Consolidated Financial Statements
of the Interregional Distribution Grid Company of Volga
Public Joint-Stock Company and Its Subsidiaries
Prepared in Accordance with International Financial Reporting Standards for the Year Ended December 31, 2019, and
Audit Report

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Auditor's Opinion
of an Independent Auditor

(in thousands of Russian rubles unless specified otherwise)

	Note	For the year ended December 31, 2019	For the year ended December 31, 2018
Revenue	7	62,975,762	63,686,149
Operating costs	9	(58,171,212)	(57,571,077)
Accrual of reserve for expected credit losses, net	30	(188,440)	(32,222)
Other income	8	471,795	1,101,046
Operating profit		**5,087,905**	**7,183,896**
Financial income	11	253,864	351,290
Financial expenses	11	(400,343)	(242,663)
Total financial (expenses) / income		**(146,479)**	**108,627**
Profit before taxation		**4,941,426**	**7,292,523**
Profit tax expense	12	(1,028,687)	(1,582,323)
Profit for period		**3,912,739**	**5,710,200**
Other comprehensive income			
Items that may not be reclassified subsequently to profit or loss			
Changes to fair value of equity investments recorded at fair value through other comprehensive income		33	(9)
Revaluation of defined benefit obligations	25	(307,067)	52,702
Profit tax	12	36,098	(49,765)
Total items that may not be reclassified subsequently to profit or loss		**(270,936)**	**2,928**
Other comprehensive (expense) / income for the period, net of profit tax		**(270,936)**	**2,928**
Total comprehensive income for the period		**3,641,803**	**5,713,128**
Profit per share			
Underlying and diluted profit per share (rubles)	22	0.0208	0.0303

The present consolidated financial statements were approved by management on March 10, 2020, and signed on behalf of management by the following persons:

Deputy General Director
for Economics and Finance
on the basis of the Power of Attorney No. D/19-391
dated August 6, 2019

I. Yu. Puchkova

Chief Accountant –
Head of the Department for
Accounting and Tax Treatment

I. A. Tamlenova

(in thousands of Russian rubles unless specified otherwise)

	Note	December 31, 2019	December 31, 2018
ASSETS			
Non-current assets			
Fixed assets	13	45,634,205	41,068,666
Intangible assets	14	234,610	250,757
Right-of-use asset	15	1,966,425	–
Trade and other receivables	18	1,170,555	437,138
Assets related to liabilities for remunerations to employees	25	471,146	476,895
Other non-current financial assets		137	104
Advances paid and other non-current assets	19	64,181	102,938
Total non-current assets		**49,541,259**	**42,336,498**
Current assets			
Inventories	17	1,887,975	1,645,242
Pre-payment for profit tax		134,090	199,686
Trade and other receivables	18	5,949,078	7,216,407
Cash and cash equivalents	20	970,860	1,951,998
Advances paid and other current assets	19	241,439	195,468
Total current assets		**9,183,442**	**11,208,801**
Total assets		**58,724,701**	**53,545,299**
CAPITAL AND LIABILITIES			
Capital			
Authorized capital	21	18,830,796	18,830,796
Other reserves		(1,156,116)	(885,180)
Retained profit		21,228,754	20,813,096
Total capital		**38,903,434**	**38 758,712**
Long-term liabilities			
Long-term loans	23	5,719,397	3,370,000
Long-term trade and other payables	26	260,786	17,560
Long-term advances received	28	358,099	447,906
Liabilities for remunerations to employees	25	1,828,401	1,585,156
Deferred tax liabilities	16	2,878,279	2,711,186
Total long-term liabilities		**11,044,962**	**8,131,808**
Short-term liabilities			
Short-term borrowed funds and the short-term portion of long-term borrowed funds	23	373,891	12,353
Trade and other payables	26	6,983,165	4,921,613
Tax debts other than profit tax	27	891,326	1,280,443
Advances received	28	479,067	414,241
Reserves	29	44,783	26,113
Debt on current profit tax		4,073	16
Total short-term liabilities		**8,776,305**	**6,654,779**
Total liabilities		**19,821,267**	**14,786,587**
Total capital and liabilities		**58,724,701**	**53,545,299**

(in thousands of Russian rubles unless specified otherwise)

	Note	For the year ended December 31, 2019	For the year ended December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for period		**3,912,739**	**5,710,200**
Adjustments			
Depreciation of fixed assets, right-of-use and intangible assets	9	4,837,796	4,645,911
Financial expenses	11	400,343	242,663
Financial income	11	(253,864)	(351,290)
Profit / (loss) from fixed asset retirement		(4,080)	(28,757)
Income from gratuitously received fixed assets		(3,568)	(580,303)
Accrual of reserve for expected credit losses	30	188,440	32,222
Amortization of accounts payable	8	(13,910)	(5,587)
Accrual of reserves	29	84,347	25,581
Profit tax expense		1,028,687	1,582,323
Total adjustment effect		**10,176,930**	**11,272 963**
Change to assets related to liabilities for remunerations to employees		9,787	32,339
Change to liabilities for remunerations to employees		(186,021)	(155,298)
Change in long-term trade and other receivables		(733,417)	(412,585)
Change in long-term advances to issued and other non-current assets		38,757	29,417
Change in long-term trade and other payables		245,991	7,783
Change in long-term advances received		(89,807)	(341,848)
Monetary flows from operations before changes to current capital and reserves		**9,462,220**	**10,432,771**
Changes in operating assets and liabilities			
Change to trade and other receivables		1,154,601	80,693
Change in advances paid and other assets		(46,004)	42,968
Change to inventories		(228,672)	18,154
Change to trade and other payables		(218,792)	25,948
Change in advances received		64,826	(50,889)
Change to reserves		(65,677)	(6,249)
Cash flows from operations before payment of profit tax and interest		**10,122,502**	**10,543,396**
Profit tax paid		(755,842)	(2,025,232)
Interest paid under lease agreements	24	(158,207)	–
Interest paid		(261,722)	(223,165)
Net cash from operating activities		**8,946,731**	**8,294,999**

(in thousands of Russian rubles unless specified otherwise)

	Note	For the year ended December 31, 2019	For the year ended December 31, 2018
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Acquisition of fixed assets and intangible assets		(8,025,249)	(6,592,355)
Proceeds from sale of fixed assets and intangible assets		56,466	17,849
Interest received		114,450	158,846
Dividends received		11	2
Net cash used in investing activities		**(7,854,322)**	**(6,415,658)**
OPERATING CASH FLOW			
Fund raising	24	3,070,590	8,540,000
Repayment of loans	24	(2,400,000)	(9,540,000)
Dividends paid to the owners of the Company	24	(2,471,077)	(2,774,356)
Lease liabilities	24	(273,060)	–
Net cash used in financing activities		**(2,073,547)**	**(3,774,356)**
Net cash decrease and their equivalents		**(981,138)**	**(1,895,015)**
Cash and cash equivalents as of the beginning of the reporting period		**1,951,998**	**3,847,013**
Cash and cash equivalents as of the end of the reporting period	20	**970,860**	**1,951,998**

(in thousands of Russian rubles unless specified otherwise)

	Authorized capital	Reserves	Retained profit	Total capital
Balance as of January 1, 2019	**18,830,796**	**(885,180)**	**20,813,096**	**38 758,712**
Profit for period	–	–	3,912,739	3,912,739
Other comprehensive income	–	(307,034)	–	(307,034)
Profit tax in respect to other comprehensive income	–	36,098	–	36,098
Total comprehensive income for the period	**–**	**(270,936)**	**3,912,739**	**3,641,803**
Transactions with Company owners				
Contributions and payments				
Dividends to shareholders (Note 21)	–	–	(3,498,915)	(3,498,915)
Writing off of uncalled debt on previously announced dividends	–	–	1,834	1,834
Total contributions and payments	**–**	**–**	**(3,497,081)**	**(3,497,081)**
Total transactions with Company owners	**–**	**–**	**(3,497,081)**	**(3,497,081)**
Balance as of December 31, 2019	**18,830,796**	**(1,156,116)**	**21,228,754**	**38,903,434**

	Authorized capital	Reserves	Retained profit	Total capital
Balance as of January 1, 2018	**18,830,796**	**(888,108)**	**17,897,546**	**35,840,234**
Profit for period	–	–	5,710,200	5,710,200
Other comprehensive income	–	52,693	–	52,693
Profit tax in respect to other comprehensive income	–	(49,765)	–	(49,765)
Total comprehensive income for the period	**–**	**2,928**	**5,710,200**	**5,713,128**
Transactions with Company owners				
Dividends to shareholders (Note 21)	–	–	(2,794,825)	(2,794,825)
Writing off of uncalled debt on previously announced dividends	–	–	175	175
Total contributions and payments	**–**	**–**	**(2,794,650)**	**(2,794,650)**
Total transactions with Company owners	**–**	**–**	**(2,794,650)**	**(2,794,650)**
Balance as of December 31, 2018	**18,830,796**	**(885,180)**	**20,813,096**	**38 758,712**

1 General Data

(a) Group and Its Business

Interregional distribution grid company of Volga, Public Joint-Stock Company (hereinafter referred to as "IDGC of Volga, Public Joint-Stock Company" or "Company") and its subsidiaries (hereinafter jointly referred to as "Group") include Joint-Stock Companies established and registered in accordance with the Civil Code of the Russian Federation. The Company was registered on June 29, 2007, on the basis of the resolution of the sole founder (Regulation of "Russian Joint-Stock Company "United Energy Systems of Russia" (hereinafter referred to as RAO UES) No. 191r dated June 22, 2007) within implementation of the resolution of the Board of Directors of RAO UES on participation in IDGC (minutes No. 250 dated April 27, 2007).

The main activity of the Group is the provision of services for the transmission and distribution of electricity over electric grids, the provision of services for technological connection of consumers to grids.

Legal and actual address of the Company: 42/44 Pervomayskaya St., Saratov, 410031 Russian Federation.

The ultimate parent company is Rosseti, Public Joint-Stock Company.

(b) Economic environment Where the Group Does Its Business

The Group does its business in the Russian Federation.

The economy of the Russian Federation shows some typical features inherent in developing markets. The country's economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory system continues to evolve and is subject to frequent changes, as well as the possibility of different interpretations. Continued political tensions, as well as international sanctions against some Russian companies and citizens, continue to have a negative impact on the Russian economy. Stable oil prices, low unemployment, and wage growth contributed to moderate economic growth in 2019. Such an economic environment has a significant impact on the operations and financial position of the Group.

The management of the Group takes all necessary measures to ensure the sustainability of the Group in the current environment. The presented consolidated financial reporting reflects the opinion of the management on the influence provided by business conditions in the Russian Federation at operations and financial status of the Group. Nevertheless, the future consequences of the current economic situation are difficult to predict, and, as a result, the current estimates and expectations of the Group's management may differ from the actual results.

(c) Relations with the Government

The Government of the Russian Federation represented by the Federal Agency for State Property Management is the end controlling party of the Company. The policy of the Government of the Russian Federation in the economic, social and other fields can have a significant impact on the Group's activities.

As of December 31, 2019, the share of the Russian Federation in the authorized capital of the parent company Rosseti, Public Joint-Stock Company was 88.04%, including 88.89% in ordinary voting shares, 7.01% in preferred shares (as of December 31, 2018, – 88.04%, including 88.89% in ordinary voting shares, 7.01% in preferred shares).

The government influences the Group's activities through representation on the Board of Directors of the parent company Rosseti, Public Joint-Stock Company, regulation of tariffs in the electric power industry, approval and control over the implementation of the investment program. The Group's counterparties (service consumers, suppliers and contractors, etc.) include a significant number of state-related enterprises.

2 Principles of Consolidated Financial Statements Preparation

(a) Statement of Compliance with IFRS

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

Each enterprise of the Group maintains individual records and prepares official financial statements in accordance with Russian Accounting Standards (hereinafter referred to as "RAS"). These consolidated financial statements have been prepared on the basis of RAS accounting data, adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

(b) Base for Determining the Cost

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

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

(c) Functional and Presentation Currency

The national currency of the Russian Federation is the Russian ruble (hereinafter, "ruble" or "rub."), which is used by the Group as the functional currency and presentation currency of these consolidated financial statements. All figures in Russian rubles were rounded to the nearest million.

(d) Use of Educated Estimates and Assumptions

Preparation of consolidated interim condensed financial statements in accordance with IFRS requires use of assumptions and educated estimates by the management, which influence the way the provisions of the accounting policy are applied, and the amounts of assets, liabilities, income and expenses. Actual results may differ from such estimates.

The management continuously revises the estimates and assumptions made, based on gained experience and other factors that were used to define the book value of assets and liabilities. Amendments to estimates and assumptions are recognized in the period when they were made if the amendment relates to such period only, or are recognized in the period to which the amendment relates, and in subsequent periods if the amendment impacts both this and future periods.

Judgments that have the most significant effect on the amounts recognized in the consolidated financial statements, estimates and assumptions that could necessitate a material adjustment to the carrying amount of assets and liabilities over the next year include the following:

Impairment of Fixed Assets and Right-of-Use Assets

At each reporting date, management of the Group determines whether there is any indication of impairment of fixed and right-of-use assets. Signs of impairment include changes in business plans, tariffs, and other factors leading to adverse effects on the Group. When calculating value in use, management estimates the expected cash flows from an asset or group of cash generating assets and calculates an acceptable discount rate to calculate the present value of those cash flows. Detailed information is provided in the note "Fixed Assets" and "Right-of-Use Assets".

2 Principles for the Preparation of Consolidated Financial Statements (Continued)

(d) Use of Educated Estimates and Assumptions (Continued)

Impairment of Accounts Receivable

A provision for expected credit losses on receivables is established based on management's assessment of the probability of repayment of specific debts of specific debtors. For the purpose of assessing credit losses, the Group sequentially considers all reasonable and corroborated information about past events, current and forecasted events, which is available without undue effort and is appropriate for the assessment of receivables. Experience gained in the past is adjusted on the basis of current data in order to reflect current conditions that did not affect previous periods, and in order to exclude the influence of past conditions that no longer exist.

Pension Obligations

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

Recognition of Deferred Tax Assets

Management estimates deferred tax assets at each reporting date and determines the amount to reflect to the extent that tax deductions are probable. In determining future taxable profit and the amount of tax deductions, management uses estimates and judgments based on the amount of taxable profit of previous years and expectations regarding deferred profit that are reasonable in the circumstances.

(e) Modification in Accounting Policy

Starting January 1, 2019, the Group began to apply IFRS 16 *“Leases”*, as described below.

IFRS 16 “Lease”

The new IFRS 16*”Leases”* issued in 2016, replaces IAS 17 *“Leases”*, as well as the corresponding interpretations of IFRS for leases. The standard provides a unified guide to the accounting of leases from the lessee, abolishing the classification of leases for operating and financial.

Agreement as a whole or its individual components is a lease if, under this agreement, the right is transferred to control the use of the identified asset for a certain period in exchange for compensation.

Right-of-use assets are initially measured at historical cost and amortized to the earlier of the following dates: the expiration date of the useful life of the right-of-use asset or the expiration date of the lease. The initial cost of right-of-use asset includes the amount of the initial measurement of the lease liability, lease payments made before or at the date the lease begins, and the initial direct costs. Once recognized, right-of-use assets are carried at historical cost less accumulated depreciation and any accumulated impairment losses. Right-of-use asset are presented in the statement of financial position as a separate item.

2 Principles for the Preparation of Consolidated Financial Statements (Continued)

(e) Modification in Accounting Policy (Continued)

The lease liability is initially measured at the present value of the lease payments that have not yet been made at the commencement date of the lease and subsequently measured at amortized cost, with interest recognized in finance costs in the consolidated profit and loss statement. Lease obligations are presented in the statement of financial position as long-term and short-term borrowed funds.

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

The Group determines the lease term as a non-early termination period during which the Group is entitled to use the underlying assets, together with:

- periods for which the option to extend the lease applies, if there is sufficient confidence that the Group will exercise this option; and
- periods for which the option for lease termination applies, if there is reasonable assurance that the Group will not exercise that option.

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

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

The main rental objects of the Group are electric grid facilities (networks of power transmission lines, equipment for electric power transmission, etc.) and land plots. The group also rents non-residential real estate and vehicles.

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

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

The Group applied a modified retrospective approach, which involves reflecting the cumulative effect of the initial application of the standard on the date of initial application – January 1, 2019. The weighted average rate of raising additional borrowed funds applied in respect of lease obligations recognized in the statement of financial position at the date of initial application amounted to 8.8%.

The Group also used permitted practical expedients and did not apply the new standard to leases that expire within twelve months from the date of transition.

There is no impairment of RUA as of January 1, 2019.

(in thousands of Russian rubles unless specified otherwise)

2 Principles for the Preparation of Consolidated Financial Statements (Continued)

(e) Modification in Accounting Policy (Continued)

The effect of the initial application of IFRS 16 *"Leases"* has the following impact on the Group's assets and liabilities:

	As of January 1, 2019
Assets	
Right-of-use asset	1,700,504
Advances paid and other current assets	(9,047)
Obligations	
Long-term lease obligations (as part of long-term borrowed funds)	1,448,864
Short-term lease obligations (as part of short-term borrowed funds)	255,852
Trade and other payables	(13,260)

The following is a reconciliation between the operating lease contractual obligations disclosed in accordance with IAS 17 as at 31 December 2018 and the lease obligations recognized in the statement of financial position as of 1 January 2019 in accordance with IFRS 16 *"Leases"*.

	As of January 1, 2019
Operating lease obligation as of December 31, 2018, disclosed in the consolidated financial statements of the Group	3,078,198
Short-term leases recognition exemption	(2,157)
Discount effect	(1,381,749)
Other factors	4,212
Lease liability recognized as of 1 January 2019	**1,698,504**

(f) Changes to the Presentation

The Reclassification of the Comparative Data

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

- The accrual (restoration) of the provision for expected credit losses, previously disclosed in the Note "Operating Expenses", is allocated as a separate item in the consolidated statement of profit or loss and other comprehensive income.
- Other income and other expenses previously disclosed in the Note "Net Other Income" are highlighted in separate items in the consolidated statement of profit or loss and other comprehensive income.
- Advances paid and other non-financial assets previously disclosed in the Note "Trade and Other Receivables" are highlighted in separate items "Advances paid and other current assets", "Advances paid and other non-current assets" in the consolidated statement of financial position.
- Long-term and short-term advances received (contractual obligations) previously disclosed in the Note "Trade and Other Payables" are allocated in separate items in the consolidated statement of financial position.
- Tax arrears, other than income tax, previously disclosed in the Note "Trade and Other Payables" are allocated as a separate item in the consolidated statement of financial position.

The corresponding notes for 2018 were restated taking into account the reclassifications made.

2 Principles for the Preparation of Consolidated Financial Statements (Continued)

(g) Application of New and Revised Standards and Interpretations

With the exception of the changes in accounting policies described in section 2 (e), the following amendments and clarifications that entered into force on January 1, 2019, did not affect these consolidated financial statements:

- Explanation of IFRIC 23 *Ambiguity in Respect to Profit Tax Computation Rules*;
- amendments to IFRS 9 *Early Maturity Terms with Potential Negative Compensation;*
- amendments to IFRS 3 *Business Combinations;*
- amendments to IFRS 11 *Joint Venture;*
- Amendments to IAS 12 *Profit Taxes* – Tax consequences of payments for financial instruments classified as equity;
- amendments to IAS 23 *Borrowing Costs;*
- amendments to IAS 28 *Long-Term Investments in Associates and Joint Ventures;* and
- amendments to IAS 19 *Amending the Program, Reducing the Program or Paying Off Program Obligations.*

The following new standards and interpretations were issued and become effective in respect to yearly periods starting since January 1, 2020, or after this date, and were not applied by the Group in advance:

- IFRS 17 *Insurance contracts;*
- Amendments to IFRS 3 *Business combinations – Definition of Business*;
- Amendments to IFRS (IAS) 1 *Presentation of Financial Statements* and IFRS (IAS) 8 *Accounting policies, changes in accounting estimates and errors*.

A number of new standards and interpretations have been published, which are mandatory for annual periods beginning on or after 1 January 2020, and which the Group has not applied ahead of schedule:

Amendments to IAS 1 and IAS 8, *Determination of Materiality*.

These amendments clarify the definition of materiality and the application of this concept by including the recommendations on definition that were previously presented in other IFRS standards and ensure consistency in determining materiality in all IFRS standards. Information is considered material if it is reasonably expected that its omission, distortion, or difficulty in understanding it may affect decisions made by key users of general financial statements based on such financial statements that present financial information about a particular reporting entity.

Conceptual framework for financial reporting.

The revised financial reporting conceptual framework contains a new chapter on valuation, recommendations for reporting financial results, improved definitions and recommendations (in particular, determination of liabilities), and clarifications on specific issues, such as the role of management, prudence and estimation uncertainty in preparing financial statements reporting.

Business definition – Amendments to IFRS 3.

These amendments amend the definition of a business and should help organizations determine whether the acquired combination of activities and assets is a business or not.

Classification of liabilities for short and long term – Amendments to IAS 1.

These amendments clarify the criteria for classifying obligations as long-term and short-term (depending on the rights existing at the end of the reporting period).

IFRS 17 *Insurance Contracts*, Amendments to IFRS 9, IAS 39 and IFRS 7 *Reform of the Base Interest Rate* – not applicable to the Group.

The Group plans to adopt the applicable standards and clarifications for use after the entry into force; a significant impact on the consolidated financial statements of the Group is not expected.

3 Main Principles of Accounting Policy

The accounting policies described below have been applied consistently in all reporting periods presented in these consolidated financial statements, except for the changes in accounting policies disclosed in Note 2 (e) and associated with the commencement of application from January 1, 2019 IFRS 16 *"Leases"*, and the reclassifications of comparative information disclosed in note 2 (f).

(a) Consolidation Principles

i. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls the subsidiary when the Group is exposed to the risks associated with variable income from participation in the investee or has the right to receive such income, and has the ability to use its powers in relation to this company in order to influence the amount of this income. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

3 Main Principles of Accounting Policy (Continued)

(a) Consolidation Principles (Continued)

The accounting policies of subsidiaries have undergone changes when it was necessary to bring them into line with the accounting policies adopted by the Group. Losses attributable to non-controlling interests in a subsidiary are fully charged to non-controlling interests, even if this leads to a debit balance ("deficit") in this account.

ii. Business Combination Transaction

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

The Group estimates goodwill at the acquisition date as follows:

1) fair value of the consideration transferred; plus
2) the amount of the recognized non-controlling interest in the acquiree; plus
3) fair value of the existing share in the capital of the acquired enterprise if the business combination transaction was carried out in stages; minus
4) the net amount of recognized amounts (usually fair value) of identifiable assets acquired, net of liabilities assumed.

If this difference is expressed as a negative value, then profit from a profitable purchase is immediately recognized in profit or loss for the period.

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

Transaction costs incurred by the Group as a result of a business combination, other than those related to the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration is recognized at fair value at the acquisition date. If the contingent consideration is classified as part of capital, then its amount is not subsequently remeasured, and its payment is recognized in equity. Otherwise, changes in the fair value of the contingent consideration are recognized in profit or loss for the period.

iii. Accounting for the Acquisition of Non-Controlling Interests

Acquisitions of non-controlling interests without loss of control by the Group are accounted for as transactions with owners, and therefore, goodwill is not recognized as a result of such transactions. Non-controlling interest adjustments are made based on the pro rata amount of the net assets of the subsidiary.

iv. Acquisition of business from enterprises under common control

Business combinations resulting from the transfer of interests in entities controlled by the same shareholder that controls the Group are accounted for using the predecessor method. Acquired assets and liabilities are recognized at their previous carrying amount as reflected in the financial statements of the acquired entities. Any amounts of cash paid in the acquisition transaction are recognized directly in equity.

3 Main Principles of Accounting Policy (Continued)

(a) Consolidation Principles (Continued)

v. Investments in Associates (Investment Objects Accounted for Using the Equity Method)

Associated companies are those whose financial and business policies the Group has a significant impact on, but does not control.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The cost of an investment also includes transaction costs. Starting from the moment of significant influence and until the date of termination of this significant influence, the consolidated financial statements reflect the Group's share of profit and loss, as well as other comprehensive income of investment objects, accounted for using the equity method, which is calculated taking into account the adjustments required to bring the accounting policies of a specific object in accordance with the Group's accounting policies. When the Group’s share in the losses of the investment property accounted for using the equity method exceeds its share in this property, the carrying amount of this share (including any long-term investments) is reduced to zero and the Group does not recognize further losses, unless the Group has accepted liabilities to compensate for losses of this investment object, or made payments on its behalf.

vi. Transactions Excluded on Consolidation

Intragroup balances and transactions, as well as unrealized incomes and losses from intragroup transactions, are eliminated in the preparation of the consolidated financial statements. Unrealized profit on operations with investment objects accounted for using the equity method are eliminated by reducing the cost of the investment within the Group's interest in the respective investment object. Unrealized losses are eliminated in the same manner as unrealized profit, but only to the extent that they are not evidence of impairment.

(b) Foreign Currency

Monetary assets and liabilities of the Group's companies denominated in foreign currencies at the reporting date are translated to rubles at the exchange rate at the reporting date. Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction. Profits and losses arising as a result of performing such calculations on these operations when translating monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

(c) Financial Instruments

i. Financial Assets

The Group classifies financial assets into the following measurement categories: subsequently measured at amortized cost, measured at fair value through other comprehensive income and measured at fair value through profit or loss. Classification depends on the business model for managing financial assets and cash flow characteristics specified by agreements.

Financial assets are classified as evaluated at fair value if the following conditions are met: the asset is retained within a business model, the objective of which is to retain assets to receive cash flows specified by the agreement, and terms of the agreement provide for receipt of cash flows being exclusively payments against the debt principal amount and interest on the unpaid part of the debt principal amount on the specified dates.

3 Main Principles of Accounting Policy (Continued)

(c) Financial Instruments (Continued)

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

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

Provision for expected credit losses is created for financial assets classified as evaluated by depreciated cost.

Upon derecognition of financial assets at amortized cost and fair value, changes which are reflected through profit or loss, the Group reflects in the statement of profit or loss and other comprehensive income (through profit or loss) the financial result from their disposal equal to the difference between the fair value of the consideration received and the carrying amount of the asset.

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

- not classified as measured at fair value, changes in which are recognized in profit or loss; and
- do not provide the Group with control, joint control or significant influence over the investee.

Upon derecognition of equity instruments of other companies, classified at the Group's discretion as being measured at fair value through other comprehensive income, previously recognized components of other comprehensive income are transferred from the reserve for changes in fair value to retained profit.

ii. Impairment of Financial Assets

According to IFRS 12, provisions for impairment are evaluated either on the basis of 12-month ECL, which is the result of possible failures to comply with obligations within 12 months after the reporting date, or ECL for the entire life cycle, which is the result of all potential failures to comply with obligations during the expected life of a financial instrument.

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

Provisions for impairment of other financial assets classified as evaluated at depreciated cost are evaluated on the basis of 12-month ECL, unless there was considerable increase of a credit risk from the moment of recognition. The estimated provision for expected credit losses for a financial instrument is assessed at each reporting date in an amount equal to expected credit losses for the entire period if the credit risk for this financial instrument has increased significantly since initial recognition, taking into account all reasonable and confirmed information, including predictive.

3 Main Principles of Accounting Policy (Continued)

(c) Financial Instruments (Continued)

As indicators of a significant increase in credit risk, the Group considers the actual or expected difficulties of the issuer or the debtor of the asset, the actual or expected violation of the terms of the contract, the expected revision of the terms of the contract due to the financial difficulties of the debtor on unfavorable terms for the Group, to which it would not have agreed otherwise circumstances.

Based on the usual practice of managing credit risk, the Group defines default as the inability of the counterparty (issuer) to fulfill its obligations (including the repayment of funds under the contract) due to a significant deterioration in the financial situation.

A credit loss from impairment of a financial asset is recognized through the recognition of an allowance for impairment. For a financial asset carried at amortized cost, the amount of the impairment loss is calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted at the original effective interest rate.

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

iii. Financial Liabilities

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

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

- loans and borrowings (borrowed funds);
- trade and other payables.

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

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

- bears the costs of qualifying assets;
- bears the costs of loans; and
- conducts activities related to the preparation of assets for use or sale.

3 Main Principles of Accounting Policy (Continued)

(c) Financial Instruments (Continued)

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

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

(d) Authorized Capital

The authorized (share) capital consists of the nominal value of ordinary shares issued and fully paid by the shareholders of the Parent company.

(e) Fixed Assets

i. Recognition and Assessment

Item of fixed assets are stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment as of January 1, 2006, that is, the date of transition to IFRS, was determined based on their fair value (the notional cost) at that date.

The cost includes all costs directly related to the acquisition of the asset. The cost of assets raised (built) on its own includes material costs, direct labor costs, all other costs directly related to bringing the assets into working condition for their intended use, the cost of dismantling and moving the assets and restoring the assets occupied by them plot, and capitalized interest on loans. The cost of acquiring software that is inextricably linked to the functionality of the associated equipment is capitalized in the cost of that equipment.

If an item of fixed assets consists of significant separate components that have different useful lives, each of them is accounted for as a separate item (significant component) of fixed assets.

Any amounts of profit or loss from disposal of an item of property, plant and equipment are determined by comparing proceeds from its disposal with its carrying amount and are recognized in net value in the line “Net other income / (expenses)” in profit or loss for the period.

ii. Subsequent Costs

The costs associated with replacing a part (significant component) of an item of fixed asset increase the carrying amount of this item if it is probable that the Group will receive future economic benefits related to that part and it can be reliably determined. The carrying amount of the replaced part is written off. Costs for maintenance and servicing of fixed assets are recognized in the statement of profit or loss and other comprehensive income at the time they arise.

3 Main Principles of Accounting Policy (Continued)

(e) Fixed Assets (Continued)

iii. Depreciation

Each component of a fixed asset item is depreciated on a straight-line basis over its expected useful life, since it is this method that most accurately reflects the nature of the expected consumption of future economic benefits embodied in the asset, and depreciation is included in profit or loss for the period. Leased assets are depreciated over the shorter of the lease and useful lives of the assets. Land is not depreciated.

The estimated useful lives of fixed asset items in the reporting and comparative periods were as follows:

- buildings 7–50 years;
- power transmission lines 5–40 years;
- equipment for power transmission 5–40 years;
- other assets 1–50 years.

The estimated useful lives and residual values of fixed asset items are reviewed at each reporting date and are revised if necessary.

(f) Intangible Assets

i. Goodwill

Goodwill (“negative goodwill”) arises on the acquisition of subsidiaries, associates and joint ventures. For the measurement of goodwill at initial recognition, see Note 3 (a) (ii).

Subsequent Evaluation

Goodwill is carried at cost less impairment losses. For associates, the cost of goodwill relating to them is recognized in the carrying amount of the related investment in the associate, and when impairment of such investments is recognized, it is not allocated to any assets that form the carrying amount of the investment in associates, including goodwill.

ii. Other Intangible Assets

Other intangible assets acquired by the Group and having a finite useful life are carried at cost less accumulated depreciation and impairment losses.

iii. Subsequent Costs

Subsequent costs are capitalized in the cost of a particular asset only if they increase the future economic benefits embodied in that asset. All other expenses are recognized in the statement of profit or loss and other comprehensive income as incurred.

3 Main Principles of Accounting Policy (Continued)

(f) Intangible Assets (Continued)

iv. Depreciation

Depreciation charges on intangible assets other than goodwill are accrued from the moment they are ready for use and recognized in profit or loss on a straight-line basis over their respective useful lives, since this method most accurately reflects the characteristics of the expected consumption of future economic benefits embodied in the asset. The expected useful lives of intangible assets in the reporting and comparative periods were as follows:

- licenses and certificates 1–10 years;
- Software 5 years.

At the end of each reporting year, depreciation methods, useful lives and residual values are reviewed for the need to review them and, if necessary, are reviewed.

(g) Impairment of Non-Financial Assets

The carrying amounts of non-financial assets of the Group, other than inventories and deferred tax assets, are reviewed at each reporting date to identify any signs of impairment. If any such indication exists, the recoverable amount of the related asset is calculated.

For goodwill, recoverable amount is calculated at each reporting date. An impairment loss is recognized if the carrying amount of the asset or its corresponding unit generating cash flows exceeds its estimated (recoverable) value. The recoverable amount of an asset or a cash-generating unit is the higher of the two amounts: the value in use of that asset (that unit) and its fair value less costs to sell.

For the purpose of conducting an impairment test, assets that cannot be individually verified are grouped into the smallest group within which cash inflows are generated as a result of continued use of the related assets, and this inflow is largely independent of cash inflows generated other assets or groups of assets ("cash-generating unit").

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to groups of units that generate cash flows to which it relates.

The Group's total (corporate) assets do not generate independent cash flows and are used by more than one cash generating unit. The value of a corporate asset is distributed between units on a reasonable and consistent basis, and its impairment assessment is carried out as part of the testing of the unit to which the corporate asset was allocated.

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

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

3 Main Principles of Accounting Policy (Continued)

(g) Impairment of Non-Financial Assets (Continued)

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

(h) Inventory

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average cost method, and it includes the costs of acquiring inventories, the costs of manufacturing or processing, and other costs of delivering inventories to their current location and bringing them into the appropriate condition.

Net realizable value is the estimated (rated) selling price of an inventory item in the normal course of business of the Group, less the estimated costs of completing work on the item and selling it.

(i) Advances Paid

Advances paid are classified as non-current assets if the advance is associated with the acquisition of an asset that will be classified as non-current upon initial recognition. Advances for the acquisition of an asset are included in its carrying amount when the Group obtains control of the asset and there is a high probability that the Group will obtain economic benefits from its use.

(j) Value-Added Tax

Value-added tax arising from the sale of products is subject to transfer to the state budget at the earliest of the dates: (a) the moment payment is received from buyers or (b) the time goods or services are delivered to the buyer. Input VAT is refundable by offset against the amount of outgoing VAT on receipt of the invoice. Advances paid and other assets include (on a net basis) the amounts of VAT accrued on advances received and advances paid, as well as VAT recoverable and prepayment of VAT. Amounts of VAT receivables to the budget are disclosed separately as part of short-term liabilities. When creating a reserve for expected credit losses on receivables, the entire amount of doubtful debts, including VAT, is reserved.

(k) Remunerations to Employees

i. Assessed Contribution Programs

Assessed contribution program is considered to be a program for the payment of benefits to employees upon termination of an employment relationship with them, under which the Company makes fixed contributions to a separate (independent) fund and does not bear any additional obligations (neither legal nor constructive) to pay additional amounts. Obligations to make contributions to funds through which assessed contribution pension schemes are implemented, including to the State Pension Fund of the Russian Federation, are recognized as employee benefits expense in profit or loss for the periods in which employees rendered the corresponding services within employment contracts. Contributions paid in advance are recognized as an asset when the entity is entitled to a refund of the contributions paid by it or to a reduction in the amount of future contributions.

3 Main Principles of Accounting Policy (Continued)

(k) Remunerations to Employees (Continued)

ii. Defined Benefit Programs

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

The discount rate is the rate of return at the end of the year for government bonds, the maturity of which is approximately equal to the term of the relevant obligations of the Group and which are denominated in the same currency as the interest that is expected to be paid. These calculations are performed annually by a qualified actuary using the projected unit credit method for the accumulation of future payments.

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

In the event of changes in payments within the program or its sequestration, the resulting change in payments relating to services of previous periods, or profit or loss from sequestration are recognized immediately in profit or loss. The Group recognizes the gain or loss on settlement of program obligations when this settlement occurs.

iii. Other Long-Term Remunerations to Employees

The net liability of the Group with respect to long-term employee benefits other than defined benefit pension represents the amount of future benefits that the staff earned in the current and past periods. These future benefits are discounted to determine their present value. The discount rate is the market yield at the reporting date for government bonds, the maturity of which is approximately equal to the maturity of the relevant obligations of the Group and which are denominated in the same currency in which these interest payments are expected. Liabilities are estimated using the projected unit credit method. Revaluations are recognized in profit or loss for the period in which they arise.

iv. Short-Term Remunerations

In determining the amount of the obligation with respect to short-term employee remunerations, no discount is applied and the related costs are recognized as the employees fulfill their labor duties.

For amounts expected to be paid under a short-term bonus or profit sharing plan, a liability is recognized if the Group has an existing legal or contingent obligation to pay the corresponding amount that arose as a result of the employee's past work and the amount this obligation can be reliably estimated and there is a high probability of an outflow of economic benefits.

3 Main Principles of Accounting Policy (Continued)

(l) Reserves

Reserve is recognized if, as a result of an event in the past, the Group has a legal or constructive obligation, the amount of which can be measured reliably, and it is highly probable that an outflow of economic benefits will be required to settle the obligation. The amount of the reserve is determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the impact of changes in the value of money over time and the risks inherent in this liability. Amounts representing "discount amortization" are recognized as finance costs.

(m) Revenue from Contracts with Customers

The Group recognizes revenue, when (or as soon as) the obligation to be fulfilled is complied with by transfer of the promised product or service (i.e. asset) to the customer. The asset is transferred when (or as) the buyer gains control of the asset.

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

Electricity Transmission Services, Sale of Electricity and Capacity

The Group transfers control over the service or product during the period and, therefore, fulfills the obligation to fulfill during the period (settlement month); to assess the degree of fulfillment of the performance obligation, the results method is used (cost of transferred volumes of electricity, cost of sold volumes of electricity and capacity).

Tariffs for power transmission services (in respect to all constituent entities of the Russian Federation) and power sale in the regulated market (in respect to constituent entities of the Russian Federation not united into price zones of the wholesale power market) are approved by the executive authorities of the constituent entities of the Russian Federation in respect to state regulation of tariffs (hereinafter referred to as regional regulatory authorities) within limit minimum and (or) maximum levels approved by the Federal Anti-Monopoly Service.

Services of Technological Connection to Electric Grids

Revenues from the provision of technological connection services to electric grids represent a non-refundable fee for connecting consumers to electric grids. The Group transfers control of the service at a specific point in time (upon the fact of connecting the consumer to the power grid) and, therefore, fulfills an obligation to fulfill at a specific point in time.

A fee for technological connection within an individual project, standardized tariffs, fees per unit of maximum capacity and formula of payment for technological connection are approved by a regional power commission (department of prices and tariffs in a corresponding region) and do not depend on the revenue from provision of the power transmission services. A fee for technological connection to the united national (all-Russian) electric grid is approved by the Federal Anti-Monopoly Service.

The Group applied the judgment that technological connection is a separate commitment to be performed, which is recognized when appropriate services are provided. The technological connection contract does not contain any further obligations after the connection service is provided. According to the established practice and laws regulating the electricity market, technological connection and transmission of electricity are the subject of separate negotiations with different consumers as different services for different commercial purposes without connection to pricing, intentions, recognition or types of services.

3 Main Principles of Accounting Policy (Continued)

(m) Revenue from Contracts with Customers (Continued)

Other Services

Revenues from the provision of installation, repair and maintenance services, construction services, as well as revenue from other sales are recognized when the buyer gains control of the asset.

Trade Receivables

Accounts receivable represent the Group’s right to reimbursement, which is unconditional (i.e., the moment when such a reimbursement becomes receivables is due only to the passage of time).

Contractual Obligations

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

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

(n) Government Subsidies

Government subsidies are recognized if there is reasonable assurance that they will be received and all conditions associated with them are met. If a grant is issued to finance certain expenses, it is recognized as income on a systematic basis in the same periods in which the costs are written off to expenses, which it must compensate. If a subsidy is issued for the purpose of financing an asset, then it is recognized as income, net of related expenses, in equal installments over the expected useful life of the asset.

Government subsidies that compensate the Group for electricity tariffs (shortfalls) are recognized in the consolidated statement of profit or loss and other comprehensive income (in other income) in the same periods in which the related revenue was recognized.

(o) Social Payments

When the Group's contributions to social programs are aimed at the benefit of society as a whole, and are not limited to payments to the employees of the Group, they are recognized in profit or loss as they are made. The Group’s costs associated with financing social programs without committing in future to such financing are recognized in the consolidated statement of profit or loss and other comprehensive income as incurred.

3 Main Principles of Accounting Policy (Continued)

(p) Financial Income and Expenses

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

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

(q) Profit Tax Expense

Profit tax expense includes current profit tax and deferred tax. Current and deferred income tax is recognized in profit or loss for the period, except for the part that relates to business combinations, transactions recognized in other comprehensive income or directly in equity.

Current profit tax represents the amount of tax payable in respect of taxable profit for the year, calculated on the basis of tax rates that are effective or substantially enacted as at the reporting date, as well as all adjustments to the amount of the obligation to pay income tax for previous years .

Deferred tax is recognized for temporary differences arising between the carrying amount of assets and liabilities determined for the purposes of their reflection in the financial statements and their tax base. Deferred tax is not recognized for:

- temporary differences arising on the initial recognition of assets and liabilities as a result of a transaction that is not a business combination and does not affect either accounting or taxable profit or tax loss;
- temporary differences relating to investments in subsidiaries and associates, to the extent that the Group is able to control the timing of the recovery of these temporary differences and it is probable that these temporary differences will not be reversed in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The deferred tax assessment reflects the tax consequences that would result from the way the Group intends to recover or pay the carrying amount of its assets or settle liabilities at the end of this reporting period.

The amount of deferred tax is determined based on tax rates that will be applied in the future, at the time of restoration of temporary differences, based on existing or essentially enacted legislative acts as of the reporting date.

3 Main Principles of Accounting Policy (Continued)

(q) Profit Tax Expense (Continued)

In determining the amount of current and deferred tax, the Group takes into account the effect of uncertainty regarding the tax position, as well as in assessing whether additional taxes, penalties and interest may be assessed. The Group accrues taxes based on an assessment of many factors, including interpretation of tax laws and previous experience. Such an assessment is based on expectations and assumptions and may include a number of judgments about future events. When new information becomes available, the Group may reconsider its judgment regarding amounts of tax liabilities for previous periods; such changes in tax liabilities will affect the income tax expense of the period in which the judgment is made.

Deferred tax assets and liabilities are offset if there is a legal right to offset against each other the amounts of assets and liabilities for the current income tax, and they are related to income tax levied by the same tax authority on the same taxable enterprises, or from different taxable enterprises, but these enterprises intend to settle current tax liabilities and assets on a net basis, or the implementation of their tax assets will be carried out simultaneously but in paying their tax obligations.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences only to the extent that it is highly probable that taxable profit will be available against which the corresponding deductible temporary differences can be realized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that the realization of the related tax benefits is no longer probable.

(r) Profit per Share

The Group presents underlying and diluted profit per share for ordinary shares. Underlying income per share is calculated by dividing the profit or loss due to the holders of the Company's ordinary shares by the weighted average number of ordinary shares outstanding during the reporting period.

4 Fair Value Evaluation

Certain provisions of the Group’s accounting policy and some disclosures require evaluation of fair value of both financial and non-financial assets and liabilities.

When evaluating fair value of an asset or a liability, the Group applies, as far as practicable, the observed market data. Fair value estimates are related to different levels of fair value hierarchy depending on source data used within the relevant evaluation methods:

- Level 1: quoted (uncorrected) prices for identical assets and liabilities at active markets.
- Level 2: source data, apart from quoted prices applied for estimates of Level 1, which are observed either directly (i.e. such as prices) or indirectly (i.e. defined on the basis of prices).
- Level 3: source data for assets and liabilities, which are not based on observed market data (unobserved source data).

If source data used for evaluation of asset fair value, may be referred to different levels of fair value hierarchy, fair value evaluation as a whole relates to that level of hierarchy, which the source data of lowest level comply with, being substantial for the entire evaluation.

(in thousands of Russian rubles unless specified otherwise)

4 Fair Value Evaluation (Continued)

The Group discloses transfers between levels of the fair value hierarchy in the reporting period during which the change has occurred.

The Group recognizes transfers between levels of fair value hierarchy on the end date of the reporting period, when such change took place.

5 Main Subsidiaries

		Property / voting shares, %	
	Country of registration	**December 31, 2019**	**December 31, 2018**
Chuvash Motor Transport Company, JSC	Russian Federation	99.99	99.99
Solnechny Sanatorium-Preventorium, JSC	Russian Federation	99.99	99.99
Social Sphere-M, JSC	Russian Federation	100	100
Energoservice of Volga, JSC	Russian Federation	100	100

6 Information by Segments

The Management Board of IDGC of Volga, Public Joint-Stock Company, is the supreme authority making decisions on operations.

Primary business of the Group is provision of services of power transmission and distribution, technological connection to electric grids in some regions of the Russian Federation.

The internal management reporting system is based on segments (branches formed according to the territorial principle), which are related to power transmission and distribution, technological connection to electric grids in some regions of the Russian Federation.

To reflect business results of each reporting segments, revenue, EBITDA indicators are used, since they are included into the internal management reporting prepared on the basis of RAS reporting and are regularly analyzed and evaluated by the Management Board. The EBITDA indicator is calculated as profit or loss before interest expenses, taxation and depreciation. The Management Board believes that such indicators are most relevant in evaluation of results of identified segments in respect to other segments and companies that operate in these industries.

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

- Power transmission segments – Republic of Mordovia, Republic of Chuvashia, Orenburg Region, Penza Region, Samara Region, Saratov Region, Ulyanovsk Region – branches of IDGC of Volga, Public Joint-Stock Company;
- Other segments – other companies of the Group.

Undistributed indicators include general indicators of the Company’s executive apparatus, which is not an operating segment in accordance with requirements of IFRS 8.

Indicators of segments are based on management information prepared on the basis of RAS reporting data, and may differ from similar ones presented in the financial statements prepared in accordance with IFRS. Reconciliation of the estimates presented to the Management Board and similar indicators in these consolidated interim condensed financial statements include those reclassifications and adjustments that are necessary for the presentation of financial statements in accordance with IFRS.

(in thousands of Russian rubles unless specified otherwise)

6 Information by Segments (Continued)

(c) Information on Reporting Segments

As of and for the year ended December 31, 2019:

	Saratov Region	Orenburg Region	Samara Region	Penza Region	Ulyanovsk Region	Republic of Chuvashia	Republic of Mordovia	Other	Total
Revenue from external buyers	14,415,072	13,540,336	14,040,030	7,703,766	6,150,229	4,046,486	2,984,078	95,766	62,975,763
Revenue from sales between segments	–	–	–	–	–	–	9	148,015	148,024
Segment revenue	**14,415,072**	**13,540,336**	**14,040,030**	**7,703,766**	**6,150,229**	**4,046,486**	**2,984,087**	**243,781**	**63,123,787**
Including									
Transfer of electricity	*14,349,762*	*13,412,826*	*13,983,562*	*7,622,191*	*6,133,316*	*4,008,906*	*2,926,678*	–	*62,437,241*
Technological connection to networks	*36,029*	*46,192*	*38,977*	*66,730*	*9,002*	*24,012*	*45,150*	–	*266,092*
Lease revenue	11,077	35,400	11,685	8,308	7,353	11,788	4,099	3,762	93,472
Other revenue	*18,204*	*45,918*	*5,806*	*6,537*	*558*	*1,780*	*8,160*	*240,019*	*326,982*
Financial income	26,629	25,386	39,874	12,508	71,823	60,246	5,758	3,143	245,367
Financial expenses	(26,044)	–	–	–	–	(53,120)	(40,533)	–	(119,697)
Depreciation	1,500,406	1,097,626	1,428,369	504,448	353,702	375,972	327,386	17,234	5,605,143
EBITDA	**2,151,606**	**2,084,743**	**2,894,001**	**704,756**	**656,185**	**574,258**	**376,736**	**20,485**	**9,462,770**
Assets of segments	**16,094,768**	**12,137,720**	**16,640,739**	**5,904,359**	**5,094,572**	**6,057,108**	**3,900,753**	**236,040**	**66,066,059**
Including fixed assets and construction in progress	*14,488,183*	*10,526,872*	*14,438,263*	*4,807,921*	*3,746,065*	*3,611,164*	*3,231,103*	*93,268*	*54,942,839*
Capital investments	**2,111,849**	**2,117,534**	**2,415,724**	**908,007**	**515,022**	**737,473**	**516,659**	**35,818**	**9,358,086**
Liabilities of segments	**3,129,146**	**2,722,072**	**4,036,022**	**1,498,029**	**1,160,877**	**2,479,233**	**1,886,213**	**31,222**	**16,942,814**

(in thousands of Russian rubles unless specified otherwise)

6 Information by Segments (Continued)

(a) Information on Reporting Segments (Continued)

As of and for the year ended December 31, 2018:

	Saratov Region	Orenburg Region	Samara Region	Penza Region	Ulyanovsk Region	Republic of Chuvashia	Republic of Mordovia	Other	Total
Revenue from external buyers	15,218,111	13,799,774	13,125 264	7,602,326	6,231,649	4,048,441	3,565,787	94,796	63,686,148
Revenue from sales between segments	--	--	--	--	--	--	9	157,505	157,514
Segment revenue	**15,218,111**	**13,799,774**	**13,125,264**	**7,602,326**	**6,231,649**	**4,048,441**	**3,565,796**	**252,301**	**63,843,662**
Including									
Transfer of electricity	*14,996,354*	*13,678 162*	*13,020,211*	*7,557,381*	*6,202,506*	*4,021,886*	*3,115,248*	--	*62,591,748*
Technological connection to networks	*98,363*	*27,121*	*86,036*	*30,840*	*21,920*	*13,199*	*443,721*	--	*721,200*
Lease revenue	8,940	35,259	12,115	6,798	6,858	11,357	3,413	3,829	88,569
Other revenue	*114,454*	*59,232*	*6,902*	*7,307*	*365*	*1,999*	*3,414*	*248,472*	*442,145*
Financial income	37,130	35,421	112,628	19,468	122,252	8,084	9,347	2,759	347,089
Financial expenses	(51,976)	--	--	--	--	(37,121)	(39,946)	--	(129,043)
Depreciation	1,320,318	1,052,240	1,445,592	492,035	322,460	383,301	321,101	18,226	5,355,273
EBITDA	**3,385,119**	**2,717,584**	**2,121 522**	**1,046,576**	**539,149**	**586,825**	**951,968**	**21,626**	**11,370,369**
Assets of segments	**15,644,603**	**12,072,405**	**15,926,365**	**5,530,402**	**5,109,844**	**5,350,460**	**3,699,509**	**229,490**	**63,563,078**
Including fixed assets and construction in progress	*13,896,907*	*9,715,634*	*13,526,268*	*4,401,628*	*3,592,092*	*3,246,134*	*3,044,818*	*101,960*	*51,525,441*
Capital investments	**1,595 794**	**1,708,806**	**2,188,083**	**779,744**	**486,232**	**514,063**	**459,504**	**15,269**	**7,747,495**
Liabilities of segments	**2,966,450**	**1,640,058**	**2,716,401**	**1,184,182**	**873,536**	**1,905,168**	**1,623,259**	**26,523**	**12,935,577**

(in thousands of Russian rubles unless specified otherwise)

6 Information by Segments (Continued)

(d) Reconciliation of Key Performance Indicators of Segments Presented to the Management Board of the Group with Those in the Present Consolidated Financial Statements

Reconciliation of revenue segments:

	For the year ended December 31	
	2019	**2018**
Segment revenue	**63,123,787**	**63,843,662**
Exclusion of sales revenue between segments	(148,025)	(157,513)
Revenue in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	**62,975,762**	**63,686,149**

Reconciliation of EBITDA reporting segments:

	For the year ended December 31	
	2019	**2018**
EBITDA of reporting segments	**9,462,770**	**11,370,369**
Discounting financial instruments	1,250	(200)
Reserve adjustment for expected credit losses	–	(27)
Lease adjustment	441,814	–
Recognition of pension and other long-term liabilities to employees	52,324	(21,449)
Adjustment on assets related to liabilities for remunerations to employees	5,749	32,339
Reversing allocations of the value of financial assets at fair value through other comprehensive income (transfer of revaluation to equity)	(28)	–
Adjustment of the value of fixed assets and intangible assets	142,721	128,362
Adjustment of other liabilities*	–	555,753
Other adjustments	(49,667)	2,337
EBITDA	**10,056,933**	**12,067,484**
Depreciation of fixed assets, right-of-use assets and intangible assets	(4,837,796)	(4,645,911)
Interest income on financial liabilities accounted for at depreciated cost	(119,504)	(129,050)
Interest expense on lease liabilities	(158,207)	–
Profit tax expense	(1,028,687)	(1,582,323)
Consolidated profit / loss for the period in the consolidated statement of profit or loss and other comprehensive income	**3,912,739**	**5,710,200**

*Reclassification of deferred profit (see Note 8)

(in thousands of Russian rubles unless specified otherwise)

6 Information by Segments (Continued)

(b) Reconciliation of Key Performance Indicators of Segments Presented to the Management Board of the Group with Those in the Present Consolidated Financial Statements (Continued)

Reconciliation of total assets of reportable segments:

	For the year ended December 31	
	2019	2018
Total segment assets	**66,066,059**	**63,563,078**
Settlement between segments	(12,250)	(8,297)
Intra-group financial assets	(101,529)	(101,529)
Adjustment of fixed assets value	(9,308,634)	(10,549,896)
Recognition of right-of-use asset	1,963,508	−
Change to assets related to liabilities for remunerations to employees	471,146	476,895
Deferred tax asset adjustment	(324,901)	(265,620)
Discounting of accounts receivable	(933)	(2,183)
Other adjustments	(27,765)	(951)
Undistributed indicators	–	433,802
Total assets in the consolidated statement of financial position	**58,724,701**	**53,545,299**

Reconciliation of the total liabilities of reporting segments:

	For the year ended December 31	
	2019	2018
Total liabilities of segments	**16,942,814**	**12,935,577**
Settlement between segments	(12,250)	(8,297)
Deferred tax liability adjustment	(394,023)	(208,526)
Recognition of pension and other long-term liabilities to employees	1,828,401	1,585,156
Recognition of lease liabilities	2,021,866	−
Other reserves and accruals	(536,650)	(555,753)
Discounting of accounts payable	(2,765)	−
Other adjustments	(26,126)	(21,152)
Undistributed indicators	–	1,059,582
Total liabilities in the consolidated statement of financial position	**19,821,267**	**14,786,587**

(e) Significant Customer

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

For the year ended December 31, 2019, and December 31, 2018, the Group had three counterparties, each of which accounted for more than 10% of the total revenue of the Group. Revenues from these counterparties are reflected in the statements of operating segments of the Saratov, Samara and Orenburg Regions.

The total revenue received from Saratovenergo, Public Joint-Stock Company, for 2019 amounted to 8,342,551 thousand rubles, or 13% of the total revenue of the Group (in 2018 – 9,187,423 thousand rubles, or 14%). The total revenue received from Samaraenergo, Public Joint-Stock Company, for 2019 amounted to 6,472,842 thousand rubles, or 10% of the total revenue of the Group (in 2018 7,400,034 thousand rubles or 12%). The total revenue received from EnergosbyT Plus OJSC for 2019 amounted to 6,223,264 thousand rubles or 10% of the total revenue of the Group (in 2018 – 6,942,334 thousand rubles or 11%).

(in thousands of Russian rubles unless specified otherwise)

7 Revenue

	For the year ended December 31	
	2019	**2018**
Transfer of electricity	62,437,241	62,591,748
Technological connection to networks	266,092	721,200
Other revenue	178,957	284,633
Total	**62,882,290**	**63,597,581**
Lease revenue	93,472	88,568
Total	**62,975,762**	**63,686,149**

Other revenue includes primarily revenue from the provision of repair and maintenance services, and transportation services.

8 Other Income

	For the year ended December 31	
	2019	**2018**
Income from detected consumption of power without execution of agreements	6,727	7,049
Income in the form of fines and penalties under economic contracts	425,396	444,937
Insurance compensation	8,704	(14,973
Amortization of accounts payable	13,910	5,587
Income from gratuitously received fixed assets and inventories*	3,568	580,303
Other income	13,490	78,143
Total	**471,795**	**1,101,046**

* The Group entered into an agreement for the gratuitous use of electric grid facilities with the Ministry of Transport and Roads of the Samara Region (hereinafter referred to as “Ministry of Transport”). In accordance with the agreement, the Group transferred to the Ministry of Transport energy facilities (cable lines) for free use, and the Ministry of Transport received these objects in order to implement the road reconstruction project. Upon completion of work, in March 2018, the Ministry of Transport transferred the reconstructed objects to the Company. The reconstruction of electric grid facilities was carried out at the expense of the Ministry of Transport and is not reimbursed by the Group. Services were provided in favor of the Group by third parties. The amount of income from this transaction is the difference between the residual value of the transferred objects and the fair value of the received objects.

(in thousands of Russian rubles unless specified otherwise)

9 Operating Costs

	For the year ended December 31	
	2019	**2018**
Expenses for remunerations to employees	13,097,476	12,534,245
Depreciation of fixed assets, right-of-use assets and intangible assets	4,837,796	4,645,911
Material costs, including		
Power to compensate technological losses	8,887,825	8,949 842
Purchased electric and thermal energy for auxiliaries	553,051	539,110
Other material costs	2,148,409	2,137,968
Works and services of a productive nature, including		
Power transmission services	25,509,211	25,061,171
Repair and maintenance services	381,681	411,062
Other works and services of a productive nature	45,815	87,093
Taxes and fees, apart from profit tax	831,280	990,340
Short-term lease / Lease	2,574	390,799
Insurance	76,865	75,521
Other services of third-party companies, including:		
Communication services	170,436	165,333
Security	270,884	245,682
Consulting, legal and auditor services	10,190	10,342
Software and support expenses	284,579	214,799
Transportation services	4,967	14,081
Other services	629,604	638,884
Reserves	84,343	25,822
Other expenses	344,226	433,072
Total	**58,171,212**	**57,571,077**

10 Expenses for Remunerations to Employees

	For the year ended December 31	
	2019	**2018**
Wages	9,992,357	9,657,277
Social security contributions	2,993,189	2,844,202
Expenses related to defined benefit programs	40,660	14,438
Other long-term employee benefits liabilities	7,969	1,274
Other	63,301	17,054
Total	**13,097,476**	**12,534,245**

During the year ended December 31, 2019, the amount of contributions for defined contribution programs amounted to 25,221 thousand rubles (for the year ended December 31, 2018: 17,054 thousand rubles). Remuneration amounts to key management personnel are disclosed in the “Related Parties” Note.

(in thousands of Russian rubles unless specified otherwise)

11 Financial Income and Expenses

	For the year ended December 31	
	2019	**2018**
Financial income		
Interest income on loans granted, bank deposits, bills of exchange and balances at bank accounts	114,450	158,846
Interest on restructured receivables	130,917	188,242
Dividends receivable	11	2
Interest income on assets related to liabilities for remunerations to employees	4,038	2,856
Effect from initial discounting of financial liabilities	2,765	–
Depreciation of discount on financial assets	1,683	1,344
Total	**253,864**	**351,290**

	For the year ended December 31	
	2019	**2018**
Financial expenses		
Interest income on financial liabilities accounted for at depreciated cost	(119,504)	(129,050)
Interest expense on lease liabilities	(158,207)	–
Interest income on long-term liabilities for remuneration to employees	(122,199)	(112,069)
Effect from initial discounting of financial assets	(433)	(1,544)
Total	**(400,343)**	**(242,663)**

12 Profit Tax

	For the year ended December 31	
	2019	**2018**
Current profit tax		
Accrual of current tax	(847,786)	(1,540,455)
Historical tax adjustment	22,290	(49,622)
Total	**(825,496)**	**(1,590,077)**
Deferred income tax		
Accrual and restoration of temporary differences	(203,191)	7,754
Total	**(203,191)**	**7,754**
Total income tax expense	**(1,028,687)**	**(1,582,323)**

For the year ended December 31, 2019, the Group recalculated income tax in connection with the adjustment of revenue from previous periods in connection with the settlement. As a result, income tax excessively accrued in previous periods amounted to 22,290 thousand rubles in accordance with the amended tax returns submitted to the tax authorities.

(in thousands of Russian rubles unless specified otherwise)

12 Profit Tax (Continued)

Profit Tax Recognized in Other Comprehensive Income

	For the year ended December 31, 2019			For the year ended December 31, 2018		
	Before tax	**Profit tax**	**Net of tax**	**Before tax**	**Profit tax**	**Net of tax**
Financial assets evaluated at fair value through other comprehensive income	33	(7)	26	(9)	2	(7)
Revaluation of defined benefit obligations	(307,067)	36,105	(270,962)	52,702	(49,767)	2,935
	(307,034)	**36,098**	**(270,936)**	**52,693**	**(49,765)**	**2,928**

As of December 31, 2019, and December 31, 2018, deferred income tax assets and liabilities are calculated at a rate of 20 percent, which is expected to be applicable to the sale of the related assets and liabilities.

Profit before tax is related to profit tax expense as follows:

	For the year ended December 31, 2019	**%**	**For the year ended December 31, 2018**	**%**
Profit before taxation	**4,941,426**		**7,292,523**	
Theoretical income tax expense at a rate of 20%	**(988,285)**	**20**	**(1,458,505)**	**20**
The tax effect of items that are tax-free or non-deductible for tax purposes	(62,692)		(74,196)	
Previous years adjustments	22,290		(49,622)	
	(1,028,687)		**(1,582,323)**	

(in thousands of Russian rubles unless specified otherwise)

13 Fixed Assets

	Land plots and buildings	Power transmission lines	Equipment for power transmission	Other	Construction in progress	Total
Initial / deemed cost						
As of January 1, 2018	**17,294,641**	**27,308,451**	**17,705,019**	**14,613,796**	**1,195,428**	**78,117,335**
Reclassification between groups	(77,389)	264	119,235	(42,110)	–	–
Proceeds	39,803	530,350	28,061	492,508	6,455,552	7,546,274
Commissioning	650,524	1,625,928	2,166,116	1,495,733	(5,938,301)	–
Retirements	(10,988)	(51,182)	(13,897)	(88,411)	(363,856)	(528,334)
As of December 31, 2018	**17,896,591**	**29,413,811**	**20,004,534**	**16,471,516**	**1,348,823**	**85,135,275**
Accumulated depreciation and impairment						
As of January 1, 2018	(6,801,649)	(15,467,510)	(7,098,563)	(10,297,697)	–	(39,665,419)
Reclassification between groups	35,278	308	(49,789)	14,203	–	–
Accumulated depreciation	(952,068)	(1,396,493)	(1,098,183)	(1,084,801)	–	(4,531,545)
Retirements	5,826	31,233	10,936	82,360	–	130,355
As of December 31, 2018	**(7,712,613)**	**(16,832,462)**	**(8,235,599)**	**(11,285,935)**	–	**(44,066,609)**
Residual value						
As of January 1, 2018	**10,492,992**	**11,840,941**	**10,606,456**	**4,316,099**	**1,195,428**	**38,451,916**
As of December 31, 2018	**10,183,978**	**12,581,349**	**11,768,935**	**5,185,581**	**1,348,823**	**41,068,666**
Initial / deemed cost						
As of January 1, 2019	**17,896,591**	**29,413,811**	**20,004,534**	**16,471,516**	**1,348,823**	**85,135,275**
Reclassification between groups	(7,238,835)	62,095	6,530,770	645,970	–	–
Proceeds	4,125	2,668	26,870	431,242	8,544,432	9,009,337
Commissioning	1,110,122	2,599,812	2,902,719	1,777,772	(8,390,425)	–
Retirements	(5,391)	(16,553)	(6,647)	(43,358)	(81,200)	(153,149)
As of December 31, 2019	**11,766,612**	**32,061,833**	**29,458,246**	**19,283,142**	**1,421,630**	**93,991,463**
Accumulated depreciation and impairment						
As of January 1, 2019	**(7,712,613)**	**(16,832,462)**	**(8,235,599)**	**(11,285,935)**	–	**(44,066,609)**
Reclassification between groups	3,982,633	340,278	(3,748,912)	(573,999)	–	–
Accumulated depreciation	(844,468)	(1,290,745)	(1,114,920)	(1,107,289)	–	(4,357,422)
Retirements	4,209	15,440	4,071	43,053	–	66,773
As of December 31, 2019	**(4,570,239)**	**(17,767,489)**	**(13,095,360)**	**(12,924,170)**	**–**	**(48,357,258)**
Residual value						
As of January 1, 2019	**10,183,978**	**12,581,349**	**11,768,935**	**5,185,581**	**1,348,823**	**41,068,666**
As of December 31, 2019	**7,196,373**	**14,294,344**	**16,362,886**	**6,358,972**	**1,421,630**	**45,634,205**

13 Fixed Assets (Continued)

As of December 31, 2019, construction in progress includes advances for the acquisition of fixed assets in the amount of 9,099 thousand rubles (as of December 31, 2018: 1,058 thousand rubles), as well as materials for the construction of fixed assets in the amount of 192,673 thousand rubles, (as of December 31, 2018: 107,879 thousand rubles).

For the year ended December 31, 2019, capitalized interest amounted to 139,750 thousand rubles (for the year ended December 31, 2018: 100,420 thousand rubles), the capitalization rate amounted to 7.72% (for the year ended December 31, 2018 – 7.68%).

For the year ended December 31, 2019, depreciation was capitalized in the cost of capital construction projects in the amount of 600 thousand rubles (for the year ended December 31, 2018, in the amount of 3,157 thousand rubles).

As of December 31, 2019, and December 31, 2018, there are no fixed assets acting as collateral for loans.

Impairment of Fixed Assets

Due to the presence of signs of impairment of non-current assets, the Group performed an impairment test on December 31, 2019. For this, cash flows were analyzed, the estimated cost of consideration was compared with the carrying amount of non-current assets.

Most of the Group’s fixed assets are specialized facilities, which rarely become objects of sale on the open market, unless they are sold as part of existing enterprises. The market for such fixed assets is not active in the Russian Federation and does not provide a sufficient number of sales examples in order to use the market approach to determine the fair value of these fixed assets.

As a result, the value in use of fixed assets as of December 31, 2019, was determined using the discounted cash flow method. This method takes into account future net cash flows that these fixed assets will generate in the course of operating activities, as well as upon disposal, in order to determine the recoverable amount of these assets.

The cash-generating units are determined by the Group based on the geographical location of the branches and represent the smallest identifiable groups of assets that generate cash inflows, regardless of other assets of the Group.

In assessing the recoverable amount of assets of generating units, the following key assumptions were used:

Forecast cash flows have been determined for the period 2020–2024 for all CGUs based on the best management assessment of electric power transmission volumes, operating and capital costs, as well as tariffs approved by regulatory bodies for 2020.

The source for forecasting electricity transmission tariffs for the forecast period is business plan indicators, which are based on tariff models that are based on the average annual increase in tariffs for electric energy transmission services in accordance with the Forecast of Socio-Economic Development of the Russian Federation for the period until 2024, published on the website of the Ministry of Economic Development of the Russian Federation on September 30, 2019.

Tariff growth rates for 2020–2024 are limited by inflation growth according to the forecast of the Ministry of Economic Development of 4%.

The projected volumes of electricity transmission for all generating units were determined on the basis of annual business plans for 2020–2024.

(in thousands of Russian rubles unless specified otherwise)

13 Fixed Assets (Continued)

Impairment of Fixed Assets (Continued)

The projected cash flows were discounted to their present value using a weighted average cost of capital (WACC) of 9.03%.

Table 1 Dynamics of the Nominal Average Weighted Cost of Capital

Name	Impairment test as of December 31, 2018	Impairment test as of December 31, 2019
Nominal ruble discount rate WACC, %	10.00%	9.03%

Source of information: Estimator calculations

The growth rate of net cash flows in the post-forecast period amounted to 4.0% for all generating units in accordance with the basic scenario for forecasting the socio-economic development of the Russian Federation for the period up to 2036, compiled by the Ministry of Economic Development according to the "Inflation (CPI) average annual" indicator.

Table 2 Long-Term Growth Dynamics

Name	Impairment test as of December 31, 2018	Impairment test as of December 31, 2019
Long-term growth rate,%	4.0%	4.0%

Source of information: Estimator calculations

Based on testing results, as at December 31, 2019, no impairment of fixed assets was revealed.

The sensitivity analysis based on material assumptions on the basis of which impairment models are constructed for the CGUs of IDGC of Volga, Public Joint-Stock Company, as of December 31, 2019, is presented below:

- discount rate increase up to 10.03%:
  - leads to an impairment loss for Mordovenergo in the amount of 614,269 thousand rubles;
  - leads to an impairment loss for Orenburgenergo in the amount of 627,246 thousand rubles;
  - leads to an impairment loss for Penzaenergo in the amount of 459,266 thousand rubles;
  - leads to an impairment loss for Saratov distribution networks in the amount of 1,570,340 thousand rubles;
  - leads to an impairment loss for Chuvashenergo in the amount of 556,638 thousand rubles;
- a decrease in the growth rate of net cash flow in the post-forecast period by 1%:
  - leads to an impairment loss for Mordovenergo in the amount of 495,608 thousand rubles;
  - leads to an impairment loss for Orenburgenergo in the amount of 194,893 thousand rubles;

13 Fixed Assets (Continued)

Impairment of Fixed Assets (Continued)

- leads to an impairment loss for Penzaenergo in the amount of 288,903 thousand rubles;
- leads to an impairment loss for Saratov distribution networks in the amount of 1,236,548 thousand rubles; and
- leads to an impairment loss for Chuvashenergo in the amount of 359,528 thousand rubles;

(in thousands of Russian rubles unless specified otherwise)

14 Intangible Assets

	Software	R&D	Other	Total
Original value				
As of January 1, 2018	**336,480**	**54,799**	**27,786**	**419,065**
Reclassification between groups	–	(17,990)	17,990	–
Proceeds	162,578	26,909	–	189,487
Retirements	(91,813)	–	–	(91,813)
As of December 31, 2018	**407,245**	**63,718**	**45,776**	**516,739**
Accumulated depreciation and impairment				
As of January 1, 2018	**(206,686)**	**(18,542)**	**(15,044)**	**(240,272)**
Reclassification between groups	–	6,469	6,469	–
Accumulated depreciation	(111,039)	(2,956)	(3,528)	(117,523)
Retirements	91,813	–	–	91,813
As of December 31, 2018	**(225,912)**	**(15,029)**	**(25,041)**	**(265,982)**
Residual value				
As of January 1, 2018	**129,794**	**36,257**	**12,742**	**178,793**
As of December 31, 2018	**181,333**	**48,689**	**20,735**	**250,757**

	Software	R&D	Other	Total
Original value				
As of January 1, 2019	**407,245**	**63,718**	**45,776**	**516,739**
Reclassification between groups	5,641	(5,641)	–	–
Proceeds	92,035	30,827	–	122,862
Retirements	(100,963)	–	–	(100,963)
As of December 31, 2019	**403,958**	**88,904**	**45,776**	**538,638**
Accumulated depreciation and impairment				
As of January 1, 2019	**(225,912)**	**(15,029)**	**(25,041)**	**(265,982)**
Reclassification between groups	(1,880)	1,880	–	–
Accumulated depreciation	(121,150)	(14,736)	(3,123)	(139,009)
Retirements	100,963	–	–	100,963
As of December 31, 2019	**(247,979)**	**(27,885)**	**(28,164)**	**(304,028)**
Residual value				
As of January 1, 2019	**181,333**	**48,689**	**20,735**	**250,757**
As of December 31, 2019	**(155,979)**	**61,019**	**17,612**	**234,610**

Amortization of intangible assets included in operating expenses in the consolidated statement of profit or loss and other comprehensive income amounted to 139,009 thousand rubles (for the year ended December 31, 2018: 117,525 thousand rubles).

Intangible assets are amortized on a straight-line basis.

For the year ended December 31, 2019, capitalized interest amounted to 1,475 thousand rubles (for the year ended December 31, 2018: 193 thousand rubles), capitalization rate of 7.72% (for the year ended December 31, 2018: 7.68%).

Other intangible assets include trademarks and utility model patents.

(in thousands of Russian rubles unless specified otherwise)

15 Right-of-Use Asset

	Land and buildings	Power transmission lines	Electric power transmission equipment	Other	Total
Original value					
As of January 1, 2019	**869,917**	**573,773**	**243,805**	**11,009**	**1,698,504**
Reclassification between groups	(41,350)	35,019	2 127	4,204	–
Proceeds	8,520	10,164	147,211	8,611	174,506
Change in lease terms	45,360	156,705	78,196	3,386	283,647
Lease agreement retirement or termination	(1,407)	(41)	–	(143)	(1,591)
As of December 31, 2019	**881,040**	**775,620**	**471,339**	**27,067**	**2,155,066**
Accumulated depreciation and impairment					
As of January 1, 2019					
Reclassification between groups					
Accumulated depreciation	(127,524)	(128,986)	(80,110)	(5,345)	(341,965)
Change in lease terms	13,614	92,293	43,880	1,984	151,771
Lease agreement retirement or termination	1,369	41	–	143	1,553
As of December 31, 2019	**(112,541)**	**(36,652)**	**(36,230)**	**(3,218)**	**(188,641)**
Residual value					
As of January 1, 2019	**869,917**	**573,773**	**243,805**	**11,009**	**1,698,504**
As of December 31, 2019	**768,499**	**738,968**	**435,109**	**23,849**	**1,966,425**

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

Information about the impairment test performed is disclosed in Note 13 “Fixed Asset”.

(in thousands of Russian rubles unless specified otherwise)

16 Deferred Tax Assets and Liabilities

Differences between IFRS and Russian tax law give rise to temporary differences between the carrying amounts of certain assets and liabilities for financial reporting purposes, on the one hand, and for income tax purposes, on the other.

(a) Recognized Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities relate to the following items:

	Assets		Obligations		Net	
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Fixed assets	–	–	(2,975,891)	(2,751,084)	(2,975,891)	(2,751,084)
Intangible assets	–	–	(16,474)	(13,880)	(16,474)	(13,880)
Right-of-use asset	–	–	(393,285)	–	(393,285)	–
Financial assets evaluated at fair value, changes of which are reflected through other comprehensive income	–	2	(5)	–	(5)	2
Inventories	8,109	–	–	(2,056)	8,109	(2,056)
Trade and other receivables	–	–	(74,057)	(69,603)	(74,057)	(69,603)
Advances paid and other assets	583	–	–	–	583	–
Lease obligations	408,267	–	–	–	408,267	–
Loans and credits	–	–	–	–	–	–
Reserves	(98,714)	(5,223)	–	–	(98,714)	(5,223)
Liabilities for remunerations to employees	55,995	28,205	–	–	55,995	28,205
Trade and other payables	–	86,673	(3,457)	–	(3,457)	86,673
Advances received	809	–	–	–	809	–
Other	12,413	5,334	–	–	12,413	5,334
Tax assets / (liabilities)	**584,890**	**125,437**	**(3,463,169)**	**(2,836,623)**	**(2,878,279)**	**(2,711,186)**
Tax credit	(584,890)	(125,437)	584,890	125,437	–	–
Net tax assets / (liabilities)	**–**	**–**	**(2,878,279)**	**(2,711,186)**	**(2,878,279)**	**(2,711,186)**

(b) Unrecognized Deferred Tax Liabilities

As of December 31, 2019, a deferred tax liability was not recognized due to a temporary difference arising in respect of investments in subsidiaries in the amount of 20,689 thousand rub. (as of December 31, 2018: 20,291 thousand rub.), due to the fact that the Group has the ability to control the timing of the implementation of this temporary difference, and the implementation of this temporary difference is not expected in the foreseeable future.

(in thousands of Russian rubles unless specified otherwise)

16 Deferred Tax Assets and Liabilities (Continued)

(c) Movement of Temporary Differences Throughout the Year

	January 1 2019	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**December 31, 2019**
Fixed assets	(2,751,084)	(224,807)	–	(2,975,891)
Intangible assets	(13,880)	(2,594)	–	(16,474)
Right-of-use asset	–	(393,285)	–	(393,285)
Financial assets evaluated at fair value, changes of which are reflected through other comprehensive income	2	–	(7)	(5)
Inventories	(2,056)	10,165	–	8,109
Trade and other receivables	(69,603)	(4,454)	–	(74,057)
Advances paid and other assets	–	583	–	583
Lease obligations	–	408,267	–	408,267
Reserves	5,223	93,491	–	(98,714)
Liabilities for remunerations to employees	28,205	(8,315)	36,105	55,995
Trade and other payables	86,673	(90,130)	–	(3,457)
Advances received	–	809	–	809
Other	5,334	7,079	–	12,413
	(2,711,186)	**(203,191)**	**36,098**	**(2,878,279)**

	January 1 2018	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**December 31, 2018**
Fixed assets	(2,689,856)	(61,228)	–	(2,751,084)
Intangible assets	(9,744)	(4,136)	–	(13,880)
Financial assets at fair value through profit or loss	2	(2)	2	2
Inventories	(13)	(2,043)	–	(2,056)
Trade and other receivables	(116,878)	47,275	–	(69,603)
Reserves	1,356	3,867	–	(5,223)
Liabilities for remunerations to employees	61,773	16,199	(49,767)	28,205
Trade and other payables	78,672	8,001	–	86,673
Other	5,513	(179)	–	5,334
	(2,669,175)	**7,754**	**(49,765)**	**(2,711,186)**

(in thousands of Russian rubles unless specified otherwise)

17 Inventories

	December 31, 2019	December 31, 2018
Supplies and materials	1,803,133	1,615,479
Provision for impairment of raw materials	–	(60)
Other stocks	84,842	29,823
	1,887,975	**1,645,242**

As of December 31, 2019, and December 31, 2018, the Group did not have reserves that would be pledged under credit or other agreements.

During the year ended December 31, 2019, 2,148,409 thousand rubles were recognized as expenses (during the year ended December 31, 2018, 2,137,968 thousand rubles) as part of operating expenses under the item "Other Material Expenses".

18 Trade and Other Receivables

	December 31, 2019	December 31, 2018
Trade and other long-term receivables		
Trade receivables	786,160	235,551
Provision for expected credit loss on trade receivables	–	–
Other receivables	384,395	201,587
Provision for expected credit loss on other receivables	–	–
	1,170,555	**437,138**
Trade and other short-term receivables		
Trade receivables	6,506,262	7,719,669
Provision for expected credit loss on trade receivables	(963,612)	(803,308)
Other receivables	506,005	390,077
Provision for expected credit loss on other receivables	(99,577)	(90,031)
	5,949,078	**7,216,407**

Long-term trade receivables include restructured receivables for electricity transmission services in the total amount of 782,427 thousand rubles as of December 31, 2019 (December 31, 2018: 225,178 thousand rubles. The terms of the agreements provide for the repayment of receivables in 2025 and the application of interest rates in the range of 6.25–6.50% per annum.

Information about the Group's exposure to credit and foreign exchange risk, impairment of trade and other receivables, and fair value is disclosed in Note 30.

Information on balances with related parties is disclosed in Note 33.

(in thousands of Russian rubles unless specified otherwise)

19 Advances Paid and Other Assets

	December 31, 2019	December 31, 2018
Non-current		
Advances paid	6,180	34,613
Provision for impairment of advances paid	–	–
VAT on advance payments received	58,001	68,325
	64,181	**102,938**
Current		
Advances paid	198,481	154,535
Provision for impairment of advances paid	(18,012)	(18,022)
VAT recoverable	2,081	760
VAT on advances received and VAT on advances issued for the acquisition of fixed assets	47,795	47,798
Prepayments for taxes other than profit tax	11,094	10,397
	241,439	**195,468**

Information on balances with related parties is disclosed in Note 33.

20 Cash and Cash Equivalents

	December 31, 2019	December 31, 2018
Cash at bank and in hand	930,770	1,920,348
Cash equivalents	40,090	31,650
	970,860	**1,951,998**

	Rating	Rating agency	December 31, 2019	December 31, 2018
Sberbank*	AAA(RU)	AKPA	137,024	198,729
Gazprombank*	ruAA+	Expert RA	18	34
AB Russia	A+(RU)	AKPA	793,522	1,721,385
VTB Bank *	ruAAA	Expert RA	13	–
Cash in hand			193	200
			930,770	**1,920,348**

* Related to the government.

Cash equivalents include short-term contributions to bank deposits:

	Interest rate	Rating	Rating agency	December 31, 2019	December 31, 2018
Gazprombank*	4.5-5.9%	ruAA+	Expert RA	40,090	31,650
				40,090	**31,650**

* Related to the government.

As of December 31, 2019, and December 31, 2018, all cash and equivalents balances are nominated in rubles.

(in thousands of Russian rubles unless specified otherwise)

21 Authorized Capital

(a) Authorized Capital

	Ordinary shares	
	December 31, 2019	**December 31, 2018**
Nominal value of one share (rubles)	0.1	0.1
Outstanding as of January 1 (pieces)	188,307,958,733	188,307,958,733
Outstanding as of the end of the year and fully paid, pieces	188,307,958,733	188,307,958,733

(b) Ordinary Shares

Owners of ordinary shares may receive declared dividends and right of one vote per share when passing resolutions at general meetings of Company shareholders.

(c) Dividends

The basis for distributing the Company's profits among shareholders in accordance with the legislation of the Russian Federation is the net profit according to the financial statements prepared in accordance with the accounting and reporting standards of the Russian Federation.

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

At the AGMS held on June 30, 2019, dividends for 2018 were announced to be in the amount of 2,483,070 thousand rubles. The amount of dividend paid per share is defined as the ratio of the amount of dividends to the total number of ordinary shares of the Company included in the list of persons entitled to receive dividends.

At an extraordinary meeting of shareholders held on December 31, 2019, dividends were announced based on the results of 9 months of 2019 in the amount of 0.0053946 rubles per ordinary share in cash. The total amount of dividends amounted to 1,015,846 thousand rubles.

For the year ended December 31, 2019, dividends paid to the owners of the company amounted to 2,471,077 thousand rubles (for the year ended December 31, 2018: 2,774,356 thousand rubles).

22 Profit per Share

The calculation of profit per share for the year ended December 31, 2019, and December 31, 2018, is based on the profit attributable to holders of ordinary shares and the weighted average number of ordinary shares outstanding. The Company has no dilutive financial instruments.

In thousands of shares	**2019**	**2018**
Ordinary shares as of January 1	188,307,959	188,307,959
The weighted average number of shares for the period ended December 31	**188,307,959**	**188,307,959**

	For the year ended December 31, 2019	**For the year ended December 31, 2018**
Weighted average number of shares outstanding for the period ended December 31 (in thousands of shares)	188,307,959	188,307,959
Profit for the period due to the owners of the Company	3,912,739	5,710,200
Profit per share - underlying and diluted (in Russian rubles)	**0.0208**	**0.0303**

23 Borrowed Funds

	December 31, 2019	**December 31, 2018**
Long-term liabilities		
Unsecured loans and credits	4,040,590	3,370,000
Lease obligations	1,678,807	–
	5,719,397	**3,370,000**
Short-term liabilities		
Unsecured loans and credits	11,361	12,353
Lease obligations	362,530	–
	373,891	**12,353**
Including		
Debt on interest due on loans and credits	11,361	12,353
	11,361	**12,353**

As of December 31, 2019, and December 31, 2018, all loan and borrowing balances are denominated in rubles.

(in thousands of Russian rubles unless specified otherwise)

23 Borrowed Funds (Continued)

		Effective interest rate		Book value	
	Repayment date	**December 31, 2019**	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Unsecured loans and credits					
Unsecured loans and credits	2021–2022	7.4%	7.5–7.6%	4,051,951	3,382,353
				4,051,951	**3,382,353**
Lease obligations	2020–2068	7.35–9.49%	–	2,041,337	–
Total liabilities				**6,093,288**	**3,382,353**

* Loans received from companies under state control.

The Group does not use hedging instruments to manage interest rate risk. Information about the Group's exposure to interest rate risk is disclosed in Note 30.

(in thousands of Russian rubles unless specified otherwise)

24 Changes in Financial Liabilities

	Borrowed funds		Interest payable, except for % under lease agreements	Obligations on lease	Dividends payable
	Long-term	Short-term			
As of January 1, 2019	**3,370,000**	**–**	**12,353**	**1,702,717**	**34,199**
Changes in cash flows from financing activities					
Fund raising	3,070,590	–	–	–	–
Repayment of loans	(2,400,000)	–	–	–	–
Lease payments	–	–	–	(273,060)	–
Interest paid (operating activities, reference)	–	–	(261,721)	(158,207)	–
Dividend paid	–	–	–	–	(2 471,077)
Total	**670,590**	**–**	**(261,721)**	**(431,267)**	**(2 471,077)**
Non-monetary changes					
Capitalized interest	–	–	141,225	–	–
Interest expense	–	–	119,504	158,207	–
Lease revenue	–	–	–	174,506	–
Accrued dividends	–	–	–	–	3,498,915
Other changes, net	–	–	–	437,174	(3)
Total	**–**	**–**	**260,729**	**769,887**	**3,498,912**
As of December 31, 2019	**4 040,590**	**–**	**11,361**	**2,041,337**	**1, 062,034**

(in thousands of Russian rubles unless specified otherwise)

24 Changes in Financial Liabilities (Continued)

	Borrowed funds		Interest payable, except for % under lease agreements	Lease obligations	Dividends payable
	Long-term	**Short-term**			
As of January 1, 2018	**4,370,000**	**–**	**5,855**	**–**	**12,548**
Cash flow changes from financial activities					
Fund raising	8,540,000	–	–	–	–
Repayment of loans	(9,540,000)	–	–	–	–
Interest paid (operating activities, reference)	–	–	(223,165)	–	–
Dividend paid	–	–	–	–	(2,774,356)
Total	**(1,000,000)**	**–**	**(223,165)**	**–**	**(2,774,356)**
Non-monetary changes					
Capitalized interest	–	–	100,613	–	–
Interest expense	–	–	129,050	–	–
Accrued dividends	–	–	–	–	2 794,825
Other changes, net	–	–	–	–	1,182
Total	**–**	**–**	**229,663**	**–**	**2,796,007**
As of December 31, 2018	**3,370,000**	**–**	**12,353**	**–**	**34,199**

(in thousands of Russian rubles unless specified otherwise)

25 Remunerations to Employees

The Group has obligations for the payment of pensions and other long-term obligations for defined benefit programs, which apply to the majority of employees and pensioners registered with the Company. Obligations under defined benefit programs consist of several unsecured plans that provide lump-sum payments upon retirement, non-state pension benefits, payments by the anniversary dates, in the event of the death of employees, and other payments in accordance with the norms of the local regulatory acts of the Group.

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

	December 31, 2019	December 31, 2018
Net value of post-employment benefit programs obligations	1,656,824	1,372 157
Net value of other long-term employee benefit programs	171,577	212,999
Total net liabilities	**1,828,401**	**1,585,156**

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

	For the year ended December 31	
	2019	2018
Asset value as of January 1	**476,895**	**509,234**
Program asset income	4,038	2,856
Employer contributions	94,065	89,945
Other account history	5,434	(1,363)
Remuneration	(109,286)	(123,777)
Asset value as of December 31	**471,146**	**476,895**

Assets related to defined benefit pension schemes are administered by the OTKRYTIE Non-Governmental Pension Fund and the Professionalny Non-State Pension Fund. These assets are not defined benefit pension assets, because under the current terms with the funds, the Group is able to use the contributions transferred under defined benefit pension programs to finance its defined contribution pension plans or transfer to another fund on its own initiative.

(in thousands of Russian rubles unless specified otherwise)

25 Remunerations to Employees (Continued)

Changes in the present value of defined benefit programs obligations:

	For the year ended December 31, 2019		For the year ended December 31, 2018	
	Post-employment benefits	Other long-term remunera tion	Post-employment benefits	Other long-term remuneration
Defined benefit liabilities as of January 1	**1,372 157**	**212,999**	**1,476,140**	**204,947**
Current services cost	40,660	7,969	53,828	9,409
Cost of past services and sequestration	–	–	(39,390)	(15,816)
Interest expense on liabilities	104,776	17,423	98,401	13,668
Revaluation effect:				
- loss/(profit) from changes in demographic actuarial assumptions	(76,616)	–	(4,494)	(1,369)
- (profit) / loss from changes in financial actuarial assumptions	325,931	24,199	(162,792)	(24,775)
- (profit) / loss from adjustment based on experience	57,752	(78,281)	114,584	33,825
Program contributions	(167,836)	(12,732)	(164,120)	(6,890)
Defined benefit liabilities as of December 31	**1,656,824**	**171,577**	**1,372 157**	**212,999**

Expenses recognized in profit or loss for the period:

	For the year ended	
	December 31, 2019	December 31, 2018
Cost of employee services	48,629	8,031
Revaluation of other long-term employee benefits liabilities	(54,082)	7,681
Interest expense	122,199	112,069
Total expenses recognized in profit or loss	**116,746**	**127,781**

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

	For the year ended	
	December 31, 2019	December 31, 2018
Loss/(profit) from changes in demographic actuarial assumptions	(76,616)	(4,494)
(Profit) / loss from changes in financial actuarial assumptions	325,931	(162,792)
(Profit) / loss from adjustment based on experience	57,752	114,584
Total (income) / expenses recognized in other comprehensive income	**307,067**	**(52,702)**

Change in provision for revaluation of liabilities in other comprehensive income during the reporting period:

	For the year ended	
	December 31, 2019	December 31, 2018
Revaluation as of January 1	**994,010**	**1,046,712**
Revaluation change	307,067	(52,702)
Revaluation as of December 31	**1,301,077**	**994,010**

(in thousands of Russian rubles unless specified otherwise)

25 Remunerations to Employees (Continued)

Key actuarial assumptions:

	December 31, 2019	December 31, 2018
Financial assumptions		
Discount rate	6.3%	8.7%
Future salary increases	4.0%	4,1%
Inflation rate	4.5%	4.6%
Demographic assumptions		
Expected retirement age		
- Men	65	65
- Women	60	60
Average staff turnover	7.1%	7.1%

The sensitivity of the total value of pension liabilities to changes in key actuarial assumptions is shown below:

	Changes in assumptions	Impact on liabilities
Discount rate	0.5% increase	–5.0%
Future salary increase	0.5% increase	2.2%
Future benefit increase (inflation)	0.5% increase	3.4%
Staff turnover rate	10% increase	–2.1%
Mortality rate	10% increase	–1.3%

	December 31, 2019	December 31, 2018
Employee benefit liabilities value	(1,828,401)	(1,585,156)
Asset value	471,146	476,895
Net value	**(1,357,255)**	**(1,108,261)**

The amount of expected payments under long-term employee benefits programs for 2020 is 243,172 thousand rubles, including:

- for defined benefit programs, including non-state pension provision for employees, 228,212 thousand rubles;
- under other long-term employee benefits programs 14,960 thousand rubles.

26 Trade and Other Payables

	December 31, 2019	December 31, 2018
Long-term debt		
Trade payables	42,197	8,970
Other payables	218,589	8,590
	260,786	**17,560**
Short-term debt		
Trade payables	4,901,413	3,957,575
Other payables and charged expenses	81,990	70,278
Payroll debts	937,728	859,561
Dividends payable	1,062,034	34,199
	6,983,165	**4,921,613**
	7,243,951	**4,939,173**

Information about the Group's exposure to liquidity risk in terms of accounts payable is disclosed in Note 30.

(in thousands of Russian rubles unless specified otherwise)

27 Tax Debts Other than Profit Tax

	December 31, 2019	December 31, 2018
VAT	270,618	716,865
Property tax	246,185	218,480
Social security contributions	260,121	238,232
Other taxes payable	114,402	106,866
	891,326	**1,280,443**

Information about the Group's exposure to liquidity risk in terms of accounts payable is disclosed in Note 30.

28 Advances Received

Long-term	December 31, 2019	December 31, 2018
Advances for grid connection services	308,090	410,646
Other advances received	50,009	37,260
	358,099	**447,906**
Short-term		
Advances for grid connection services	387,860	332,922
Other advances received	91,207	81,319
	479,067	**414,241**

29 Reserves

	For the year ended	
	December 31, 2019	December 31, 2018
Balance as of January 1	**(26,113)**	**(6,781)**
Increase over the period	(100,248)	(29,663)
Decrease due to reserve recovery	15,901	4 082
Use of reserves	65,677	6,249
Balance as of December 31	**(44,783)**	**(26,113)**

Provisions mainly relate to legal claims and claims brought against the Group for ordinary activities.

30 Management of Financial Risks and Capital

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

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

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

30 Management of Financial Risks and Capital (Continued)

(a) Credit Risk

Credit risk is the risk of the Group incurring a financial loss caused by the non-fulfillment by the buyer or counterparty of a financial instrument of its contractual obligations in full and on time. Credit risk is mainly associated with the Group's receivables, bank deposits, cash and cash equivalents.

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

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

The carrying amount of receivables, net of allowance for expected credit losses, represents the maximum amount exposed to credit risk. Although the repayment of receivables is subject to economic and other factors, the Group believes that there is no significant risk of losses in excess of the created reserve.

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

In order to effectively organize work with receivables, the Group monitors changes in the volume of receivables and its structure, highlighting current and overdue debts. In order to minimize credit risk, the Group implements measures aimed at timely fulfillment by counterparties of contractual obligations, reduction and prevention of formation of overdue debts. Such measures, in particular, include: negotiating with consumers of services, increasing the efficiency of the process of generating the volume of electricity transmission services, ensuring the implementation of schedules of control readings and technical verification of electricity metering devices agreed with guaranteeing suppliers, limiting the mode of electricity consumption (implemented in accordance with norms of the legislation of the Russian Federation), claim work, presentation of requirements for granting a final collateral in the form of independent (bank) guarantees, sureties and other forms of securing the fulfillment of obligations.

(in thousands of Russian rubles unless specified otherwise)

30 Management of Financial Risks and Capital (Continued)

(a) Credit Risk (Continued)

i. Credit Risk Level

The carrying amount of financial assets reflects the maximum credit risk exposure of the Group. As of the reporting date, the maximum level of credit risk amounted to:

	Book value	
	December 31, 2019	**December 31, 2018**
Financial assets evaluated at fair value through other comprehensive income	137	104
Trade and other receivables (net of allowance for expected credit losses)	7,119,633	7,653,545
Cash and cash equivalents	970,860	1,951,998
	8,090,630	**9,605,647**

As of the reporting date, the maximum level of credit risk in terms of trade receivables by groups of customers amounted to:

	December 31, 2019		December 31, 2018	
	Total nominal value	**Provision for expected credit loss**	**Total nominal value**	**Provision for expected credit loss**
Electricity buyers	49,554	(49,554)	51,928	(51,928)
Electricity transmission services buyers	7,001,052	(846,319)	7,664,477	(681,647)
Heat energy buyers	51,504	(50,509)	51,247	(50,506)
Network connectivity services buyers	26,427	(9,952)	31,729	(10,501)
Other customers	163,885	(7,278)	155,839	(8,726)
	7,292,422	**(963,612)**	**7,955,220**	**(803,308)**

The carrying amount of trade receivables attributable to the ten largest debtors of the Group amounted to 4,748,818 thousand rubles as of December 31, 2019 (as of December 31, 2018: 5,645,874 thousand rubles).

Provisions for expected credit losses of trade and other receivables

The distribution of trade and other receivables by statute of limitations is presented below:

	December 31, 2019		December 31, 2018	
	Total nominal value	**Provision for expected credit loss**	**Total nominal value**	**Provision for expected credit loss**
Undue debts	5,964,230	(49,080)	6,119,941	(3,133)
Past due less than 3 months	481,621	(85,784)	1,093,599	(8,358)
Overdue more than 3 months and less than 6 months	207,462	(13,636)	206,305	(9,324)
Overdue more than 6 months or less than for a year	323,690	(50,548)	238,575	(27,144)
Overdue for more than a year	1,205,819	(864,141)	888,464	(845,378)
	8,182,822	**(1,063,189)**	**8,546,884**	**(893,337)**

(in thousands of Russian rubles unless specified otherwise)

30 Management of Financial Risks and Capital (Continued)

(a) Credit Risk (Continued)

The movement of the reserve for expected credit losses of trade and other receivables is presented below:

	2019	2018
Balance as of January 1,	(893,339)	(890,463)
Increase in reserve for the period	(583,091)	(106,761)
Amounts of trade and other receivables, deducted from previously accrued reserve	18,590	29,346
Recovery of reserve amounts for the period	394,651	74,539
Balance as of December 31	**(1,063,189)**	**(893,339)**

As of December 31, 2019, and December 31, 2018, the Group has no contractual grounds regarding offsets of financial assets and financial liabilities, and the management of the Group does not expect any future offsets based on additional agreements.

(b) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations when they mature.

Liquidity risk management means maintaining the availability of sufficient cash and the availability of financial resources by attracting credit lines. The Group adheres to a balanced model for financing current capital through the use of both short-term and long-term sources. Temporarily available cash is placed in the form of short-term financial instruments, mainly bank deposits.

The Group's approach to liquidity management is to ensure that the Group always has sufficient liquidity to repay its obligations on time, avoiding unacceptable losses and not jeopardizing the Group's reputation. This approach is used to analyze the timing of payments related to financial assets and to forecast cash flows from operating activities.

As of June 31, 2019, the amount of the available limit for open, but unused credit lines of the Group was 13,959,503 thousand rubles (16,630,000 thousand rubles as of December 31, 2018). The Group has the opportunity to attract additional financing within the relevant limits, including to ensure the fulfillment of its short-term obligations.

(in thousands of Russian rubles unless specified otherwise)

30 Management of Financial Risks and Capital (Continued)

(b) Liquidity Risk (Continued)

Below is information on the contractual maturities of financial liabilities, taking into account expected interest payments and excluding the impact of offsets. For cash flows included in the maturity analysis, it is not anticipated that they may arise much earlier in time or in significantly different amounts:

December 31, 2019	Book value	Contract cash flows	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Non-derivative financial liabilities								
Loans and credits	4,051,951	4,770,372	310,365	1,808,526	2,651,481	–	–	–
Lease obligations	2,041,337	3,520,148	514,328	490,005	440,492	386,248	294,705	1,394,369
Trade and other payables	7,240,578	7,233,900	6,978,633	180,078	44,352	30,837	–	–
	13,333,866	**15,524,420**	**7,803,326**	**2,478,609**	**3,136,325**	**417,085**	**294,705**	**1,394,369**

December 31, 2018	Book value	Contract cash flows	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Non-derivative financial liabilities								
Loans and credits	3,382,353	3,982,230	266,673	254,320	3,461,237	–	–	–
Trade and other payables	4,939,173	4,930 305	4,919,722	10,560	23	–	–	–
	8,321,526	**8,912,535**	**5,186,395**	**264,880**	**3,461,260**	**–**	**–**	**–**

30 Management of Financial Risks and Capital (Continued)

(c) Market Risk

Market risk is the risk of changes in market prices, such as foreign currency exchange rates, interest rates, commodity prices and the cost of capital, which will affect the Group's financial results or the value of financial instruments held. The purpose of market risk management is to control exposure to market risk and keep it within acceptable limits while achieving optimization of investment returns.

i. Currency Risk

Most of the income and expenses as well as the Group's monetary assets and liabilities are denominated in Russian rubles. Changes in exchange rates do not have a material effect on the Group's income or expenses.

ii. Interest Rate Risk

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

Fair value sensitivity analysis of fixed rate financial instruments

The Group does not account for any financial assets and liabilities with fixed rates as instruments measured at fair value, changes in which are recognized in profit or loss for the period. Accordingly, changes in interest rates as at the reporting date would not affect profit or loss.

iii. Other Price Risk

The risk of changes in the price of equity instruments arises with respect to equity securities at fair value through other comprehensive income. The management of the Group monitors changes in the value of the investment portfolio based on market indices. Significant investments in this portfolio are managed separately, and all decisions on the purchase and sale are approved by the management of the Group.

As of December 31, 2019, financial assets at fair value through other comprehensive income at risk of changes in share prices amounted to 137 thousand rubles. (December 31, 2018: 104 thousand rubles)

(in thousands of Russian rubles unless specified otherwise)

30 Management of Financial Risks and Capital (Continued)

(d) Fair and Book Value

The following is a comparison of the fair and book values of the Group's financial instruments, with the exception of those financial instruments, the carrying value of which corresponds to their fair value:

		December 31, 2019		Fair value hierarchy level		
Financial instruments	**Note**	**Book value**	**Fair value**	**1**	**2**	**3**
Financial assets measured at amortized cost						
Long-term receivables - total	18	1,170,555	1,170,555	–	–	1,170,555
Financial assets evaluated at fair value through other comprehensive income						
Equity instruments investments		137	137	137	–	–
Financial liabilities measured at amortized cost						
Loans and credits	23	(4,051,951)	(3,977,207)	–	(3,977,207)	–
Long-term payables	26	(260,786)	(260,786)	–	–	(260,786)
		(3,142,045)	**(3,067,301)**	**137**	**(3,977,207)**	**(909,769)**

		December 31, 2018		Fair value hierarchy level		
Financial instruments	**Note**	**Book value**	**Fair value**	**1**	**2**	**3**
Financial assets measured at amortized cost						
Long-term receivables - total	18	437,138	437,138	–	–	437,138
Financial assets evaluated at fair value through other comprehensive income						
Equity instruments investments		104	104	104	–	–
Financial liabilities measured at amortized cost						
Loans and credits	23	(3,382,353)	(3,255,984)	–	(3,255,984)	–
Long-term payables	26	(17,560)	(17,560)	–	–	(17,560)
		(2,962,671)	**(2,836,302)**	**104**	**(3,255,984)**	**419,578**

(in thousands of Russian rubles unless specified otherwise)

30 Management of Financial Risks and Capital (Continued)

(d) Fair and Book Value (Continued)

The interest rate used to discount expected future cash flows for long-term receivables for the purpose of determining the disclosed fair value as of December 31, 2019, was 8.7–12.57% (as of December 31, 2018: 8.7–12.57%).

The interest rate used to discount expected future cash flows for long-term payables for determining the fair value at December 31, 2019, was 8.97%.

Interest rate used to discount expected future cash flows, for short-term and long-term borrowed funds for the purposes of identification of disclosed fair value as of December 31, 2019, amounted to 8.26% (as of December 31, 2018: 9.16%).

For the year ended December 31, 2019, there were no transfers between levels of the fair value hierarchy.

Reconciliation of book value of financial assets evaluated at fair value through profit or loss and financial assets evaluated at fair value through other comprehensive income at the beginning and end of the reporting period is provided in the table below:

	Financial assets evaluated at fair value through profit or loss	Financial assets evaluated at fair value through other comprehensive income
As of January 1, 2019	104	113
Change of fair value recognized within other comprehensive income	33	(9)
As of December 31, 2019	**137**	**104**

(e) Equity Management

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

The Group controls the dynamics of indicators of the capital structure (borrowed and own), including the ratio of the share of borrowed funds (target limit for financial leverage), calculated on the basis of financial statements in accordance with RAS. In accordance with the credit policy, the companies of the Group must maintain a leverage ratio calculated as the ratio of the total amount of borrowed funds to the total amount of capital, at a level no higher than 1.

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

As of December 31, 2019, and December 31, 2018, these requirements were met.

31 Contract Liabilities of Capital Nature

Sum of capital liabilities of the Group under agreements for purchase and construction of fixed assets, amounts to 2,945,405 thousand rubles, VAT included, as of December 31, 2019 (as of December 31, 2018: 1,180,047 thousand rubles, VAT included).

32 Contingent Liabilities

(a) Insurance

The Group has common requirements in respect to volumes of insurance coverage, reliability of insurance companies and procedure of insurance protection organization. The Group insures assets, third-party liability and other insured risks. Main production assets of the Group have insurance coverage, including coverage for damage or loss of fixed assets. Nevertheless, there are risks of negative influence on operations and financial status of the Group, if damage is done to third parties, and also as a result of loss or damage of assets, insurance protection of which is absent, or is not provided in full.

(b) Contingent Tax Liabilities

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

Since January 1, 2012, new legislation on transfer pricing took effect, which significantly altered the transfer pricing rules, having made them closer to principles of the Organization for Economic Co-Operation and Development (OECD), but also creating additional uncertainty in connection with practical application of taxation laws in individual cases.

Practice of applying new transfer pricing rules by tax authorities and courts is unavailable, since tax audits for compliance with new transfer pricing rules have started recently. However, it is expected that operations regulated by transfer pricing rules will become the object of detailed audit, which may potentially affect these consolidated financial statements.

As the practice of applying tax rules on property taxes continues to develop, tax authorities and courts may challenge the criteria for classifying property as movable or immovable property applied by the Group. The management of the Group does not exclude the risk of outflow of resources, and the impact of such a development of events cannot be estimated with a sufficient degree of reliability.

According to the management, the relevant provisions of the law were interpreted by them correctly, and the position of the Group in terms of tax compliance can be justified and protected.

(c) Legal Proceedings

The Group participates in several legal proceedings (both as a plaintiff and a defendant), arising in process of regular business operations.

In opinion of the management, currently there are no unsettled claims or other actions that could have significantly influenced business results or financial position of the Group and wouldn’t be recognized or disclosed in the consolidated financial statements.

(in thousands of Russian rubles unless specified otherwise)

32 Contingent Liabilities (Continued)

(d) Environmental Obligations

The Group has been doing business in the field of power engineering in the Russian Federation for many years. The environmental legislation in the Russian Federation continues to evolve, obligations of authorized state bodies supervising compliance with it are being revised. Potential environmental liabilities arising in connection with amended interpretations of existing legislation, legal actions or changes to the legislation may not be assessed. In opinion of the management, under the existing system of control and current legislation, there are no probable liabilities that may have substantial negative impact at financial position, results of operations or cash flows of the Group.

33 Related Parties Transactions

(a) Control Relations

Related parties are shareholders, affiliates and organizations under common ownership and control of the Group, members of the Board of Directors and key management personnel of the Company. As of December 31, 2019, and December 31, 2018, control over the Company belonged to Rosseti, Public Joint-Stock Company. The end controlling party is the government represented by the Federal Agency for Property Management, which owns the controlling interest of Rosseti, Public-Joint Stock Company.

(b) Transactions with Parent Company, Its Subsidiaries and Affiliates

Transactions with the parent company, its subsidiaries and dependent companies include transactions with Rosseti, Public Joint-Stock Company, its subsidiaries and dependent companies:

	Transaction amount for the year ended		**Book value**	
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Revenue, other income, financial income				
Parent company	1,086	1,086	–	–
Enterprises under common control of parent company				
Technological connection	–	2	–	–
Other revenue	7,460	104,633	122,464	107,082
Other income	–	27,909	–	41,462
Dividends receivable	2	2	–	–
	8,548	**133,632**	**122,464**	**148,544**

(in thousands of Russian rubles unless specified otherwise)

33 Related Party Transactions (Continued)

(b) Transactions with the Parent Company, Its Subsidiaries and Associates (Continued)

	Transaction amount for the year ended		Book value	
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Operating costs, financial expenses				
Parent company				
Consulting, legal and audit services	(153,696)	(161,564)	(30,146)	(29,644)
Other works and services of a productive nature	(39,245)	(30,313)	–	–
Enterprises under common control of parent company				
Power transmission services	(13,579,768)	(13,275,480)	(1,341,542)	(1,286,678)
Technological connection	(3,602)	(1,877)	–	–
Other expenses	(184,436)	(119,073)	(474,847)	(50,664)
	(13,960,747)	**(13,588,307)**	**(1,846,535)**	**(1,366,986)**

	Book value	
	December 31, 2019	**December 31, 2018**
Enterprises under common control of parent company		
Advances paid	(11,138)	12,606
Advances received	(32)	(32)
	11,106	**12,574**

As of December 31, 2019, the debt to the parent company on the payment of dividends amounted to 690,461 thousand rubles.

(c) Transactions with Key Management Personnel

In order to prepare these consolidated financial statements, members of the Board of Directors of the Company, members of the Management Board of the Company, General Director of the Company and his deputies are assigned to key management personnel.

The remuneration of key management personnel consists of the salary stipulated by the labor agreement, non-monetary benefits, as well as bonuses determined by the results for the period and other payments. Remuneration or compensation is not paid to those members of the Board of Directors who are government employees.

Amounts of remuneration to key management personnel, disclosed in the table, are expenses of the current period for the key management personnel reflected within expenses for remunerations to employees.

	For the year ended December 31	
	2019	**2018**
Short-term remunerations to employees	138,704	109,033
	138,704	**109,033**

As of December 31, 2019, the current value of obligations under defined benefit and defined contribution programs, other post-employment benefits recognized in the consolidated statement of financial position includes liabilities for key management personnel in the amount of 10,085 thousand rubles (as of December 31, 2018: 2,690 thousand rubles).

33 Related Party Transactions (Continued)

(d) Transactions with Companies Related to Government

In process of its business the Group performs many transactions with companies related to the government. These transactions are carried out in accordance with regulated tariffs or in accordance with market prices.

Revenue from state-related companies is 18% of the Group's total revenue for the year ended December 31, 2019 (for the year ended December 31, 2018: 20%), including 18% of revenue from electricity transmission (for the year ended December 31, 2018: 20%).

Electricity transmission costs (including compensation for technological losses) for state-related companies account for 10% of the total electricity transmission costs for the year ended December 31, 2019 (for the year ended December 31, 2018: 10%).

The interest accrued on loans from state-related banks for the year ended December 31, 2019, amounted to 260,729 thousand rubles (for the year ended December 31, 2018: 229,663 thousand rubles).

As of December 31, 2019, the balance of cash and cash equivalents placed with banks related to the state amounted to 137,055 thousand rubles (as of December 31, 2018: 198,763 thousand rubles).

Information on loans and credits received from banks related to the government is disclosed in Note 23.

As of December 31, 2019, lease obligations for state-related companies amounted to 1,183,183 thousand rubles.

34 Events After the Reporting Date

On January 30, 2019, the court of cassation in case A79-4712 / 2018 on disagreements on the transmission of electricity with Khimprom, Public Joint-Stock Company, issued a judicial act in favor of the Company, as a result, the reserve for expected credit losses in the amount of 271 was restored in the financial statements for 2019 133 thousand rubles.