**
Revenue from external customers	240,996	216,604
Intercompany revenue	327	307
Total revenue	**241,323**	**216,911**
Depreciation and amortisation *	79,179	82,553
Interest income	10,582	10,569
Interest expenses	4,019	4,014
Current income tax	11,408	12,894
Profit for the year	56,123	43,456
Capital expenditure	106,861	111,320

	31 December 2018	**31 December 2017**
Total reportable segment assets	1,498,267	1,435,289
Total reportable segment liabilities	424,550	414,328

* Depreciation charge under RAR is based on useful lives determined by statutory regulations.

(in millions of Russian Rouble unless otherwise stated)

Note 29. Segment information (continued)

	Year ended 31 December 2018	Year ended 31 December 2017
Total revenue from segment (RAR)	**241,323**	**216,911**
Reclassification between revenue and other income	(1,055)	(1,082)
Non-segmental revenue	17,373	29,246
Elimination of intercompany revenue	(327)	(307)
Recognition of revenue from connection services based on fair value	(2,805)	(2,014)
Non-recognised revenue	(465)	(541)
Other adjustments	(65)	(27)
Total revenue (IFRS)	**253,979**	**242,186**

(in millions of Russian Rouble unless otherwise stated)

	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
Profit for the year (RAR)	**56,123**	**43,456**
Property, plant and equipment		
Adjustment to the carrying value of property, plant and equipment	45,384	51,727
Reversal of impairment/(impairment) of property, plant and equipment, net	2,248	(11,121)
Financial instruments		
Re-measurement of financial investments	(5,021)	7,475
Discounting of promissory notes	30	27
Discounting of long-term accounts receivable	(577)	(403)
Discounting of long-term accounts payable	54	346
Consolidation		
(Impairment)/Reversal of investments in subsidiaries	(1,481)	920
Adjustments to intercompany promissory notes	-	(1,818)
Other		
Non-recognised revenue and other income	(1,763)	(3,176)
Adjustment to provision for legal claims	1,220	1,868
Adjustment to allowance for expected credit losses and allowance for doubtful debtors	(355)	4,465
Accrual of retirement benefit obligations	1,673	(178)
Write-off of research and development to expenses	141	(24)
Share of result of associates	125	28
Deferred tax adjustment	(4,964)	(3,508)
Other adjustments	1,077	(1,789)
Loss on derecognition of subsidiary	-	(52)
Non-segmental other operating loss	(1,069)	(426)
Profit for the year (IFRS)	**92,845**	**87,817**

	31 December 2018	31 December 2017 (restated)
Total reportable segment liabilities (RAR)	**424,550**	**414,328**
Netting of VAT recoverable and payable	(5,766)	(3,633)
Netting of advances and payables	-	(1,477)
Recognition of finance lease liabilities	-	270
Accrual of retirement benefit obligations	5,614	7,187
Deferred tax liabilities adjustment	(31,266)	(29,516)
Accrual of payables recognised in another accounting period	11	1,479
Discounting of long-term accounts payable	(400)	(346)
Non-segmental liabilities	16,277	20,307
Elimination of intercompany balances	(39,140)	(37,044)
Total liabilities (IFRS)	**369,880**	**371,555**

(in millions of Russian Rouble unless otherwise stated)

Note 29. Segment information (continued)

	31 December 2018	31 December 2017 (restated)
Total reportable segment assets (RAR)	**1,498,267**	**1,435,289**
Property, plant and equipment		
Adjustment to the carrying value of property, plant and equipment	302,191	271,735
Impairment of property, plant and equipment, net	(551,004)	(552,761)
Recognition of property, plant and equipment under finance lease	(71)	170
Financial instruments		
Adjustment to cost of investments in associates	732	424
Adjustment to cost of financial investments	8,137	2,266
Discounting of promissory notes	(247)	(277)
Discounting of long-term trade receivables	(8,843)	(8,266)
Consolidation		
Reversal of impairment of investments in subsidiaries	8,723	10,204
Reversal of impairment of promissory notes	18,828	18,828
Unrealised profit adjustment	(3,555)	(2,507)
Elimination of investments in subsidiaries	(25,583)	(25,466)
Elimination of intercompany balances	(39,140)	(37,046)
Other		
Non-recognised revenue and other income	(8,572)	(6,810)
Write-off of research and development to expenses	(2,152)	(2,292)
Adjustment to allowance for expected credit losses and allowance for doubtful debtors	6,488	6,853
Deferred tax assets adjustment	(10,067)	(3,213)
Netting of VAT recoverable and payable	(5,766)	(3,633)
Netting of advances and payables	-	(1,477)
Other adjustments	(2,502)	17
Non-segmental assets	23,178	26,663
Total assets (IFRS)	**1,209,042**	**1,128,701**

The main differences between financial information prepared in accordance with IFRS and the financial information reported to the chief operating decision-maker related to profit or loss, and assets and liabilities results from the differences in the accounting methods under IFRS and RAR. Financial information on segments reported to the CODM under RAR does not reflect the adjustments made in accordance with IFRS.

Non-segmental revenue, non-segmental other operating loss, non-segmental assets and non-segmental liabilities represent corresponding revenue, loss (profit), assets and liabilities of components (subsidiaries) that are not determined as segments by the CODM.

Information on revenue for separate services and products of the Group is presented in Note 21. The Group performs most of its activities in the Russian Federation and does not have any significant revenue from foreign customers or any non-current assets located in foreign countries.

The major customers of the Group are government-related entities. The amounts of revenue from such entities are disclosed in Note 5. The Group has no other major customers with turnover over 10 percent of the Group revenue.

Note 30. Assets held for sale

On 26 December 2018, as a part of UNEG asset consolidation process the Group has concluded the exchange contract with JSC “Far Eastern Energy Management Company” (goverment-controlled entity). The Group exchanges property, plant and equipment with the carrying value of RR 16,081 million as at 31 December 2018, accounts receivable with the carrying value of RR 5,386 million as at 31 December 2018 and cash amounted to RR 6,648 million and to be paid by instalments up to 2024 for UNEG property plant and equipment appraised by independent appraiser and valued in the amount of RR 34,564 million. The exchange has been completed on 1 January 2019.

Note 31. Subsequent events

On 13 March 2019 the Group fully re-deemed loan participation notes (LPNs) amounted RR 17,943 million (Note 17).