PJSC “FGC UES”

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED 31 DECEMBER 2019

AND INDEPENDENT AUDITOR’S REPORT

CONTENTS

Совершенствуя бизнес,
улучшаем мир

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Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company "Federal Grid Company of Unified Energy System" and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for 2019 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment of non-current assets	
Due to the existence of impairment indicators in respect of non-current assets as of 31 December 2019, the Group performed impairment testing. The value-in-use of property, plant and equipment forming a significant share of the Group's non-current assets, as of 31 December 2019, was determined by the projected cash flow method. The impairment testing of property, plant and equipment was one of the most significant matters for our audit because the property, plant and equipment balance forms a significant part of the Group's assets at the reporting date, and because management's assessment of the value-in-use is complex and largely subjective and is based on assumptions, in particular, on projected electricity transmission volumes, transmission fees, as well as operating and capital expenditures that depend on the expected future market or economic conditions in the Russian Federation. Information on the results of the impairment analysis of non-current assets is disclosed by the Group in Note 6 to the consolidated financial statements.	As part of our audit procedures, we also assessed the assumptions and methodologies applied by the Group, in particular, those relating to projected total revenue from electricity transmission, fee solutions, operating and capital expenditures, long-term rates of fee growth and discount rates. We tested the incoming data imported in the model and the arithmetic accuracy of the model used to determine the recoverable amount in the impairment test of property, plant and equipment. We engaged valuation specialists to analyze the model used to determine the recoverable amount in the impairment test of property, plant and equipment. We also analyzed the sensitivity of the model to changes in the main indicators of assessment and the Group's disclosures of assumptions on which the results of impairment testing largely depend.
Allowance for expected credit losses on trade and other receivables	
The allowance for expected credit losses on trade and other receivables was one of the most significant matters for our audit due to the material balances of receivables as of 31 December 2019, as well as due to the fact that management's assessment of the possible recoverability of these receivables is based on assumptions, in particular, on the predicted solvency of the Group's customers. Information on the allowance for expected credit losses on receivables is disclosed in Notes 11 and 29 to the consolidated financial statements.	We analyzed the Group's accounting policy on receivables with respect to the allowance for expected credit losses. We considered the calculation of expected credit losses performed by the Group's management, which is based on credit losses experience adjusted for projected factors specified for the Group's customers. As part of our audit procedures, we also assessed the assumptions used by Group's management, as well as analysis of credit risk and financial performance of counterparties, analysis of receivables payments, ageing structure and overdue receivables and assessed the applicable levels of allowance for expected credit losses. We also assessed the information on allowance for expected credit losses disclosed in the consolidated financial statements.

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Other information included in Annual report

Other information consists of Annual Report of Public Joint-Stock Company "Federal Grid Company of Unified Energy System" for 2019 other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

T.L. Okolotina
Partner
Ernst & Young LLC

4 March 2020

Details of the audited entity

Name: Public Joint-Stock Company "Federal Grid Company of Unified Energy System"
Record made in the State Register of Legal Entities on 20 August 2002, State Registration Number 1024701893336.
Address: 117630, Russia, Moscow, Academika Chelomeya street, 5A.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

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

	Notes	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,024,901	937,277
Right-of-use assets	7	12,719	-
Intangible assets	8	6,609	6,638
Investments in associates and joint ventures	9	1,296	1,442
Financial investments	10	45,711	37,956
Deferred income tax assets	17	275	207
Trade and other accounts receivable	11	72,084	72,987
Advances given and other non-current assets	12	2,107	1,018
Total non-current assets		**1,165,702**	**1,057,525**
Current assets			
Cash and cash equivalents	13	37,077	37,618
Bank deposits	14	25,789	3,811
Trade and other accounts receivable	11	41,823	68,025
Income tax prepayments		93	56
Inventories	15	16,968	17,037
Advances given and other current assets	12	2,576	3,503
		124,326	**130,050**
Assets held for sale	32	313	21,467
Total current assets		**124,639**	**151,517**
TOTAL ASSETS		**1,290,341**	**1,209,042**
EQUITY AND LIABILITIES			
Equity			
Share capital: Ordinary shares	16	637,333	637,333
Treasury shares	16	(4,719)	(4,719)
Share premium		10,501	10,501
Reserves	16	30,937	25,167
Retained earnings		227,558	170,699
Equity attributable to shareholders of FGC UES		**901,610**	**838,981**
Non-controlling interests		174	181
Total equity		**901,784**	**839,162**
Non-current liabilities			
Deferred income tax liabilities	17	46,871	29,586
Non-current debt	18	208,343	224,585
Trade and other accounts payable	21	14,121	12,055
Advances from customers		8,525	2,441
Taxes other than on income payable		1,705	505
Government grants		811	867
Retirement benefit obligations	19	6,955	5,950
Total non-current liabilities		**287,331**	**275,989**
Current liabilities			
Accounts payable to shareholders of FGC UES	16	11,388	213
Current debt and current portion of non-current debt	18, 20	31,444	22,224
Trade and other accounts payable	21	41,580	46,835
Advances from customers		8,872	13,227
Taxes, other than on income payable		4,265	6,863
Provisions for liabilities and charges	22	1,202	683
Income tax payable		2,475	3,846
Total current liabilities		**101,226**	**93,891**
Total liabilities		**388,557**	**369,880**
TOTAL EQUITY AND LIABILITIES		**1,290,341**	**1,209,042**

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

04 March 2020

Chairman of the Management Board — A.E. Murov

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

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

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

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Revenues	23	249,611	253,979
Other operating income	23	6,291	6,474
Operating expenses	24	(155,282)	(151,210)
Gain on disposal of assets	32	10,444	-
Accrual of allowance for expected credit losses	11	(1,624)	(4,634)
(Impairment)/Reversal of impairment of property, plant and equipment, net	6	(6,726)	2,248
Operating profit		**102,714**	**106,857**
Finance income	25	13,796	12,981
Finance costs	26	(6,896)	(4,862)
Disposal of associate	9	(62)	-
Share of profit of associates and joint ventures	9	144	125
Profit before income tax		**109,696**	**115,101**
Income tax expense	17	(23,058)	(22,256)
Profit for the year		**86,638**	**92,845**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss			
Change in fair value of financial investments	10	9,921	1,613
Remeasurements of retirement benefit obligations	19	(876)	(134)
Income tax relating to items that will not be reclassified	17	(1,378)	6,717
Total items that will not be reclassified to profit or loss		**7,667**	**8,196**
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation difference	9	(228)	181
Total items that are or may be reclassified to profit or loss		**(228)**	**181**
Other comprehensive income for the period, net of income tax		**7,439**	**8,377**
Total comprehensive income for the year		**94,077**	**101,222**
Profit attributable to:			
Shareholders of FGC UES	27	86,598	92,809
Non-controlling interests		40	36
Total comprehensive income attributable to:			
Shareholders of FGC UES		94,037	101,186
Non-controlling interests		40	36
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	27	**0.069**	**0.074**

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

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**109,696**	**115,101**
Adjustments to reconcile profit before income tax to net cash provided by operations			
Depreciation of property, plant and equipment	24	35,564	32,346
Depreciation of right-of-use assets	7	899	-
Loss/(gain) on disposal of property, plant and equipment	24	1,094	(310)
Amortisation of intangible assets	24	1,405	1,154
Impairment/(reversal of impairment) of property, plant and equipment, net	6	6,726	(2,248)
Gain on disposal of assets	32	(10,444)	-
Share of profit of associates and joint ventures	9	(144)	(125)
Accrual of allowance for expected credit losses	11	1,624	4,634
Accrual/(reversal) of provision for liabilities and charges	22, 24	863	(778)
Disposal of an associate	9	62	-
Finance income	25	(13,796)	(12,981)
Finance costs	26	6,896	4,862
Other non-cash items		(132)	(2)
Operating cash flows before working capital changes, income tax paid and other changes in long-term assets and liabilities		**140,313**	**141,653**
Decrease in long–term trade and other accounts receivable		845	-
(Increase)/decrease in long-term advances given and other non-current assets		(936)	265
(Decrease)/increase in long-term accounts payable		(5,027)	1,194
Increase in long-term advances from customers		7,824	2,422
Working capital changes:			
Decrease/(increase) in trade and other accounts receivable		7,865	(9,747)
Decrease in advances given and other current assets		1,727	2,785
Decrease/(increase) in inventories		362	(967)
(Decrease)/increase in trade and other payables		(811)	778
Increase/(decrease) in provisions for liabilities and charges		519	(3,700)
(Decrease)/increase in advances from customers		(7,841)	673
Income tax paid		(8,606)	(11,286)
Net cash flows generated by operating activities		**136,234**	**124,070**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(92,315)	(88,941)
Proceeds from disposal of property, plant and equipment		484	1,029
Purchase of intangible assets		(2,194)	(2,049)
Redemption of promissory notes		10	10
Placement of bank deposits		(30,554)	(24,134)
Redemption of bank deposits		8,830	20,323
Dividends received		1,463	2,251
Loans given		(5)	(53)
Repayment of loans given		23	23
Proceeds from sale of financial investments		32,141	3,708
Interest received		3,048	3,194
Net cash flows used in investing activities		**(79,069)**	**(84,639)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from current and non-current borrowings	18	22	10,054
Repayment of current and non-current borrowings	18	(19,443)	(20,436)
Repayment of principal portion of lease liabilities	18	(783)	(115)
Dividends paid	16	(20,205)	(18,635)
Acquisition of non-controlling interests		(74)	(504)
Interest paid		(17,223)	(14,712)
Net cash flows used in financing activities		**(57,706)**	**(44,348)**
Net decrease in cash and cash equivalents		**(541)**	**(4,917)**
Cash and cash equivalents at the beginning of the period	13	**37,618**	**42,535**
Cash and cash equivalents at the end of the period	13	**37,077**	**37,618**

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

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

		Attributable to shareholders of FGC UES							
	Notes	Share capital	Share premium	Treasury shares	Reserves	Retained earnings	Total	Non-controlling interests	Total equity
As at 1 January 2019		**637,333**	**10,501**	**(4,719)**	**25,167**	**170,699**	**838,981**	**181**	**839,162**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	86,598	**86,598**	40	**86,638**
Other comprehensive income/(loss), net of related income tax									
Change in fair value of financial investments, net of tax	10, 16	-	-	-	8,555	-	**8,555**	-	**8,555**
Remeasurements of retirement benefit obligations, net of tax	16, 19	-	-	-	(888)	-	**(888)**	-	**(888)**
Foreign currency translation difference	9, 16	-	-	-	(228)	-	**(228)**	-	**(228)**
Total other comprehensive income		***-***	***-***	***-***	***7,439***	***-***	***7,439***	***-***	***7,439***
Total comprehensive income for the year		-	-	-	7,439	86,598	**94,037**	40	**94,077**
Transfer of accumulated revaluation reserve at disposal of financial investments	10	-	-	-	(1,669)	1,669	**-**	-	**-**
Dividends declared	16	-	-	-	-	(31,380)	**(31,380)**	(1)	**(31,381)**
Acquisition of non-controlling interests	4	-	-	-	-	(28)	**(28)**	(46)	**(74)**
As at 31 December 2019		**637,333**	**10,501**	**(4,719)**	**30,937**	**227,558**	**901,610**	**174**	**901,784**

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

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

		Attributable to shareholders of FGC UES							
	Notes	**Share capital**	**Share premium**	**Treasury shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
As at 1 January 2018		**637,333**	**10,501**	**(4,719)**	**40,482**	**74,152**	**757,749**	**(603)**	**757,146**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	92,809	**92,809**	36	**92,845**
Other comprehensive income/(loss), net of related income tax									
Change in fair value of financial investments, net of tax	10, 16	-	-	-	8,458	-	**8,458**	-	**8,458**
Remeasurements of retirement benefit obligations, net of tax	16, 19	-	-	-	(262)	-	**(262)**	-	**(262)**
Foreign currency translation difference	9, 16	-	-	-	181	-	**181**	-	**181**
Total other comprehensive income		-	-	-	*8,377*	-	*8,377*	-	*8,377*
Total comprehensive income for the year		-	-	-	8,377	92,809	**101,186**	36	**101,222**
Transfer of accumulated revaluation reserve at disposal of financial investments	10	-	-	-	(23,692)	23,692	**-**	-	**-**
Dividends declared	16	-	-	-	-	(18,702)	**(18,702)**	-	**(18,702)**
Acquisition of non-controlling interests	4	-	-	-	-	(1,252)	**(1,252)**	748	**(504)**
As at 31 December 2018		**637,333**	**10,501**	**(4,719)**	**25,167**	**170,699**	**838,981**	**181**	**839,162**

Note 1. PJSC “FGC UES” and its operations

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

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

On 14 June 2013 the Government of the Russian Federation (the “RF”) transferred its stake in FGC UES to PJSC “ROSSETI” (former OJSC “IDGC Holding”), the holding company of an electricity distribution group, controlled by the Government of the RF. As at 31 December 2019, FGC UES was 80.13% owned and controlled by PJSC “ROSSETI”. The remaining shares are traded on Moscow Exchange and as Global Depository Receipts on the London Stock Exchange.

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

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

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

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

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

Note 2. Basis of preparation

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

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

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

Note 2. Basis of preparation (continued)

New accounting developments not yet adopted. A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2019 and have not been applied in preparing these Consolidated Financial Statements. The Group plans to adopt these pronouncements when they become effective.

The following new or amended standards are not expected to have a significant impact of the Group's Consolidated Financial Statements:

- IFRS 17 *Insurance Contracts*. The standard is effective for annual periods beginning on or after 1 January 2021. This standard is not applicable to the Group.

- Amendments to IFRS 3 - *Definition of a Business*. The IASB issued amendments to the definition of a business to help entities determine whether an acquired set of activities and assets is a business or not. The amendments are effective for annual periods beginning on or after 1 January 2020.

- Amendments to IAS 1 and IAS 8 - *Definition of Material*. The IASB issued amendments to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments are effective for annual periods beginning on or after 1 January 2020, with comparative figures required. Early application is permitted.

- Amendments to IFRS 9, IAS 39 and IFRS 7 - *Interest Rate Benchmark Reform*. The amendments are effective for annual periods beginning on or after 1 January 2020. The amendments are not applicable to the Group.

- *The Conceptual Framework for Financial Reporting*. The IASB issued a revised version of Conceptual Framework for Financial Reporting. In particular, the revised version introduces new definitions of assets and liabilities, as well as amended definitions of income and expenses. The new version is effective for annual periods beginning on or after 1 January 2020.

- Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. The IASB has deferred the effective date of these amendments indefinitely.

- Amendments to IAS 1 – *Classification of liabilities as current and non-current*. The amendments specify the requirements for classifying liabilities as current or non-current. The new guidance will be effective for annual periods starting on or after 1 January 2022. Early application is permitted

Note 2. Basis of preparation (continued)

Critical accounting estimates and assumptions Management makes a number of estimates and assumptions that are continually evaluated and may differ from the related actual results. The estimates and assumptions that have the most significant effect on the amounts recognised in these Consolidated Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Carrying value of property, plant and equipment. As at 31 December 2019 the Group has tested property, plant and equipment for impairment (Note 6).

Measuring the lease liabilities. The Group has lease contracts that include extension options. The Group applies judgement in evaluating whether it is reasonably certain or not to exercise the option to renew the lease. When measuring the lease liability the Group uses the average incremental borrowing rate. Information about the assumptions made in measuring the lease liability is disclosed in Note 3.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group’s tax positions cannot be sustained, an appropriate amount is accrued in the Consolidated Financial Statements. The possible tax claims in respect of certain open tax positions of the Group companies are disclosed in Note 28.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The carrying value of short-term payables and receivables less allowance for expected credit losses is assumed to approximate their fair value due to their short-term nature.The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

- Note 11 – Trade and other accounts receivables;
- Note 18 – Non-current debt Accounts receivable and prepayments;
- Note 21 –Trade and other accounts payable;
- Note 29 – Financial instruments and financial risks.

(in millions of Russian Rouble unless otherwise stated)

Note 3. Summary of significant accounting policies

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

Certain comparative amounts have been reclassified to conform with the current year's presentation. In particular, advances from customers and taxes other than on income payable were presented as separate lines and advances to suppliers were reclassified from trade and other receivables to advances given and other assets.

The Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 "Leases". IFRS 16 was issued in January 2016 and replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 Operating Leases—Incentives and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single, on-balance lease sheet accounting model.

Lessor accounting under IFRS 16 is substuntially unchanged comparing to IAS 17. Lessors will continue to classify leases as either operational or financial leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact the leases where the Group is a lessor.

The Group mostly leases land plots under its power transmission grids, buildings and substations. The Group also leases transmission facilities, non-residential premises and transport.

The Group adopted IFRS 16 using modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method the standard is applied retrospectively with cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transitions practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"). The Group is also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with similar characteristics;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded direct initial costs from the measurement of the right-of use-assets at the date of initial application.

Based on the foregoing, as at 1 January 2019, the Group recognised in the consolidated Statement of Financial Position:

- Right-of–use assets - presented as separate line item:
- Lease liabilities - within "Non-current debt" and "Current debt and current portion of non-current debt" line items.

The effect of adoption IFRS 16 (increase / (decrease)) on consolidated Statement of Financial Position:

	As at 1 January 2019
Assets	
Property, plant and equipment	(480)
Right-of- use assets	11,621
Total assets	**11,141**
Liabilities	
Non-current debt	10,582
Current and current portion of non-current debt	559
Total liabilities	**11,141**

Note 3. Summary of significant accounting policies (continued)

Before adoption of IFRS6 16 the Group used the following accounting policies:

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

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

Summary of new accounting policies:

Lease terms. The lease term comprises non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option and periods covered by and option to terminate the lease if the Group is reasonably certain not to exercise that option. For land lease contracts with indefinite term the Group estimates the lease term to be equal to the useful life of the Group's property located on the land plots.

Right–of–use assets. Right–of-use assets are recognised at the commencement date of the lease (i.e. the date the underlying assets is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before commencement date less any lease incentives received. When the Group is reasonably certain to obtain ownership of the leased assets at the end of the lease term, the recognised right–of-use assets are depreciated from the commencement date to the end of useful life of the underlying assets. Otherwise, the recognised right–of-use assets are depreciated on a straight–line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

The useful lives, in years, of right-of-use assets by types are as follows:

	Useful lives
Land and buildings	2-80
Electric power transmission grids	50
Substations	2-30
Other	2-35

Lease liabilities. Lease liabilities are recognised at the commencement date measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. Lease liabilities are subsequently measured at amortised cost with the interest expense recognised within finance income (expense) in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

(in millions of Russian Rouble unless otherwise stated)

Note 3. Summary of significant accounting policies (continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments disclosed in the Group's consolidated financial statements as of 31 December 2018 as follows:

Land plots operating lease commitments s on 31 December 2018 disclosed in the Group's consolidated financial statements	**12,029**
Change in estimate for land leases (revision of lease terms under open-ended and short-term lease contracts)	11,202
Other operating lease commitments	21,631
Relief option for short-term leases	(127)
Gross operating lease obligations as at 1 January 2019	**44,735**
Discounting	(33,594)
Operating lease liabilities as at 1 January 2019	**11,141**
Financial lease liabilities as at 31 December 2018	209
Total lease liabilities as at 1 January 2019	**11,350**

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019 was 9.91% per annum.

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

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

Financial assets measured at fair value through other comprehensive income are included in "Financial investments" line item of the consolidated statement of financial position.

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

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

- Trade and other receivables;
- Bank deposits, that do not meet the definition of cash equivalents;
- Promissory notes;
- Loans given;
- Cash and cash equivalents.

Financial assets classified as measured at amortised cost initially recognised at fair value. Subsequent to the initial financial liabilities are measured at amortised cost using effective interest method.

Trade and other accounts receivable. Trade and other receivables are recorded inclusive of value added tax (VAT).

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

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

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

Note 3. Summary of significant accounting policies (continued)

Expected credit losses (ECL). An allowance for expected credit losses shall be recorded for financial assets classified as at amortised cost. Loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument.

For trade receivables and contract assets, the Group measures loss allowances applying a simplified approach at an amount equal to lifetime ECLs. For other financial assets classified as at amortised cost loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

When making the assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument. To make that assessment, the Group compares the risk of a default occurring on the financial asset at the reporting date with the risk of a default occurring on the financial assets at the date of initial recognition.

In assessing change in credit risk the Group takes into account available, relevant and supportable information that is available without due cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

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

As an indicator of significant deterioration in financial position and increase in credit risk the Group takes into account related factual or expected financial and other difficulties of a counterparty, such as initiation of insolvency or liquidation procedures, negative net assets, low receivables turnover and existence of disputed amounts between counterparty and the Group.

Expected credit losses are recognised through an allowance account. Amount of loss is determined as the difference between asset’s carrying amount and the present value of expected cash flows discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the credit loss decreases and the decrease can be related objectively to an event occurring after the loss was recognised, the previously recognised credit loss is reversed by adjusting the allowance account in profit or loss.

Uncollectible assets are written off against the related credit provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss.

Financial liabilities. The financial liabilities are classified in the following measurement categories: those to be measured at fair value through profit or loss, and those to be measured subsequently at amortised cost.
The Group includes the following financial liabilities in the category of financial liabilities measured at amortised cost:

- Debt
- Trade and other payables;

Financial liabilities classified as measured at amortised cost initially recognised at fair value. Subsequent to the initial financial liabilities are measured at amortised cost using effective interest method.

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

Note 3. Summary of significant accounting policies (continued)

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

Trade and other accounts payable. Trade and other accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract.

Revenue from Contracts with Customers. The Group recognises revenue when (or as) satisfies a performance obligation by transferring a promised goods or services (i.e. an asset) to a customer.
An asset is transferred when (or as) the customer obtains control of that asset. When (or as) a performance obligation is satisfied, the Group recognises as revenue the amount which the Group expects to be entitled in exchange for transferring promised goods or services, net of value added tax.

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

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

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

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

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

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

Contract assets. A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.
Trade receivable. A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section «Trade and other receivables».

Contract liabilities. A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract. Contract liabilities are recognised within "Advances from customers" line item included in the consolidated statement of financial position. Advances from customers are primarily a deferred income for the future connection services and construction contracts and are stated at nominal amount.

Note 3. Summary of significant accounting policies (continued)

Principles of consolidation. Subsidiaries are entities (including structured entities) controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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

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

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

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

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

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

As at 31 December 2019, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar was RR 61.91:US Dollar 1.00 (31 December 2018: RR 69.47:US Dollar 1.00); between the Russian Rouble and Euro: RR 69.34:Euro 1.00 (31 December 2018: RR 79.46:Euro 1.00).

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

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

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

Note 3. Summary of significant accounting policies (continued)

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

	Useful lives
Land and buildings	50-80
Electric power transmission grids	20-50
Substations	15-30
Other	5-50

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

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

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

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

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

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

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

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

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a net basis and disclosed as an asset or liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

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

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

Note 3. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

Note 3. Summary of significant accounting policies (continued)

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

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

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

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

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

(in millions of Russian Rouble unless otherwise stated)

Note 4. Principal subsidiaries

The principal subsidiaries as at 31 December 2019 and 31 December 2018 are presented below:

	31 December 2019		31 December 2018	
Name	**Ownership, %**	**Voting, %**	**Ownership, %**	**Voting, %**
Transmission companies:				
OJSC "The Kuban trunk grids"	100.0	100.0	100.0	100.0
OJSC "The Tomsk trunk grids"	90.5	100.0	87.2	96.2
Other companies				
JSC "Mobile gas-turbine electricity plants"	100.0	100.0	100.0	100.0
JSC "Research and development centre of FGC UES"	100.0	100.0	100.0	100.0
JSC "Specialised electricity transmission service company of the UNEG"	100.0	100.0	100.0	100.0
JSC "Engineering and construction management centre of Unified Energy System"	100.0	100.0	100.0	100.0

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

In 2018 the Group had increased its holdings in OJSC "The Kuban trunk grids" and OJSC "The Tomsk trunk grids" from 75.3% and 77.9% to 100% and 87.2% respectively with the acquisition cost of additional shares of RR 504 million. In 2019 the Group had increased its holdings in OJSC "The Tomsk trunk grids" from 87.2% to 90.5% with the acquisition cost of additional shares of RR 74 million.

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

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

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

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

Note 5. Balances and transactions with related parties

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

During the years ended 31 December 2019 and 31 December 2018 the Group had the following significant transactions with government-related entities:

	Year ended 31 December 2019	Year ended 31 December 2018
Transmission revenue	174,611	170,026
Electricity sales	744	4,213
Construction services	871	4,832
Connection services	17,063	16,870
Dividend income	1,463	2,251
Interest income	2,380	3,200
Net reversal/(acrual) of allowance for expected credit losses	189	(1,167)
Purchased electricity for production needs	(6,770)	(6,255)
Rent	(1,799)	(993)

(in millions of Russian Rouble unless otherwise stated)

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

Significant balances with government-related entities are presented below:

	31 December 2019	31 December 2018
Non-current assets		
Financial investments	45,711	37,956
Advances to construction companies and suppliers of property, plant and equipment (included in construction in progress)	610	433
Trade and other accounts receivable (net of allowance for expected credit losses of RR 160 million as at 31 December 2019 and RR 49 million as at 31 December 2018)	69,779	71,528
Advances given and other non–current assets	8	-
Current assets		
Cash and cash equivalents	31,035	33,598
Bank deposits	25,718	2,615
Trade and other accounts receivable (net of allowance for expected credit losses of RR 5,425 million as at 31 December 2019 and RR 6,810 million as at 31 December 2018)	35,552	51,966
Advances given and other current assets (net of allowance for expected credit losses of RR 73 million as at 31 December 2019 and RR 66 million as at 31 December 2018)	75	190
Non-current liabilities		
Non-current debt	(6,287)	(123)
Trade and other accounts payable	(3,015)	-
Advances from customers	(8,020)	(2,303)
Current liabilities		
Current debt abd current portion of non-current debt	(490)	(86)
Accounts payable to the shareholders of FGC UES	(11,388)	(213)
Trade and other accounts payable	(4,341)	(1,722)
Advances from customers	(5,810)	(11,488)

Liabilitities related to the exchange contract with JSC "Far Eastern Energy Management Company" (Note 32) are disclosed in trade and other accounts payable.

As at 31 December 2019 the Group had long-term undrawn committed financing facilities with government-related banks of RR 60,000 million (31 December 2018: RR 65,000 million) with the interest rates not exceeding 8.4% and the maturity dates in 2025. Short-term undrawn committed financing facilities with government-related banks amounted to RR 5,000 million as at 31 December 2019 (31 December 2018: RR 90,050 million) with the interest rates not exceeding 14.95%.

Tax balances and charges are disclosed in Notes 17 and 24. Tax transactions are disclosed in the Consolidated Statement of Profit of Loss or Other Comprehensive Income.

Parent company. During the years ended 31 December 2019 and 31 December 2018 the Group had the following significant transactions with the parent company of FGC UES - PJSC "ROSSETI":

	Year ended 31 December 2019	Year ended 31 December 2018
Revenues	350	-
Operating expenses	(714)	(358)

Significant balances with the parent company are presented below:

	31 December 2019	31 December 2018
Short-term trade and other receivables	-	173
Financial investments	495	426
Short-term trade and other payables	(408)	-
Accounts payable to shareholders of FGC UES	(8,999)	-

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

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

(in millions of Russian Rouble unless otherwise stated)

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

Total remuneration in the form of salary, bonuses and non-cash benefits (social security contributions are not included) provided to the members of the Management Board for the year ended 31 December 2019 and 31 December 2018 was as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Short-term compensation, including salary and bonuses	325	352
Termination benefits	9	-
Post-employment benefits and other long-term benefits	(25)	10
Total	**309**	**362**

The amount of the short-term compensation to members of the Management Board represents remuneration accrued during the respective period. Remuneration provided to the members of the Board of Directors for the year ended 31 December 2019 amounted to RR 10 million (31 December 2018: RR 7 million).

Note 6. Property, plant and equipment

	Land and Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Cost						
Balance as at 31 December 2018	31,809	604,748	725,527	248,566	82,787	1,693,437
Reclassification to right-of-use assets	-	-	-	-	(914)	(914)
Balance as at 1 January 2019	31,809	604,748	725,527	248,566	81,873	1,692,523
Additions	12	27,578	7,300	93,197	4,501	132,588
Transfers	2,369	30,273	34,689	(76,068)	8,737	-
Reclassification to assets held for sale	-	-	-	(335)	-	(335)
Disposals	(35)	(737)	(1,605)	(6,706)	(1,132)	(10,215)
Balance as at 31 December 2019	34,155	661,862	765,911	258,654	93,979	1,814,561
Accumulated depreciation and impairment						
Balance as at 31 December 2018	(7,617)	(285,998)	(355,758)	(56,434)	(50,353)	(756,160)
Reclassification to right-of-use assets	-	-	-	-	434	434
Balance as at 1 January 2019	(7,617)	(285,998)	(355,758)	(56,434)	(49,919)	(755,726)
Depreciation charge	(448)	(10,474)	(20,307)	-	(4,335)	(35,564)
Impairment	(96)	(3,025)	(3,065)	(330)	(210)	(6,726)
Reclassification to assets held for sale	-	-	-	22	-	22
Transfers	(57)	(1,623)	(5,330)	7,813	(803)	-
Disposals	8	628	1,589	4,978	1,131	8,334
Balance as at 31 December 2019	(8,210)	(300,492)	(382,871)	(43,951)	(54,136)	(789,660)
Net book value as at 1 January 2019	24,192	318,750	369,769	192,132	32,434	937,277
Net book value as at 31 December 2019	25,945	361,370	383,040	214,703	39,843	1,024,901

(in millions of Russian Rouble unless otherwise stated)

Note 6. Property, plant and equipment (continued)

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

Borrowing costs of RR 11,143 million for the year ended 31 December 2019 were capitalised within additions (for the year ended 31 December 2018: RR 10,270 million). A capitalisation rate of 6.01% was used for the year ended 31 December 2019 (for the year ended 31 December 2018: 5.33%) to determine the amount of borrowing costs eligible for capitalisation, representing the weighted average of the borrowing costs applicable to the borrowings of the Group that were outstanding during the periods.

Construction in progress is represented by the carrying amount of property, plant and equipment that has not yet been put into operation and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2019 such advances amounted to RR 17,657 million (as at 31 December 2018: RR 15,390 million).

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

Impairment. The Group performed the impairment test of property, plant and equipment as at 31 December 2019.

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

Consequently the recoverable amount of property, plant and equipment was primarily determined as value-in-use using discounted cashflows method. The Group’s Transmission segment (Note 31) was considered as a single cash generating unit.

(in millions of Russian Rouble unless otherwise stated)

Note 6. Property, plant and equipment (continued)

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

- Forecast period is determined as 10 years – from 2020 to 2029 (for the year ended 31 December 2018: from 2019 to 2028).
- A nominal after-tax discount rate range of 8.57% (31 December 2018: 9.47%) was determined based on the weighted average cost of capital.
- Revenue projections are based on following assumptions:
  - Approved Regulatory Asset Base tariff calculation for 2020 (31 December 2018: 2019)
  - Key parameters for tariff-setting (rates of return for "old" and "new" capital (10%); normal useful live for calculation of return of capital (35 years); Net Working Capital to revenue ratio (7.9%) (31 December 2018: the same);
  - Increase of operating expenses at a compound annual growth rate of 3% (31 December 2018: 3%) that is determined with reference to expected inflation rate in the Russian Federation and takes into account planned economy on controllable costs;
  - Fixed volume of contracted capacity from 2027 onwards.
- Terminal value was determined based on Gordon perpetuity growth model with terminal growth rate of 3% (31 December 2018: 4%) (in line with long-term tariff forecast for grid companies published by the Ministry of Economic Development).

For the year ended 31 December 2019 as a result of impairment test an impairment of property, plant and equipment was recognised in ammount of RR 8,384 million (no impairment for the year ended 31 December 2018).

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

	Year ended 31 December 2019		Year ended 31 December 2018	
	Increase	**Decrease**	**Increase**	**Decrease**
Discount rate (0.5% change)	(8.4%)	10.1%	(8.2%)	9.8%
Terminal growth rate (1% change)	14.0%	(9.8%)	13.6%	(9.4%)
Tariff growth rate (3% change)	8.2%	(8.2%)	8.9%	(8.9%)

In 2019 the reversal of impairment loss of RR 2,264 million represent reversing of impairment loss for an individual assets (for the year ended 31 December 2018: RR 2,248 million).

In 2019 the impairment loss of RR 606 million represent specific impairment for construction in progress (for the year ended 31 December 2018: none).

Leased assets. As at 31 December 2019 the carrying value of property, plant and equipment leased out under operating lease was RR 9,754 million (as at 31 December 2018: RR 10,496 million).

Note 7. Right-of-use assets

	Land and buildings	Power trans-mission grids	Substations	Other	Total	Lease liabilities
Balance as at 1 January 2019	**8,347**	**783**	**1,428**	**1,063**	**11,621**	**11,350**
Additions	1,896	1	20	340	2,257	**2,257**
Depreciation charged to profit or loss	(605)	(16)	(219)	(59)	(899)	**-**
Depreciation charged to construction in progress	(260)	-	-	-	(260)	**-**
Interest expense	-	-	-	-	-	**1,217**
Payments	-	-	-	-	-	**(2,000)**
Balance as at 31 December 2019	**9,378**	**768**	**1,229**	**1,344**	**12,719**	**12,824**

(in millions of Russian Rouble unless otherwise stated)

Note 8. Intangible assets

	Software	Other intangible assets	Total
Cost as at 1 January 2019	12,195	6,020	18,215
Accumulated amortisation	(8,811)	(2,766)	(11,577)
Carrying value as at 1 January 2019	3,384	3,254	6,638
Additions	1,445	750	2,195
Transfers	122	(122)	-
Transfers to property, plant and equipment	(139)	(524)	(663)
Disposals – cost	(167)	(183)	(350)
Disposals - accumulated amortisation	162	32	194
Amortisation charge	(1,129)	(276)	(1,405)
Carrying value as at 31 December 2019	3,678	2,931	6,609
Cost as at 31 December 2019	13,456	5,941	19,397
Accumulated amortisation	(9,778)	(3,010)	(12,788)
Carrying value as at 31 December 2019	3,678	2,931	6,609

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

The software consists of several sub aplications and related licences. As at 31 December 2019 only certain sub aplications were placed in operation and are subject to amortisation. These sub aplications are amortised during 5 years, on a straight-line basis. Software includes development costs of RR 1,861 million as at 31 December 2019 (as at 31 December 2018: RR 1,135 million).

Note 9. Investments in associates and joint ventures

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

	Year ended 31 December 2019	Year ended 31 December 2018
Carrying value as at 1 January	1,442	**1,136**
Share of profit of associates and joint ventures	144	125
Disposal of an associate	(62)	-
Translation difference	(228)	181
Carrying value as at 31 December	**1,296**	**1,442**

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

	31 December 2019	31 December 2018
JSC UES “SakRusEnergo”	1,296	1,376
Other associates	-	66
Total investments in associates	**1,296**	**1,442**

(in millions of Russian Rouble unless otherwise stated)

Note 10. Financial investments

	1 January 2019	Change in fair value	Disposals	31 December 2019
PJSC “INTER RAO UES”	37,419	9,852	(2,166)	45,105
PJSC “ROSSETI”	426	69	-	495
Other	111	-	-	111
Total	**37,956**	**9,921**	**(2,166)**	**45,711**

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

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

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

During the year ended 31 December 2018 the Group has reclassified 6,608,643 and 3,132,000 thousand shares sold to JSC “Inter RAO Capital” and “DVB Leasing” LLC respectively from Level 1 to Level 3 fair value hierarchy. The fair value of shares sold as single lot has been determined based on independent appraiser report by applying income approach with due account for volume discount and payment by instalments in 2019.

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

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

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

During the year ended 31 December 2019 the Group has recognised revaluation loss for financial investments amounted to RR 548 million relating to the part of financial investment in PJSC “INTER RAO UES” shares sold to “Praktika” LLC on 03 June 2019. Accumulated revaluation reserve, net of tax, relating to shares disposed and amounted to RR 1,669 million has been reclassified from reserves to retained earnings.

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

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

(in millions of Russian Rouble unless otherwise stated)

Note 11. Trade and other accounts receivable

	31 December 2019	31 December 2018
Long-term trade and other receivables		
Trade receivables (net of allowance for expected credit losses of RR 207 million as at 31 December 2019 and RR 24 million as at 31 December 2018)	71,685	72,507
Other receivables (net of allowance for expected credit losses of RR 77 million as at 31 December 2019 and RR 64 million as at 31 December 2018)	170	192
Loans given	-	30
Promissory notes	229	258
Total long-term trade and other receivables	**72,084**	**72,987**
Short-term trade and other receivables		
Trade receivables (net of allowance for expected credit losses of RR 7,836 million as at 31 December 2019 and RR 10,725 million as at 31 December 2018)	38,393	35,855
Other receivables (net of allowance for expected credit losses of RR 5,937 million as at 31 December 2019 and RR 4,250 million as at 31 December 2018)	3,254	32,059
Loans given	114	101
Promissory notes	62	10
Total short-term trade and other receivables	**41,823**	**68,025**

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

As at 31 December 2019 long-term trade receivables in the amount of RR 69,166 million (as at 31 December 2018: RR 67,994 million) relating to the contracts of technological connection are being paid in equal semi-annual installments with an interest accrued on the actual outstanding balances at the rate of 6% per annum.

(in millions of Russian Rouble unless otherwise stated)

Note 11. Trade and other receivables (continued)

Fair value of consideration receivable for these contracts is determined using present value technique based on estimated future cash flows and the discount rates of 6.91-9.63%.

As at 31 December 2019 long-term trade receivables in the amount of RR 733 million (as at 31 December 2018: RR 3,452 million) represent restructured balances for transmission services from related parties for which debt restructuring agreements were signed in 2016-2019 with a payment terms of 2018-2022 years and an interest rate varying from the Central bank of the RF key interest rate to 14% (Note 5).

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

As at 31 December 2019 fair value of long-term trade and other receivables amounted to RR 71,860 million. The fair value (Level 3) of long-term trade and other receivables has been determined using using present value technique based on estimated future cash flows and the discount rates of 6.91-9.17%.

The movements of the allowance for expected credit losses for the year ended 31 December 2019 are shown below:

	Long-term		Short-term		
Year ended 31 December 2019	**Trade receivables**	**Other receivables**	**Trade receivables**	**Other receivables**	**Total**
As at 1 January	**24**	**64**	**10,725**	**4,250**	**15,063**
Allowance accrual	200	20	1,035	1,899	3,154
Allowance reversal	(17)	(7)	(1,374)	(133)	(1,531)
Debt written-off	-	-	(2,550)	(79)	(2,629)
As at 31 December	**207**	**77**	**7,836**	**5,937**	**14,057**

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

	Long-term		Short-term		
Year ended 31 December 2018	**Trade receivables**	**Other Receivables**	**Trade receivables**	**Other receivables**	**Total**
As at 1 January	**1,877**	**397**	**6,764**	**2,895**	**11,933**
Allowance accrual	53	7	4,022	1,546	5,628
Allowance reversal	(12)	(6)	(869)	(107)	(994)
Debt written-off	-	-	(87)	(140)	(227)
Reclassification to assets held for sale	(949)	(244)	(50)	(34)	(1,277)
Reclassifications	(945)	(90)	945	90	-
As at 31 December	**24**	**64**	**10,725**	**4,250**	**15,063**

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

	31 December 2019	**31 December 2018**
Not overdue	33,408	59,577
Past due:		
Less than 3 months	2,602	3,302
3 to 6 months	2,081	943
6 to 12 months	3,316	2,548
1 year to 3 years	1,675	2,085
Total	**43,082**	**68,455**

As at 31 December 2019 overdue accounts receivable for the total amount of RR 1,259 million were presented within long-term trade receivable based on management’s expectation of future settlement (as at 31 December 2018: RR 430 million).

(in millions of Russian Rouble unless otherwise stated)

Note 12. Advances given and other assets

	31 December 2019	31 December 2018
Long–term advances given and other non-current assets		
Advances to suppliers	8	-
VAT recoverable	1,696	502
Other non-current assets	403	516
Total long-term advances given and other non-current assets	**2,107**	**1,018**
Short–term advances given and other current assets		
Advances to suppliers (net of impairment of RR 474 million as at 31 December 2019 and RR 245 million as at 31 December 2018)	1,811	2,638
VAT recoverable	654	702
Tax prepayments	111	163
Total short-term advances given and other non-current assets	**2,576**	**3,503**

Note 13. Cash and cash equivalents

	31 December 2019	31 December 2018
Cash at bank and in hand	15,531	22,285
Cash equivalents	21,546	15,333
Total cash and cash equivalents	**37,077**	**37,618**

Cash at bank and in hand	Rating	Rating agency	31 December 2019	31 December 2018
JSC “Gazprombank”	BB+	Standard & Poor's	6,350	6,690
PJSC “VTB”	BBB-	Standard & Poor's	2,803	5,491
PJSC "RNCB"	ruA	Expert RA	2,548	2,234
PJSC “Sberbank”	BBB	Fitch Ratings	1,788	4,253
JSC “Alfa-Bank”	BB+	Fitch Ratings	1,165	798
Federal Treasury Department	-	-	442	2,290
JSC "Bank “ROSSIYA”	A+ (RU)	Acra	421	511
Other banks			-	1
Cash in hand			14	17
Total cash at bank and in hand			**15,531**	**22,285**

Cash equivalents include short-term investments in bank deposits:

Bank deposits	Interest rate	Rating	Rating agency	31 December 2019	31 December 2018
JSC “Gazprombank”	4.50-8.05%	BB+	Standard & Poor's	16,222	4,596
JSC "Russian regional development bank"	5.95-8.00%	Ba2/NP	Moody’s	3,606	2,202
JSC “Alfa-Bank”	6.05%	BB+	Fitch Ratings	667	-
PJSC “Sberbank”	3.69-7.9%	BBB	Fitch Ratings	460	7,067
PJSC “VTB”	5.80-7.50%	BBB-	Standard & Poor's	422	795
JSC "Rosselkhozbank"	6.75-7.30%	BBB-	Fitch Ratings	-	182
Total bank deposits				**21,377**	**14,842**

As at 31 December 2019 cash and cash equivalents include amounts denominated in foreign currency totalling RR 78 million (as at 31 December 2018: RR 88 million).

(in millions of Russian Rouble unless otherwise stated)

Note 14. Bank deposits

	Interest rate	Rating	Rating agency	31 December 2019	31 December 2018
JSC "Rosselkhozbank"	6.50-8.20%	BBB-	Fitch Ratings	15,228	1,694
PJSC “VTB”	5.82-7.35%	BBB-	Standard & Poor's	10,490	-
JSC “Alfa-Bank”	5.85-8.15%	BB+	Fitch Ratings	71	1,196
JSC “Gazprombank”	7.46%	BB+	Standard & Poor's	-	921
Total bank deposits				**25,789**	**3,811**

The carrying amount of bank deposits approximates their fair value.

There were no bank deposits denominated in foreign currency as at 31 December 2019 and 31 December 2018.

Note 15. Inventories

	31 December 2019	31 December 2018
Spare parts	3,928	4,588
Repair materials	6,115	5,338
Work in progress on construction contracts	622	981
Other inventories	6,303	6,130
Total inventories	**16,968**	**17,037**

The cost of inventories is shown net of write-down to net realizable value for RR 305 million as at 31 December 2019 (as at 31 December 2018: RR 208 million). As at 31 December 2019 and 31 December 2018 the Group had no inventories pledged as security under loan and other agreements.

Note 16. Equity

Share capital

	Number of shares issued and fully paid		Share capital	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Ordinary shares	1,274,665,323,063	1,274,665,323,063	637,333	637,333

As at 31 December 2019 the authorised share capital comprised 1,346,805,824 thousand ordinary shares with a nominal value of RR 0.5 per share.

Treasury shares. As at 31 December 2019 the Group held through a subsidiary 13,727,165 thousand ordinary shares in treasury at the total cost of RR 4,719 million (as at 31 December 2018: RR 4,719 million).

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

Reserves comprised the following:

	31 December 2019	31 December 2018
Revaluation reserve for financial investments (Note 10)	33,978	27,092
Remeasurement reserve for retirement benefit obligations (Note 19)	(3,314)	(2,426)
Foreign currency translation reserve (Note 9)	273	501
Total reserves	**30,937**	**25,167**

(in millions of Russian Rouble unless otherwise stated)

Note 16. Equity (continued)

Reserves for the year ended 31 December 2019 (net of tax):

	Revaluation reserve for financial investments (Note 10)	Remeasure-ment reserve for retirement benefit obligations (Note 19)	Foreign currency translation reserve (Note 9)	Total reserves
As at 1 January 2019	**27,092**	**(2,426)**	**501**	**25,167**
Change in fair value of financial investments	8,555	-	-	**8,555**
Sale of financial investments	(1,669)	-	-	**(1,669)**
Remeasurements of retirement benefit obligations	-	(888)	-	**(888)**
Foreign currency translation difference	-	-	(228)	**(228)**
As at 31 December 2019	**33,978**	**(3,314)**	**273**	**30,937**

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

	Revaluation reserve for financial investments (Note 10)	Remeasure-ment reserve for retirement benefit obligations (Note 19)	Foreign currency translation reserve (Note 9)	Total reserves
As at 1 January 2018	**42,326**	**(2,164)**	**320**	**40,482**
Change in fair value of financial investments	8,458	-	-	**8,458**
Sale of financial investments	(23,692)	-	-	**(23,692)**
Remeasurements of retirement benefit obligations	-	(262)	-	**(262)**
Foreign currency translation difference	-	-	181	**181**
As at 31 December 2018	**27,092**	**(2,426)**	**501**	**25,167**

Dividends. The annual statutory accounts of the parent company, FGC UES, form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2019, the net profit of FGC UES, as reported in the published statutory financial statements, was RR 58,139 million (net profit for the year ended 31 December 2018: RR 56,187 million).

At the Extraordinary General Meeting in December 2019 shareholders approved the decision to distribute dividends for the nine months, ended 30 September 2019 in the total amount of RR 11,229 million, RR 105 million of them relate to treasury shares. Dividends per ordinary share amounted to RR 0.00881.

At the Annual General Meeting in June 2019 shareholders approved the decision to distribute dividends for the year 2018 in the total amount of RR 20,449 million, RR 193 million of them relate to treasury shares. Dividends per ordinary share amounted to RR 0.01604.

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

(in millions of Russian Rouble unless otherwise stated)

Note 17. Income tax

Income tax expense comprises the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Current income tax charge	(7,219)	(11,633)
Deferred income tax charge	(15,839)	(10,623)
Total income tax expense	**(23,058)**	**(22,256)**

During the years ended 31 December 2019 and 31 December 2018 the Company and its principal subsidiaries were subject to tax rate of 20 percent on taxable profit.

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

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

	Year ended 31 December 2019	Year ended 31 December 2018
Profit before income tax	**109,696**	**115,101**
Theoretical income tax charge at the statutory tax rate of 20 percent	(21,939)	(23,020)
Tax effect of items which are not deductible for taxation purposes	(1,165)	603
Movement in unrecognised deferred tax assets	46	161
Total income tax expense	**(23,058)**	**(22,256)**

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. As at 31 December 2019 and as at 31 December 2018 deferred income tax assets and liabilities were measured at 20 percent, the rates expected to be applicable when the asset or liability will reverse, except for deferred income tax assets and liabilities related to financial investments which are measured at 13 percent (31 December 2018: 13 percent).

Deferred income tax assets and liabilities for the year ended 31 December 2019:

		Movements for the year		
	31 December 2019	Recognised in profit or loss	Recognised in other compre-hensive income	1 January 2019
Deferred income tax liabilities				
Property, plant and equipment	52,479	17,722	-	34,757
Right-of-use assets	2,543	2,543	-	-
Investments in associates	-	(13)	-	13
Financial investments	3,556	-	1,366	2,190
Other	1,127	141	-	986
Asset held for sale	63	(4,230)	-	4,293
Less: deferred tax liabilies offset	(12,897)	(244)		(12,653)
Total deferred income tax liabilities	**46,871**	**15,919**	**1,366**	**29,586**
Deferred income tax assets				
Property, plant and equipment	(970)	86	-	(1,056)
Long-term promissory notes	(4,066)	8	-	(4,074)
Accounts receivable and prepayments	(4,320)	2,358	-	(6,678)
Intangible assets	(311)	14	-	(325)
Retirement benefit obligation	(357)	28	12	(397)
Current and non-current debt	(2,565)	(2,523)	-	(42)
Accounts payable and accruals	(1,399)	(78)	-	(1,321)
Other	(360)	(186)	-	(174)
Tax losses	(654)	15	-	(669)
Less: deferred tax assets offset	12,897	244		12,653
Unrecognised deferred tax assets	1,830	(46)	-	1,876
Total deferred income tax assets	**(275)**	**(80)**	**12**	**(207)**
Deferred income tax liabilities, net	**46,596**	**15,839**	**1,378**	**29,379**

(in millions of Russian Rouble unless otherwise stated)

Note 17. Income tax (continued)

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

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

Unrecognised deferred tax assets in the amount of 1,830 million as at 31 December 2019 (as at 31 December 2018: RR 1,876 million) include deferred income tax assets on tax losses carried forward and deferred income tax assets on temporary differences arising in respect of loss-making subsidiaries. These deferred tax assets are not recognised because it is not probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

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

	31 December 2019	31 December 2018
JSC "Mobile gas-turbine electricity plants"	1,972	2,017
Others	1,296	1,328
Total tax losses carried forward	**3,268**	**3,345**

(in millions of Russian Rouble unless otherwise stated)

Note 18. Non-current debt

	Effective interest rate	Due	31 December 2019	31 December 2018
Certified interest-bearing non-convertible bearer bonds:				
with fixed rates	0.1-9.35%	2020-2052	75,476	77,410
with variable rates	CPI+1-2.5%	2022-2047	151,278	151,027
Loan participation notes (LPNs)	8.45%	-	-	17,943
Non-bank loans	0.1-3%	2025-2026	209	220
Lease liabilities	7.07-10.38%	2020-2069	12,824	-
Finance lease liabilities	9.50%	2021	-	209
Total debt			**239,787**	**246,809**
Less: current portion of non-current bonds and LPNs			(30,335)	(22,132)
Less: current portion of non-bank loans			(6)	(5)
Less: current portion of lease liabilities			(1,103)	-
Less: current portion of finance lease liabilities			-	(87)
Total non-current debt			**208,343**	**224,585**

All debt instruments are denominated in Russian Rouble.

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

		31 December 2019		31 December 2018	
	Level	Fair value	Carrying value	Fair value	Carrying value
Non-convertible bearer bonds with fixed rates and loan participation notes	1	76,284	75,476	93,601	95,353
Non-convertible bearer bonds with variable rates	1	9,930	10,319	9,650	10,200
Total debt classified into fair value hierarchy level 1		**86,214**	**85,795**	**103,251**	**105,553**

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

As at 31 December 2019 the Group had long-term undrawn committed financing facilities of RR 100,000 million (as at 31 December 2018: RR 66,500 million) which could be used for the general purposes of the Group.

(in millions of Russian Rouble unless otherwise stated)

Note 18. Non-current debt (continued)

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

	Non-current debt	Current debt and current portion of non-current debt	Finance lease liabilities	Dividend payable
Balance at 31 December 2018	**224,463**	**22,137**	**209**	**213**
Recognition of Right-of-use assets	-	-	**11,141**	-
Balance at 1 January 2019	**224,463**	**22,137**	**11,350**	**213**
Changes from financing cash flows				
Proceeds from borrowings	-	22	-	-
Repayment of borrowings	(14)	(19,429)	-	-
New leases	-	-	2,257	-
Payment of finance lease liabilities	-	-	(783)	-
Interest paid	-	(15,196)	(1,217)	-
Dividend paid	-	-	-	(20,205)
Total changes from financing cash flows	**(14)**	**(34,603)**	**257**	**(20,205)**
Transfers	(27,827)	27,827	-	-
Other changes				
Capitalised borrowing costs	-	10,881	262	-
Interest expense	-	4,099	955	-
Dividend accrued	-	-	-	31,380
Total other changes	-	14,980	1,217	31,380
Balance at 31 December 2019	**196,622**	**30,341**	**12,824**	**11,388**

	Non-current debt	Current debt and current portion of non-current debt	Finance lease liabilities	Dividend payable
Balance at 1 January 2018	**233,863**	**23,686**	**301**	**146**
Changes from financing cash flows				
Proceeds from borrowings	10,041	13	-	-
Repayment of borrowings	(2)	(20,434)	-	-
Payment of finance lease liabilities	-	-	(115)	-
Interest paid	-	(13,972)	-	-
Dividend paid	-	-	-	(18,635)
Total changes from financing cash flows	**10,039**	**(34,393)**	**(115)**	**(18,635)**
Transfers	(19,439)	19,439	-	-
Other changes				
Capitalised borrowing costs	-	10,270	-	-
Interest expense	-	3,135	23	-
Dividend accrued	-	-	-	18,702
Total other changes	**-**	**13,405**	**23**	**18,702**
Balance at 31 December 2018	**224,463**	**22,137**	**209**	**213**

(in millions of Russian Rouble unless otherwise stated)

Note 19. Retirement benefit obligations

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

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

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

The most recent actuarial valuation was performed as at 31 December 2019.

The tables below provide information about benefit obligations and actuarial assumptions as at 31 December 2019 and 31 December 2018.

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

	Year ended 31 December 2019	Year ended 31 December 2018
Present value of defined benefit obligation	6,501	5,574
Present value of other long-term employee benefit obligation	454	376
Total net defined benefit liability	**6,955**	**5,950**

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

	Year ended 31 December 2019	Year ended 31 December 2018
Defined benefit obligations at 1 January	**5,950**	**7,617**
Included in profit or loss		
Current service cost	248	474
Past service cost	(147)	(2,193)
Interest expense	466	537
	567	(1,182)
Remeasurements of defined benefit liability		
Remeasurements:		
(Gain)/Loss from change in demographic assumptions	(107)	57
Loss/(Gain) from change in financial assumptions	1,461	(1,037)
Experience (Gain)/Loss	(472)	1,136
	882	156
Benefits paid by the plan	(444)	(641)
Defined benefit obligations at 31 December	**6,955**	**5,950**

Amounts recognised in profit or loss:

	Year ended 31 December 2019	Year ended 31 December 2018
Service cost	101	(1,719)
Remeasurements of other long-term employee benefit obligations	6	20
Interest expense	466	537
Total	**573**	**(1,162)**

Amounts recognised in other comprehensive income:

	Year ended 31 December 2019	Year ended 31 December 2018
(Gain)/Loss from change in demografic assumptions	(104)	51
Loss / (Gain) from change in financial assumptions	1,401	(1,003)
Experience (Gain)/Loss	(421)	1,086
Total	**876**	**134**

(in millions of Russian Rouble unless otherwise stated)

Note 19. Retirement benefit obligations (continued)

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

	Year ended 31 December 2019	Year ended 31 December 2018
At 1 January	**3,060**	**2,924**
Movement of remeasurements	876	134
At 31 December	**3,936**	**3,058**

The significant actuarial assumptions are as follows:

Financial actuarial assumptions:	Year ended 31 December 2019	Year ended 31 December 2018
Discount rate (nominal)	6.50%	8.80%
Future financial support benefit increases	4.00%	4.00%
Future salary increases (nominal)	4.00%	4.00%

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

Demographic actuarial assumptions:

	Year ended 31 December 2019	Year ended 31 December 2018
Expected retirement age		
Male	65	65
Female	60	60
Employee turnover	5.0%	4.5%
Mortality table	2017_adjusted	2017_adjusted

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions used as at 31 December 2019 is as follows:

	Change in assumption		Impact on defined benefit liability	
Discount rate	Increase/decrease by	0.5%	Decrease/increase by	5.63%
Future salary increases (nominal)	Increase/decrease by	0.5%	Increase/decrease by	2.97%
Future pension increases (nominal)	Increase/decrease by	0.5%	Increase/decrease by	2.80%
Employee turnover	Increase/decrease by	10%	Decrease/increase by	2.71%
Mortality level	Increase/decrease by	10%	Decrease/increase by	1.50%

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

Note 20. Current debt and current portion of non-current debt

	31 December 2019	31 December 2018
Current portion of non-current debt (Note 18)	31,444	22,224
Total current debt and current portion of non-current debt	**31,444**	**22,224**

As at 31 December 2019 the Group had short-term undrawn committed financing facilities of RR 6,500 million (as at 31 December 2018: RR 90,050 million) which could be used for the general purposes of the Group.

(in millions of Russian Rouble unless otherwise stated)

Note 21. Trade and other payables

	31 December 2019	31 December 2018
Long-term trade and other payables		
Accounts payable to construction companies and suppliers of property, plant and equipment	14,121	12,055
Total long-term trade and other payables	**14,121**	**12,055**
Short-term trade and other payables		
Accounts payable to construction companies and suppliers of property, plant and equipment	23,585	29,967
Trade payables	12,375	12,920
Accrued liabilities	-	60
Accounts payable to employees	2,982	2,681
Other creditors	2,638	1,207
Total	**41,580**	**46,835**

Long-term accounts payable to construction companies and suppliers of property, plant and equipment includes RR 3,176 million (as at 31 December 2018: RR 1,821 million) of guarantee deposits made by suppliers of property, plant and equipment refundable in 2020-2037. Fair value of consideration payable for these deposits has been determined using present value technique based on estimated future cash flows and the discount rates of 5.38-5.68%.

Long-term accounts payable to construction companies and suppliers of property, plant and equipment includes RR 7,988 million (as at 31 December 2018: RR 10,234 million) related to to contracts of purchase of property, plant and equipment. Amounts are payable in instalments in 2020-2025. Fair value of consideration payable for these accounts payable has been determined using present value technique based on estimated future cash flows and the discount rate of 8.75%.

As at 31 December 2019 fair value of long-term trade and other payables amounted to RR 14,569 million. The fair value (Level 3) of long-term trade and other payables has been determined using using present value technique based on estimated future cash flows and the discount rate of 5.48% as at 31 December 2019.

Note 22. Provisions for liabilites and charges

Movement in provisions for liabilities and charges:

	Year ended 31 December 2019	Year ended 31 December 2018
Carrying amount at 1 January	**683**	**1,917**
Additional amounts charged to profit or loss	1,118	326
Unused amounts reversed	(255)	(1,104)
Utilisation of provision	(344)	(456)
Carrying amount at 31 December	**1,202**	**683**

Additional amounts charged to profit and loss in include additional charges related to legal clams brought against the Group amounted to RR 734 million (2018: RR 326) million and accrual of contractual provisions amounted to RR 384 million (2018: nil).

(in millions of Russian Rouble unless otherwise stated)

Note 23. Revenues and other operating income

	Year ended 31 December 2019	Year ended 31 December 2018
Transmission fee	222,382	213,131
Connection services	17,190	21,500
Construction services	4,391	6,062
Grids repair and maintenance services	1,780	1,362
Electricity sales	1,676	9,409
Communication services	777	630
Design works	388	342
Research and development services	140	148
Other revenues	7	-
Total revenue from contracts with customers	**248,731**	**252,584**
Rental income	880	1,395
Total revenue	**249,611**	**253,979**

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

	Year ended 31 December 2019	Year ended 31 December 2018
Penalties and fines	5,452	4,883
Insurance compensation	339	551
Other income	500	1,040
Total other operating income	**6,291**	**6,474**

Note 24. Operating expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Purchased electricity for production needs	37,737	38,102
Depreciation of property, plant and equipment	35,564	32,346
Employee benefit expenses and payroll taxes	32,066	29,121
Taxes, other than on income	13,426	14,728
Repairs and maintenance of equipment	3,885	3,288
Subcontract works for construction contracts	3,132	3,910
Materials for repair	2,667	2,627
Rent	2,482	1,849
Business trips and transportation expenses	2,391	2,391
Electricity transit	1,807	1,471
Consulting, legal and auditing services	1,783	1,791
Other materials	1,646	1,605
Security services	1,615	1,547
Other subcontract works	1,441	1,325
Amortisation of intangible assets	1,405	1,154
Loss/(gain) on disposal of property, plant and equipment	1,094	(310)
Information system maintenance	1,014	744
Insurance	955	862
Depreciation of right-of-use assets	899	-
Utilities and maintenance of buildings	882	812
Movement in provision for legal claims	863	(778)
Communication service	520	523
Materials for construction contracts	165	1,994
Fuel for mobile gas-turbine electricity plants	68	6,568
Other expenses	5,775	3,540
Total	**155,282**	**151,210**

(in millions of Russian Rouble unless otherwise stated)

Note 24. Operating expenses (continued)

Employee benefit expenses and payroll taxes include the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Wages and salaries	25,250	24,329
Social security contributions to the Pension Fund	4,864	4,687
Social security contributions to other state non-budgetary funds	1,845	1,804
Pension costs – defined benefit plans	107	(1,699)
Total employee benefit expenses and payroll taxes	**32,066**	**29,121**

Note 25. Finance income

	Year ended 31 December 2019	Year ended 31 December 2018
Unwind of discount of accounts receivable	8,656	6,595
Interest income	3,276	3,679
Dividend income	1,463	2,251
Foreign currency exchange differences	22	13
Other finance income	379	443
Total finance income	**13,796**	**12,981**

Note 26. Finance costs

	Year ended 31 December 2019	Year ended 31 December 2018
Interest expense	15,776	14,248
Interest expense on lease contracts	1,217	23
Net interest on defined benefit liability	466	537
Foreign currency exchange differences	115	46
Other finance costs	465	278
Total finance costs	**18,039**	**15,132**
Less capitalised interest expenses on borrowings related to qualifying assets (Note 6)	(11,143)	(10,270)
Total finance costs recognised in profit or loss	**6,896**	**4,862**

Note 27. Earnings per ordinary share for profit attributable to shareholders of FGC UES

	Year ended 31 December 2019	Year ended 31 December 2018
Weighted average number of ordinary shares (millions of shares)	1,260,938	1,260,938
Profit attributable to shareholders of FGC UES (millions of RR)	86,598	92,809
Weighted average earnings per share – basic and diluted (in RR)	**0.069**	**0.074**

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

Note 28. Contingencies, commitments and operating risks

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

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

Legal proceedings. In the normal course of business the Group entities may be a party to certain legal proceedings. As at 31 December 2019 claims made by suppliers of property, plant and equipment and other counterparties to the Group amounted to RR 4,129 million. Management belives the likelyhood of negative outcome for the Group and the respecive outflow of financial resources to settle such claims, if any, is not probable and, consequently, no provision has been made in these financial statements.

Note 28. Contingencies, commitments and operating risks (continued)

Management believes that it has made adequate provision for other probable claims (Note 22). In the opinion of management, currently there are no other existing legal proceedings or claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

Tax contingency. Russian tax and customs legislation is subject to varying interpretation when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by the relevant regional and federal authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of decision to perform tax review. Under certain circumstances reviews may cover longer periods.

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

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

Depending on the further practice of applying the property tax rules by the tax authorities and courts the classification of moveable and immoveable property set by the Group could be argued. The management of the Group is unable to assess the ultimate outcome and the outflow of financial resources to settle potential tax claims.

As at 31 December 2019 management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency and customs positions will be sustained.

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

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

Capital commitments related to construction of property, plant and equipment. Future capital expenditures for which contracts have been signed amount to RR 120,227 million as at 31 December 2019 (as at 31 December 2018: RR 142,363 million) including VAT.

Note 29. Financial instruments and financial risks

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

(in millions of Russian Rouble unless otherwise stated)

Note 29. Financial instruments and financial risks (continued)

Financial instruments by categories:

31 December 2019	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial liabilities measured at amortised cost	Total
Financial assets				
Financial investments (Note 10)	-	45,711	-	45,711
Long-term trade and other receivables (Note 11)	72,084	-	-	72,084
Short-term trade and other receivables (Note 11)	41,823	-	-	41,823
Cash and cash equivalents (Note 13)	37,077	-	-	37,077
Bank deposits (Note 14)	25,789	-	-	25,789
Total financial assets	**176,773**	**45,711**	**-**	**222,484**
Financial liabilities				
Non-current debt (Note 18)	-	-	208,343	208,343
Long-term trade and other payables (Note 21)	-	-	14,121	14,121
Accounts payable to the shareholders of FGC UES	-	-	11,388	11,388
Current debt and current portion of non-current debt (Note 20)	-	-	31,444	31,444
Short-term trade and other payables (Note 21)	-	-	41,580	41,580
Total financial liabilities	**-**	**-**	**306,876**	**306,876**

31 December 2018	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial liabilities measured at amortised cost	Total
Financial assets				
Financial investments (Note 10)	-	37,956	-	37,956
Long-term trade and other receivables (Note 11)	72,987	-	-	72,987
Short-term trade and other receivables (Note 11)	68,025	-	-	68,025
Cash and cash equivalents (Note 13)	37,618	-	-	37,618
Bank deposits (Note 14)	3,811	-	-	3,811
Total financial assets	**182,441**	**37,956**	**-**	**220,397**
Financial liabilities				
Non-current debt (Note 18)	-	-	224,585	224,585
Long-term trade and other payables (Note 21)	-	-	12,055	12,055
Accounts payable to the shareholders of FGC UES	-	-	213	213
Current debt and current portion of non-current debt (Note 20)	-	-	22,224	22,224
Short-term trade and other payables (Note 21)	-	-	46,835	46,835
Total financial liabilities	**-**	**-**	**305,912**	**305,912**

(in millions of Russian Rouble unless otherwise stated)

Note 29. Financial instruments and financial risks (continued)
(a) Market risk

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

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

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

(iii) Price risk. Equity price risk arises from financial investments. Management of the Group monitors its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are taken by the management of the Group. The primary goal of the Group’s investment strategy is to maximise investment returns in order to meet partially the Group’s investment program needs. Transactions in investments in equity shares are monitored and authorised by the Group’s corporate finance department. As at 31 December 2019, the total amount of financial investments exposed to the market risk equals RR 45,600 million. If equity prices at that date had been 10% higher (lower), with all other variables held constant, the Group’s other comprehensive income would increase (decrease) by RR 4,571 million.

(b) Credit risk.

The amounts exposed to credit risk are as follows:

31 December 2019	Long-term trade and other receivables (Note 11)	Cash and cash equi-valents (Note 13)	Bank deposits (Note 14)	Short-term trade and other receivables (Note 11)
Not overdue:				
- gross amount	70,906	37,077	25,789	33,890
- less expected credit loss allowance	(81)	-	-	(482)
Overdue:				
- gross amount	1,462	-	-	33,728
- less impairment provision	(203)	-	-	(25,313)
Total amount	**72,084**	**37,077**	**25,789**	**41,823**

31 December 2018	Long-term trade and other receivables (Note 11)	Cash and cash equi-valents (Note 13)	Bank deposits (Note 14)	Short-term trade and other receivables (Note 11)
Not overdue:				
- gross amount	72,645	37,618	3,811	59,961
- less expected credit loss allowance	(88)	-	-	(384)
Overdue:				
- gross amount	430	-	-	35,061
- less expected credit loss allowance	-	-	-	(26,613)
Total amount	**72,987**	**37,618**	**3,811**	**68,025**

(in millions of Russian Rouble unless otherwise stated)

Note 29. Financial instruments and financial risks (continued)

As at 31 December 2019 the amount of financial assets, which were exposed to credit risk, was RR 176,773 million (as at 31 December 2018: RR 182,441 million). Although collection of receivables could be influenced by economic factors, management of the Group believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

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

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

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

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
As at 31 December 2019					
Non-current and current debt and interest payable (Notes 18, 20)	39,039	31,075	61,051	293,681	424,846
Lease liabilites (Notes 18, 20)	2,215	1,972	4,741	43,376	52,304
Accounts payable to the shareholders of FGC UES	11,388	-	-	-	11,388
Trade and other payables (Note 21)	41,580	8,183	657	5,382	55,802
Total as at 31 December 2019	**94,222**	**41,230**	**66,449**	**342,439**	**544,340**
As at 31 December 2018					
Non-current and current debt and interest payable (Notes 18, 20)	34,702	40,536	84,684	301,048	460,970
Accounts payable to the shareholders of FGC UES	213	-	-	-	213
Trade and other payables (Note 21)	45,028	4,306	8,027	1,728	59,089
Total as at 31 December 2018	**79,943**	**44,842**	**92,711**	**302,776**	**520,272**

(d) Fair value. Management believes that the fair value of financial assets and liabilities carried at amortised cost is not significantly different from their carrying amounts (unless otherwise stated in the Notes to these Consolidated Financial Statements). The carrying value of short-term trade payables and trade receivables less allowance for expected credit losses is assumed to approximate their fair value due to their short-term nature. The financial instruments of the Group carried at fair value represent financial investments (Note 10). The fair value of the financial investments is determined by the quoted prices (Level 1 inputs) in active markets. There are no significant unobservable inputs used in measuring fair values of financial assets and liabilities.

(in millions of Russian Rouble unless otherwise stated)

Note 30. Capital risk management

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

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

As at 31 December 2019 several companies of the Group namely OJSC “The Kuban trunk grids”, JSC “Specialised electricity transmission service company of the UNEG”, JSC “APBE”, JSC “Engineering and construction management centre of Unified Energy System”, JSC “Mobile gas-turbine electricity plants”, were not in compliance with all requirements mentioned above. Management of the Group is currently implementing measures to ensure compliance with all legislation requirements. Management considers that a breach of above mentioned requirements does not have material effect on the Group’s Consolidated Financial Statements. The Group’s capital management objectives are to ensure that its operations be continued at a profit for the shareholders and with benefits for other stakeholders, and to maintain the optimal capital structure with a view to reduce the cost of capital.

The Group monitors capital ratios, including the gearing ratio, calculated on the basis of figures of financial statements prepared under the Russian Accounting Regulations. The Group should ensure that its gearing ratio, being the total debt divided by the total equity, does not exceed 0.50. As at 31 December 2019 the Company’s gearing ratio calculated under Russian Accounting Regulations was 0.20 (as at 31 December 2018: 0.23).

Note 31. Segment information

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

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

	Transmission segment – based on statutory financial statements prepared according to RAR	
	Year ended 31 December 2019	**Year ended 31 December 2018**
Revenue from external customers	243,848	240,996
Intercompany revenue	376	327
Total revenue	**244,224**	**241,323**
Depreciation and amortisation *	79,205	79,179
Interest income	10,310	10,582
Interest expenses	4,941	4,019
Current income tax	6,679	11,408
Profit for the year	57,836	56,123
Capital expenditure	134,442	106,861

	31 December 2019	**31 December 2018**
Total reportable segment assets	1,543,924	1,498,267
Total reportable segment liabilities	421,167	424,550

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

(in millions of Russian Rouble unless otherwise stated)

Note 31. Segment information (continued)

	Year ended 31 December 2019	Year ended 31 December 2018
Total revenue from segment (RAR)	**244,224**	**241,323**
Reclassification between revenue and other income	(1,487)	(1,055)
Non-segmental revenue	8,489	17,373
Elimination of intercompany revenue	(376)	(327)
Recognition of revenue from connection services based on fair value	(832)	(2,805)
Non-recognised revenue	(407)	(465)
Other adjustments	-	(65)
Total revenue (IFRS)	**249,611**	**253,979**

	Year ended 31 December 2019	Year ended 31 December 2018
Profit for the year (RAR)	**57,836**	**56,123**
Property, plant and equipment		
Adjustment to the carrying value of property, plant and equipment	42,190	45,384
Gain on disposal of assetst	10,444	-
(Impairment)/Reversal of impairment of property, plant and equipment, net	(6,726)	2,248
Financial instruments		
Re-measurement of financial investments through other comprehensive income	(10,351)	(5,021)
Discounting of long-term trade and other receivables	3,296	(577)
Discounting of long-term trade and other payables	(71)	54
Discounting of promissory notes	32	30
Consolidation		
Impairment of investments in subsidiaries	(11)	(1,481)
Other		
Adjustment to allowance for expected credit losses	(2,154)	(355)
Right-of-use assets	(760)	-
Accrual of retirement benefit obligations	(230)	1,673
Non-recognised revenue and other income	(430)	(1,763)
Write-off of research and development to expenses	70	141
Share of profit of associates and joint ventures	144	125
Disposal of associate	(62)	
Adjustment to provision for legal claims	52	1,220
Deferred tax adjustment	(5,389)	(4,964)
Other adjustments	(88)	1,077
Non-segmental other operating loss	(1,154)	(1,069)
Profit for the year (IFRS)	**86,638**	**92,845**

	31 December 2019	31 December 2018
Total reportable segment liabilities (RAR)	**421,167**	**424,550**
Netting of VAT recoverable and payable	(5,653)	(5,766)
Gain on disposal of assets	(1,552)	-
Accrual of retirement benefit obligations	6,561	5,614
Right-of-use assets	11,028	-
Deferred tax liabilities adjustment	(23,614)	(31,266)
Accrual of payables recognised in another accounting period	(112)	11
Discounting of long-term trade and other payables	(60)	(400)
Non-segmental liabilities	14,080	16,277
Elimination of intercompany balances	(33,288)	(39,140)
Total liabilities (IFRS)	**388,557**	**369,880**

(in millions of Russian Rouble unless otherwise stated)

Note 31. Segment information (continued)

	31 December 2019	31 December 2018
Total reportable segment assets (RAR)	**1,543,924**	**1,498,267**
Property, plant and equipment		
Adjustment to the carrying value of property, plant and equipment	319,274	302,191
Impairment of property, plant and equipment, net	(557,730)	(551,004)
Recognition of property, plant and equipment under finance lease	(77)	(71)
Financial instruments		
Adjustment to cost of investments in associates	595	732
Adjustment to cost of financial investments	6,964	8,137
Discounting of promissory notes	(215)	(247)
Discounting of long-term trade and other receivables	(6,379)	(8,843)
Consolidation		
Reversal of impairment of investments in subsidiaries	8,712	8,723
Reversal of impairment of promissory notes	18,826	18,828
Unrealised profit adjustment	(4,541)	(3,555)
Elimination of investments in subsidiaries	(25,657)	(25,583)
Elimination of intercompany balances	(33,292)	(39,140)
Other		
Right-of-use assets	10,268	-
Disposal of assets	8,892	-
Non-recognised revenue and other income	(9,002)	(8,572)
Write-off of research and development to expenses	(2,082)	(2,152)
Adjustment to allowance for expected credit losses	9,309	6,488
Deferred tax assets adjustment	(8,691)	(10,067)
Netting of VAT recoverable and payable	(5,653)	(5,766)
Other adjustments	(5,031)	(2,502)
Non-segmental assets	21,927	23,178
Total assets (IFRS)	**1,290,341**	**1,209,042**

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

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

Information on revenue from separate services and products of the Group is presented in Note 23. The Group performs most of its activities in the Russian Federation and does not have any significant revenue from foreign customers or any significant non-current assets located in foreign countries.

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

Note 32. Gain on disposal of assets

On 26 December 2018, as a part of UNEG asset consolidation process the Group has concluded the exchange contract with JSC "Far Eastern Energy Management Company" (goverment-controlled entity). The Group exchanges property, plant and equipment, accounts receivable, and promise to pay cash by instalments up to 2024 for UNEG property plant and equipment. The exchange has been completed on 1 January 2019.

As at 1 January 2019 the Group has recognised disposal of property,plant and equipement with the carrying value of RR 16,045 million and accounts receivable with the carrying value of RR 5,372 million, and at the same time recognised additions to property, plant and equipment at fair value of RR 34,564 million, long-term accounts payable at fair value of RR 2,713 million and short-term accounts payable at fair value of RR 2,384 million at initial recognition. The Group also recognised VAT recoverable amounted to RR 2,394 million.

Fair value of long-term accounts payable has been determined using present value technique based on estimated future cash flows at the discount rate of 9%. Gain on disposal of assets disposal amounted to RR 10,444 million hase been recognised in profit and loss.

Note 33. Subsequent events

Bonds issue. In January 2020, the Group issued non-certified interest-bearing non-convertible bearer bonds of Series 001P-04R with a total nominal value of RR 10,000 million, an interest rate fixed at 6.75 percent, maturity in January 2035, and embedded put option in January 2030. The interest is payable every 91 days during the terms of the bonds.

Repayment of bonds. In January 2020, the Group acquired bonds of Series 24 in the amount of RR 9,507 million following the execution of put options.