PUBLIC JOINT STOCK COMPANY
"INTERREGIONAL DISTRIBUTION GRID COMPANY OF NORTH-WEST"

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
FOR THE YEAR ENDED 31 DECEMBER 2019
AND AUDITOR'S REPORT

March 2020

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Independent auditor's report

To Shareholders and Board of Directors of
Public joint stock company
"Interregional Distribution Grid Company of North-West"

Opinion

We have audited the consolidated financial statements of Public joint stock company "Interregional Distribution Grid Company of North-West" and its subsidiaries (the Group), which comprise the consolidated statement of profit or loss and other comprehensive income for 2019, consolidated statement of financial position as at 31 December 2019, and the consolidated statement of changes in equity and consolidated statement of cash flows for 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).
Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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 matter
Recognition and measurement of revenue from electricity transmission services	
Recognition and measurement of revenue from electricity transmission services was one of the most significant matters for our audit due to certain specifics of the electricity market mechanisms that give rise to the existence of disagreements among electricity supply, utilities, and other companies in relation to the volume and cost of the transmitted electricity. The amount of revenue challenged by counterparties is material to the Group's financial statements. Management's assessment of the probability of settling disputes in the Group's favor is highly subjective. Revenue is recognized when disagreements are to be resolved in favor of the Group with regard to assumptions. Information on revenue from electricity transmission services is disclosed in Note 7 to the consolidated financial statements.	We considered the applied accounting policy with regard to the recognition of revenue from electricity transmission services; examined internal controls over the recognition of this revenue; checked the correctness of the corresponding revenue amounts based on the existing electricity transmission contracts; received, on a selective basis, confirmations of balances of receivables from counterparties; analyzed the results of litigations concerning disputable amounts of services provided, if any; and examined existing procedures to confirm the volume of electricity transmitted with counterparties.
Allowance for expected credit losses on trade receivables	
The matter of creating allowance for expected credit losses on trade receivables is one of the most significant matters for our audit due to the material balances of trade receivables as of 31 December 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 projected solvency of the Group's customers. Information on allowance for expected credit losses on trade receivables is disclosed in Notes 20 and 32 to the consolidated financial statements.	We analyzed the adequacy of the Group's accounting policy on the trade receivables with respect to the creation of allowance for expected credit losses on trade receivables, as well as Group's management estimation procedures, including the analysis of repayment of trade receivables, the analysis of maturity and delayed performance of obligations, and the analysis of customers' solvency. We performed audit procedures in respect of the information used by the Group to determine the allowance for expected credit losses on trade receivables, the structure of receivables by age and maturity, and tested the correctness of the charged allowance amounts calculation.
Recognition, measurement and disclosure of provisions and contingent liabilities	
Recognition, measurement and disclosure of provisions and contingent liabilities in respect of litigations and claims from counterparties (including territorial electric grid and utilities companies) were among the most significant matters for our audit as they require significant judgments of management with respect to material amounts of balances of settlements with counterparties that are challenged in litigations or under the pretrial settlement. Information on provisions and contingent liabilities is disclosed in Note 31 to the consolidated financial statements.	Audit procedures among others involved analyzing decisions made by courts of different instances; considering the adequacy of management's judgments with regard to assessment of the possibility of an outflow of economic resources due to the dispute settlement; examining the compliance of the prepared documentation with provisions of existing contracts and legislation; and reviewing disclosures on provisions and contingent liabilities in notes to the consolidated financial statements.

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Key audit matter	How our audit addressed the matter
Impairment of non-current assets	
Due to the existence of the impairment indicators of non-current assets as of 31 December 2019, the Group performed impairment testing. The value-in-use of fixed assets, forming a significant share of the Group's non-current assets, as of 31 December 2019, was determined by the projected cash flow method. The matter of impairment testing of fixed assets was one of the most significant matters for our audit because the fixed assets balance forms a significant part of the Group's assets at the reporting date, and because management's assessment of the value-in-use is complex and largely subjective and is based on assumptions, in particular, on the projected electricity transmission volumes, transmission fees, as well as operating and capital expenditures that depend on the expected future market or economic conditions in the Russian Federation. Information on the results of the impairment analysis of non-current assets is disclosed by the Group in Note 14 to the consolidated financial statements.	As part of our audit procedures, we also assessed the assumptions and methodologies applied by the Group, in particular, those relating to projected total revenue from the electricity transmission, fee solutions, operating and capital expenditures, long-term rates of fee growth and discount rates. We tested the incoming data applied in the model and the arithmetic accuracy of the model used to determine the recoverable amount in the impairment test of fixed assets. We engaged valuation specialists to analyze the model used to determine the recoverable amount in the impairment test of fixed assets. We also analyzed the sensitivity of the model to changes in the main indicators of assessment and the Group's disclosures of assumptions on which the results of impairment testing largely depend.

Other information included in the annual report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The partner in charge of the audit resulting in this independent auditor's report is A.Y. Grebeniuk.

A.Y. Grebeniuk
Partner
Ernst & Young LLC

10 March 2020

Details of the audited entity

Name: Public joint stock company "Interregional Distribution Grid Company of North-West"
Record made in the State Register of Legal Entities on 23 December 2004, State Registration Number 1047855175785.
Address: Russia 196247, St. Petersburg, Constitution square, 3, lit A, room 16N.

Details of the auditor

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

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(in thousand of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	7	49,135,508	64,853,952
Operating expenses	10	(45,803,015)	(61,574,011)
Expected credit losses		(857,999)	(1,237,102)
Impairment of property, plant and equipment and right-of-use assets	14	(428,280)	–
Other income	8	524,585	839,088
Other expenses	9	(30,139)	(122,404)
Results from operating activities		**2,540,660**	**2,759,523**
Finance income	12	113,286	82,194
Finance costs	12	(1,255,277)	(1,269,130)
Total finance costs		**(1,141,991)**	**(1,186,936)**
Profit before tax		**1,398,669**	**1,572,587**
Income tax expense	13	(317,950)	(426,684)
Profit for the period		**1,080,719**	**1,145,903**
Other comprehensive income			
Items that will never be reclassified subsequently to profit or loss			
Change in the fair value of equity investments measured at fair value through other comprehensive income		5,386	(4,497)
Remeasurement of the defined benefit liability	27	(63,682)	(44,186)
Income tax		11,660	9,736
Total items that will not be reclassified subsequently to profit or loss		**(46,636)**	**(38,947)**
Other comprehensive loss for the period, net of income tax		**(46,636)**	**(38,947)**
Total comprehensive income for the period		**1,034,083**	**1,106,956**
Profit attributable to:			
Owners of the Company		1,080,736	1,145,972
Non-controlling interest		(17)	(69)
Total comprehensive income attributable to:			
Owners of the Company		1,034,100	1,107,025
Non-controlling interest		(17)	(69)
Earnings per share			
Basic earnings per share (in RUB)	24	0.0113	0.0120

These consolidated financial statements were approved by management on 10 March 2020 and were signed on its behalf by:

General Director	Deputy General Director for Economy and Finance	Chief Accountant - Head of Department of accounting and tax accounting and reporting
A.Y. Pidnik	L.V. Shadrina	I.G. Zhdanova

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

(in thousand of Russian rubles, unless otherwise stated)

	Notes	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	14	40,037,317	40,447,544
Intangible assets	15	266,945	268,400
Right-of-use assets	16	613,705	–
Trade and other receivables	20	140,121	10,268
Assets related to employee benefits plans	27	314,159	370,051
Other non-current financial assets	17	551,544	505,219
Deferred tax assets	18	18,533	29,127
Advances issued and other non-current assets	21	71,540	150,123
Total non-current assets		**42,013,864**	**41,780,732**
Current assets			
Inventories	19	965,749	858,074
Income tax prepayment		44,438	233,636
Trade and other receivables	20	5,360,864	7,190,078
Cash and cash equivalents	22	232,088	151,123
Advances issued and other current assets	21	706,810	949,887
Total current assets		**7,309,949**	**9,382,798**
Total assets		**49,323,813**	**51,163,530**
EQUITY AND LIABILITIES			
Equity	23		
Share capital		9,578,592	9,578,592
Reserve related to business combination		10,457,284	10,457,284
Other reserves		(91,822)	(45,186)
Accumulated loss		(132,938)	(645,455)
Total equity attributable to owners of the Company		**19,811,116**	**19,345,235**
Non-controlling interest		236	253
Total equity		**19,811,352**	**19,345,488**
Non-current liabilities			
Loans and borrowings	25	12,803,516	8,517,335
Trade and other payables	28	291,552	246,687
Advances received	30	350,546	894,930
Employee benefit liabilities	27	983,386	1,912,467
Deferred tax liabilities	18	730,285	949,701
Total non-current liabilities		**15,159,285**	**12,521,120**
Current liabilities			
Loans and borrowings and short-term portion of long-term loans and borrowings	25	2,491,915	7,026,929
Trade and other payables	28	5,546,021	6,699,518
Taxes, other than income tax	29	1,344,441	1,066,733
Advances received	30	3,610,619	3,805,283
Provisions	31	998,058	698,268
Current income tax liability		362,122	191
Total current liabilities		**14,353,176**	**19,296,922**
Total liabilities		**29,512,461**	**31,818,042**
Total equity and liabilities		**49,323,813**	**51,163,530**

(in thousand of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		**1,080,719**	**1,145,903**
Adjustments for:			
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	10	4,587,332	4,305,535
Impairment of property, plant and equipment and right-of-use assets		428,280	–
Finance costs	12	1,255,277	1,269,130
Finance income	12	(113,286)	(82,194)
(Gain)/loss on disposal of property, plant and equipment		(1,079)	116,830
Expected credit losses		857,999	1,237,102
Accounts receivable write-off		33,084	17,246
Accounts payable write-off		(6,251)	(28,224)
Change in provisions		538,474	713,667
Other non-cash transactions		(23,290)	(4,856)
Income tax expense	13	317,950	426,684
Total effect of adjustments		**8,955,209**	**9,116,823**
Change in assets related to employee benefit plans		55,892	44,193
Change in employee benefit liabilities		(1,059,413)	(387,181)
Change in long-term trade and other receivables		(129,853)	3,232
Change in long-term advances issued and other non-current assets		78,583	(17,454)
Change in long-term trade and other payables		44,865	(13,845)
Change in long-term advances received		(544,384)	106,380
Cash flows from operating activities before changes in working capital and provisions		**7 400 899**	**8 852 148**
Changes in working capital			
Change in trade and other receivables		949,408	(650,488)
Change in advances issued and other assets		243,077	273,341
Change in inventories		(111,686)	(73,415)
Change in trade and other payables		(957,093)	750,608
Change in advances received		(194,664)	(907,100)
Other		(3,391)	3,854
Cash flows from operating activities before income tax and interest paid		**7,326,550**	**8,248,948**
Income tax reimbursement/ (paid)		36,151	(723,863)
Interest paid under lease agreements		(46,163)	–
Interest paid		(1,190,144)	(1,234,934)
Net cash from operating activities		**6,126,398**	**6,290,151**

(in thousand of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(4,746,580)	(7,516,350)
Proceeds from the sale of property, plant and equipment and intangible assets		22,206	1,095
Interest received		40,494	42,602
Dividends received		750	574
Net cash used in investing activities		**(4,683,130)**	**(7,472,079)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		24,095,963	39,095,697
Repayment of loans and borrowings		(24,974,887)	(37,842,144)
Dividends paid	23	(376,261)	–
Repayment of lease liabilities		(107,118)	(4,973)
Net cash (used in)/from financing activities		**(1,362,303)**	**1,248,580**
Net increase in cash and cash equivalents		**80,965**	**66,652**
Cash and cash equivalents at the year beginning	22	151,123	84,471
Cash and cash equivalents at the year end	22	**232,088**	**151,123**

(in thousand of Russian rubles, unless otherwise stated)

	Equity attributable to owners of the Company						
	Share capital	**Reserve related to business combination**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2018	**9,578,592**	**10,457,284**	**(6,239)**	**(1,792,510)**	**18,237,127**	**322**	**18,237,449**
Profit for the period	–	–	–	1,145,972	**1,145,972**	(69)	**1,145,903**
Other comprehensive loss	–	–	(48,683)	–	**(48,683)**	–	**(48,683)**
Income tax related to other comprehensive loss	–	–	9,736	–	**9,736**	–	**9,736**
Total comprehensive income for the period	–	–	**(38,947)**	**1,145,972**	**1,107,025**	**(69)**	**1,106,956**
Transactions with owners of the Company							
Dividends to shareholders (Note 23)	–	–	–	1,083	**1,083**	–	**1,083**
Balance at 31 December 2018	**9,578,592**	**10,457,284**	**(45,186)**	**(645,455)**	**19,345,235**	**253**	**19,345,488**
Balance at 1 January 2019	**9,578,592**	**10,457,284**	**(45,186)**	**(645,455)**	**19,345,235**	**253**	**19,345,488**
Profit for the period	–	–	–	1,080,736	**1,080,736**	(17)	**1,080,719**
Other comprehensive loss	–	–	(58,296)	–	**(58,296)**	–	**(58,296)**
Income tax related to other comprehensive loss	–	–	11,660	–	**11,660**	–	**11,660**
Total comprehensive income for the period	–	–	**(46,636)**	**1,080,736**	**1,034,100**	**(17)**	**1,034,083**
Transactions with owners of the Company							
Dividends to shareholders (Note 23)	–	–	–	(568,219)	**(568,219)**	–	**(568,219)**
Balance at 31 December 2019	**9,578,592**	**10,457,284**	**(91,822)**	**(132,938)**	**19,811,116**	**236**	**19,811,352**

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

1 Background

(a) The Group and its operations

Public Joint Stock Company Interregional Distribution Grid Company of North-West (hereinafter referred to as PJSC "IDGC of North-West" or the "Company") was established in December 2004 in accordance with the laws of the Russian Federation. The Company was formed as a result of re-organization of OJSC RAO "UES of Russia" ("RAO UES") as the owner and operator of the electric power transmission and distribution grid in the North-West Region of Russia.

On 27 April 2007 the Board of Directors of RAO UES approved the structure of the Interregional Distribution Grid Companies. Under the approved structure, the IDGC of North-West was incorporated with IDGC of North-West and seven branches, located in Arkhangelsk, Vologda, Syktyvkar, Novgorod, Pskov, Petrozavodsk and Murmansk and subsidiaries (the "Group"). The principal subsidiaries are listed in Note 5.

The branches were formed on the basis of seven Regional Distribution Grid Companies: OJSC "Arkhenergo", OJSC "Vologdaenergo", OJSC "AEK Komienergo", OJSC "Novgorodenergo" OJSC "Pskovenergo", OJSC "Karelenergo", OJSC "Kolenergo", all of which were subsidiaries of RAO UES prior to the formation of the Group. The merger was a business combination among entities under common control and has been accounted for using the predecessor accounting method.

The primary activities of PJSC IDGC of North-West and its subsidiaries (hereinafter jointly referred to as the "Group") are provision of services for transmission and distribution of electricity for power grids, as well as the provision of services for technological connection of consumers to the network and sale of electricity to end customers in the territory of North-West Region of Russia.

The parent company of PJSC "IDGC of North-West" is PJSC "ROSSETI".

The registered office (location) of the Company is 3 Constitution Square, lit. "A" room 16N, St. Petersburg 196247.

(b) Russian business environment

The Group's operations are located in the Russian Federation.

The economy of the Russian Federation displays some of the characteristics of emerging markets. The country's economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory systems continue to evolve and are subject to frequent changes and varying interpretations. Continuing political tensions, as well as international sanctions against certain Russian companies and citizens, continue to have a negative impact on the Russian economy. The stability of oil prices, low unemployment and rising wages contributed to moderate economic growth in 2019. This economic environment has a significant impact on the Group's operations and financial position.

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

1 Background (continued)

(c) Relations with state

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

As at 31 December 2019, the Russian Government owned 88.04% in the share capital of the parent company PJSC "ROSSETI" including 88.89% of the voting ordinary shares and 7.01% of the preference shares (as at 31 December 2018: 88.04%, including 88.89% of the voting ordinary shares and 7.01% of the preference shares).

The Russian Government influences the Group's operations through representation on the Board of Directors of the parent company, PJSC "ROSSETI", regulation of tariffs in the electric power industry, and approval and control over the implementation of the investment program. The counterparties of the Group (consumers of services, suppliers and contractors, etc.) include a large number of enterprises under state control.

From 1 January 2018 until 1 October 2018, PJSC IDGC of the North-West (Arkhangelsk branch) had the status of a guaranteeing supplier in the territory of the Arkhangelsk region.

From 1 April 2018 to 1 January 2019, PJSC IDGC of the North-West (Vologda branch) had the status of a guaranteeing supplier in the area of activity of PJSC Vologda sales company.

2 Basis of preparation of consolidated financial statements

(a) Statement of compliance

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

Each subsidiary of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Russian Accounting Standards ("RAS"). The Group's consolidated financial statements are based on the statutory records with adjustments and reclassifications recorded in the consolidated financial statements for the fair presentation in accordance with IFRS.

(b) Going Concern

These consolidated financial statements have been prepared on the assumption that the Group operates continuously and will continue to operate for the foreseeable future. Despite the negative working capital, which as at 31 December 2019 amounted to RUB 7,043,226 thousand (as at 31 December 2018: RUB 9,914,124 thousand), the Group has positive cash flow from operating activities, which amounted to RUB 6,126,398 thousand for 2019 (for 2018: RUB 6,290,151 thousand), and unused credit lines as at 31 December 2019 amounted to RUB 21,445,784 thousand (as at 31 December 2018: RUB 18,680,086 thousand), which confirms the validity of the going concern assumption.

(c) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except for investments classified as financial assets measured at fair value through other comprehensive income.

2 Basis of preparation of consolidated financial statements (continued)

(d) Functional and presentation currency

The national currency of the Russian Federation is the Russian ruble (hereinafter – ruble or RUB), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand.

(e) Use of professional judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make a number of professional judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Group management continuously revise assumptions and estimates based on actual circumstances and other factors affecting reported amounts of assets and liabilities. Changes in estimates and assumptions are recognized in the period in which the estimates are revised and in any future periods affected by these changes.

Professional judgements that have the most significant effect on the amounts recognised in these consolidated financial statements and estimates and assumptions that may require significant adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Impairment of property, plant and equipment and right-of-use assets

At each reporting date, the Group management assesses whether there are any indicators that property, plant and equipment and right-of-use assets may be impaired. Such indicators include changes in business plans, tariffs and other factors that may lead to unfavourable conditions for the Group's activities. When value in use calculations are undertaken, management estimates the expected future cash flow from the asset or cash generation unit and chooses suitable discount rate in order to calculate the present value of those cash flows. Detailed information is disclosed in the Note 14.

Impairment of accounts receivable

Provision for expected credit losses of accounts receivable is based on management assumptions of accounts receivable recovery made for each debtor individually. For the purposes of assessing credit losses, the Group consistently takes into account all reasonable and verifiable information on past events, current and projected events that is available without undue effort and is appropriate for the assessment of receivables. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Pension obligations

The costs of defined benefit pension plans and related costs of the pension program are determined using actuarial valuations. The actuarial estimates involve making demographic assumptions as well as financial assumptions. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Deferred tax assets recognition

At each reporting date management assesses the deferred tax assets to be reflected in the consolidated financial statement to the extent it is likely to be used as tax deductions . When determining future taxable profit and related tax allowances management uses estimates and assumptions based on prior periods' taxable profit and expectations related to the future profit that are reasonable under the circumstances.

2 Basis of preparation of consolidated financial statements (continued)

(f) Changes in accounting policies

From 1 January 2019, the Group began applying IFRS 16 "Leases" as described below.

IFRS 16 "Leases"

The new IFRS 16 "Leases", issued in 2016, replaces IAS 17 "Leases", as well as the corresponding interpretations of the provisions of IFRS concerning leases; abolishing the classification of leases into operating and financial, the standard is a single guide to lessee accounting.

A contract, or part of a contract is a lease if the contract conveys the right to use of the identified asset for a certain period in exchange for consideration.

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

Obligation under the lease is measured initially at the present value of the lease payments that have not yet been paid on inception of the lease and subsequently measured at amortized cost with interest on the lease liability being recognized in the finance costs in the consolidated statement of profit and loss and other comprehensive income. Lease liabilities are presented in the statement of financial position within loans and borrowings (long-term and short-term).

The election for leases for which the underlying asset is of low-value can be made on a lease-by-lease basis. Lease payments under such contract will be recognized as an expense on a straight-line basis over the lease term.

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

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

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

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

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

For lease agreements of land plots under power grid facilities with an indefinite term, or with a term under the contract not exceeding 1 year with the possibility of annual prolongation, the Group determines the term of the contract, using as a basic criterion the useful life of fixed assets located on leased land plots.

(in thousand of Russian rubles, unless otherwise stated)

2 Basis of preparation of consolidated financial statements (continued)

(f) Changes in accounting policies (continued)

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

The Group adopted a modified retrospective approach whereby the cumulative effect of the initial application of the standard is recognized as at the date of initial application, 1 January 2019. The weighted average incremental borrowings rate applied to lease liabilities recognized in the statement of financial position at the date of initial application was 8.55%.

The Group has also used permitted practical expedient and has not applied the new standard to leases that expire within twelve months from the date of transition.

The effect of the initial application of IFRS 16 leases had the following impact on the Group's assets and liabilities:

	1 January 2019
Assets	
Property, plant and equipment	(20,956)
Right-of-use assets	723,694
Trade and other receivables	(7,911)
Liabilities	
Long-term lease liabilities (as part of long-term loans and borrowings)	572,404
Short-term lease liabilities (as part of short-term loans and borrowings)	142,239
Trade and other payables	(19,816)

Reconciliation between the contractual obligations under operating leases, disclosed in accordance with IAS 17 on 31 December 2018 and the lease liabilities recognized in the statement of financial position on 1 January 2019 in accordance with IFRS 16 "Leases":

	1 January 2019
Operating lease liabilities as at 31 December 2018, disclosed in consolidated financial statements	1,546,423
Options for renewal /termination of leases for which there is sufficient confidence	152,390
Exemption for the recognition of short-term leases	(6,116)
Discounting effect	(978,054)
Finance lease liabilities recognized as at 31 December 2018	22,335
Lease liabilities recognized as at 1 January 2019	**736,978**

(g) Change in presentation

Reclassification of comparatives

The Group changed presentation of certain items in the comparative financial statements to comply with the current period presentation. The format of reporting was changed for the purpose of better transparency and information comparability:

- Expected credit losses previously disclosed within "Operating expenses" note is set out as a separate item in the consolidated statement of profit or loss and other comprehensive income;
- Other income and other expenses previously disclosed within "Other income, net" are set out as a separate items in the consolidated statement of profit or loss and other comprehensive income;
- Advances given and other non-financial assets previously disclosed in the note "Trade and other receivables" are shown separately as "Advances given and other non-current assets", "Advances given and other current assets" in the consolidated statement of financial position;

2 Basis of preparation of consolidated financial statements (continued)

(g) Change in presentation (continued)

– Non-current and current advances received (contract liabilities) previously disclosed in the note "Trade and other payables" are shown separately in the consolidated statement of financial position;

– Taxes, other than income tax previously disclosed in the note "Trade and other payables" are set out as a separate item in the consolidated statement of financial position.

(h) Application of new and revised standards and interpretations

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

- Clarification of the IFRIC 23 "Uncertainty concerning the rules of calculating tax on the profit";
- Amendments to IFRS 9 "Conditions on early repayment with potential negative reimbursement";
- Amendments to IFRS 3 "Business Enterprises";
- Amendments to IFRS 11 "Joint enterprise";
- Amendments to IAS 12 "Income Taxes" - Tax consequences of payments on financial instruments classified as equity;
- Amendments to IAS 23 "Expenses on borrowing";
- Amendments to IAS 28 "Long-term investments in associates and joint ventures";
- Amendments to IAS 19 "Changes in the program, reducing the program or repayment program".

A number of new standards and clarifications have been published that are mandatory for annual periods beginning on or after 1 January 2020 and that the Group has not applied early:

- Amendments to IAS 1 And IAS 8 "Determination of materiality".

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

- Conceptual framework for financial reporting.

The revised financial reporting framework contains a new Chapter on measurement, recommendations for reporting financial results, improved definitions and recommendations (in particular, the definition of liabilities), and explanations on specific issues such as the role of management, prudence, and measurement uncertainty in the preparation of financial statements.

- Definition of the business - Amendments to IFRS (IFRS) 3.

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

- Classification of liabilities into short-term and long-term-Amendments to IAS 1.

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

- IFRS 17 “Insurance Contracts”, Amendments to IFRS 9, IAS 39 and IFRS 7 “Basic interest rate reform” are not applicable to the Group.

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

3 Significant accounting policies

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 the Group entities except for the change in accounting policy disclosed in note 2 (f) due to application from 1 January 2019 of IFRS 16 *"Leases"* and reclassification of comparatives disclosed in note 2 (g).

(a) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are attributed to non-controlling interests, even if results in the non-controlling interests having a deficit balance.

ii. Business combinations

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

The Group measures goodwill at the acquisition date as:

1) the fair value of the consideration transferred: plus

2) the recognized amount of any non-controlling interests in the acquiree; plus

3) the fair value of previous interest held in the acquiree if the business combination is achieved in stages; less

4) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

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

Transaction costs that the Group incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss for the period.

iii. Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests not resulting in Group losing control are accounted for as transactions with owners, and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

iv. Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under control of the shareholder that controls the Group are accounted for by using the predecessor accounting method. The acquired assets and liabilities are recognized at the carrying amounts recognized previously in the financial statements of the acquired entities. Any cash or other contribution paid for the acquisition is recognized directly in equity.

v. Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment also includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and no further losses are recognised, except to the extent that the Group assumed obligations to reimburse losses or has made payments on behalf of the investee.

vi. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated while preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains.

(b) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official exchange rates at the reporting date. Transactions in foreign currencies are recorded at exchange rates at the dates of the transactions. Foreign currency differences arising on settlement or translation of monetary items are recognised in profit or loss.

(c) Financial instruments

i. Financial assets

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

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

3 Significant accounting policies (continued)

(c) Financial instruments (continued)

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

- trade and other receivables that meet the definition of financial assets if the Group does not intend to sell them immediately or in the near future;
- bank deposits that do not meet the definition of cash equivalents;
- promissory notes and bonds not intended for trading;
- loans issued;
- cash and cash equivalents.

For financial assets classified as measured at amortised cost, a provision is made for expected credit losses.

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

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

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

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

ii. Impairment of financial assets

Provisions for impairment are measured either on the basis of 12-month expected credit losses (ECL), which are the result of possible defaults within 12 months after the reporting date, or lifetime ECL, which are the result of all possible defaults during the expected life of the financial instrument.

For trade receivables or contract assets that arise from transactions that fall within the scope of IFRS 15 «Revenue from contracts with customers» (including those that contain a significant financing component) and lease receivables, the Group applies a simplified approach to estimate the allowance for expected credit losses – an estimate equal to the expected credit losses over the entire term.

Provisions for impairment of other financial assets classified as measured at amortised cost are measured based on 12-month ECL, unless there has been a significant increase in credit risk since recognition. The estimated allowance for expected credit losses on a financial instrument is measured at each reporting date in an amount equal to the expected credit losses for the entire term, if the credit risk on the financial instrument has increased significantly since initial recognition, taking into account all reasonable and confirmable information, including forward-looking information.

The Group considers actual or expected difficulties of the Issuer or debtor of the asset, actual or expected breach of contract, and expected renegotiation of the terms of the contract due to the debtor's financial difficulties on terms that are unfavourable to the Group and that It would not otherwise have agreed to.

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

3 Significant accounting policies (continued)

(c) Financial instruments (continued)

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

If, in subsequent periods, the credit risk of a financial asset decreases as a result of an event occurring after the loss was recognized, the previously recognized impairment loss is reversed by reducing the corresponding allowance. As a result of the recovery, the carrying amount of the asset should not exceed the amount at which it would have been recognized in the statement of financial position if an impairment loss had not been recognized.

iii. Financial liability

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

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

- Loans and borrowings (borrowed funds);
- Trade and other payables.

Loans and borrowings are initially recognized at fair value, less transaction costs directly related to raising these funds. Fair value is determined by taking into account prevailing market interest rates for similar instruments if it differs significantly from the transaction price. In subsequent periods borrowings are carried at amortised cost using the effective interest method; all differences between the fair value of funds received (net of transaction costs) and the amount to be repaid are recorded in profit or loss as interest expense over the life of the loan repayment obligations.

Borrowing costs are expensed in the reporting period in which they are incurred if they were not related to the acquisition or construction of qualified assets. Borrowing costs related to the acquisition or construction of assets that take a significant amount of time to prepare for use (qualifying assets) are capitalized as part of the cost of the asset. Capitalization is performed when the Group:

- bears the cost of qualifying assets,
- bears borrowing costs and
- leads activities associated with the preparation of assets for use or sale.

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

Accounts payable are accrued from the moment the counterparty fulfils its obligations under the agreement. Accounts payable are recognized at fair value and are subsequently carried at amortised cost using the effective interest method.

(d) Share capital

Ordinary shares are classified as equity.

3 Significant accounting policies (continued)

(e) Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at historical cost (or deemed cost) less accumulated depreciation and impairment loss. The cost of property, plant and equipment as at 1 January 2007, the date of transition to IFRS, was determined based on their fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed (built) assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net in the item “Other income” or «Other expenses», within the profit or loss for the period.

ii. Subsequent costs

The cost of replacing part (major component) of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the statement of profit or loss and other comprehensive income as incurred.

iii. Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

- Buildings 7-50 years
- Transmission networks 7-40 years
- Equipment for electricity transmission 5-40 years
- Other assets 1-50 years

Estimated useful lives and residual values of property, plant and equipment are reviewed at each reporting date and adjusted if appropriate.

(f) Intangible assets

i. Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

3 Significant accounting policies (continued)

(f) Intangible assets (continued)

ii. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the statement of profit or loss and other comprehensive income as incurred.

iii. Amortization

Amortization expense on intangible assets, other than goodwill is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives of intangible assets for the current and comparative periods are as follows:

- Licenses and certificates 1-5 years
- Software 3-15 years

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Impairment of non- financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication that they may be impaired. If any such indication exists, the recoverable amount of the asset is calculated.

An impairment loss is recognized if the carrying amount of an asset or its associated cash-generating unit exceeds its estimated recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value less costs to sell.

For the purpose of performing an impairment test, assets that cannot be tested individually are grouped into the smallest group that generates cash inflows from continuing use of the related assets, and these inflows are largely independent of the cash inflows generated by other assets or groups of assets (the "cash-generating unit").

The Group's general (corporate) assets do not generate independent cash flows and are used by more than one cash-generating unit. The cost of a corporate asset is allocated among units on a reasonable and consistent basis, and it is checked for impairment as part of testing the unit to which the corporate asset was allocated.

Impairment losses are recognized in profit or loss. Impairment losses on cash-generating units are first attributed to a decrease in the carrying amount of goodwill allocated to these units, and then, proportionally, to a decrease in the carrying amount of other assets in the corresponding unit (group of units).

An impairment loss recognized in a previous period is reviewed at each reporting date to determine whether the amount of the loss should be reduced or no longer recognized.

Amounts of previously recognized impairment losses are reversed if the estimation factors used in calculating the corresponding recoverable amount change. An impairment loss is reversed only to the extent that the asset's value can be restored to it’s carrying amount (less accumulated amortisation) if no impairment loss was recognized.

3 Significant accounting policies (continued)

(h) Inventories

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

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

(i) Advances given

Advances given are classified as non-current if they are connected with the acquisition of an asset which will be classified as non-current upon initial recognition. Advances given for the acquisition of an asset are included in it's carrying amount upon the acquisition of control over the asset, and when it is probable that the Group will obtain economic benefit from its usage.

(j) Value-added tax

Output value-added tax (VAT) related to sales is payable to the tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. Amounts of VAT related to advances received and given as well as VAT prepayment are recognized on a net basis within Advances given and other assets. Amounts of VAT to be paid to the tax authorities are presented separately within short-term liabilities. Where a provision has been made for the expected credit losses of receivables, impairment loss is recorded for the gross amount of the accounts receivable, including VAT.

(k) Employee benefits

i. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate (independent) entity and will have no further (legal or constructive) obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russian State Pension Fund, are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

ii. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Employee benefit liabilities recognised in the consolidated statement of financial position in respect of defined benefit plans is discounted amount of liabilities at the reporting date.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

3 Significant accounting policies (continued)

(k) Employee benefits (continued)

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

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

iii. Other non-current employee benefits

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

iv. Short-term benefits

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

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

(l) Provisions

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

(m) Revenue from contracts with customers

The Group recognizes revenue when (or as) a performance obligation is met by transferring a promised good or service (i.e. an asset) to a buyer. An asset is transferred when (or as) the buyer gains control of the asset.

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

3 Significant accounting policies (continued)

(m) Revenue from contracts with customers (continued)

Electricity transmission services, sale of electricity and capacity

The Group transfers control of the service or product during the period, and therefore fulfils the performance obligation during the period (the accounting month). The output method is used to assess the performance obligation stage of completion (the cost of electricity volumes transferred, the cost of electricity volumes sold and capacity).

Tariffs for electricity transmission services (for all subjects of the Russian Federation) and sale of electricity and capacity on a regulated market (for subjects of the Russian Federation that are not included in the price zones of the wholesale electricity market) are approved by the Executive authorities of the regions of the Russian Federation in the field of state regulation of tariffs (hereinafter – regional regulatory authorities) within the limits of the minimum and (or) maximum levels approved by the Federal Antimonopoly service.

Services for technological connection to the power grid

Revenue from the provision of services for technological connection to the power grid is a non-refundable fee for connecting consumers to the power grid. The Group transfers control over the service at a certain point in time (after the consumer is connected to the power grid), and therefore fulfils the obligation to perform at a certain point in time.

Payment for technological connection for an individual project, standardized tariff rates, payment rates per unit of maximum capacity, and payment formulas for technological connection are approved by the regional energy Commission (the Department of prices and tariffs of the corresponding region) and do not depend on revenue from the provision of electricity transmission services. The fee for technological connection to the unified national (all-Russian) electric network is approved by the Federal Antimonopoly service.

The Group has applied the judgment that technological connection is a separate performance obligation that is recognized when the related services are rendered. The technological connection agreement does not contain any further obligations after the connection service is provided. According to established practice and laws regulating the electricity market, technological connection and transmission of electricity are subject to separate negotiations with different consumers as different services with different commercial purposes, without any connection in pricing, intentions, recognition or types of services.

Other services

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

Trade receivables

Accounts receivable represent the Group's right to compensation, which is unconditional (i.e. the time when such compensation becomes payable is determined only by the passage of time).

Contract liabilities

A contract liability is an obligation to transfer to the buyer goods or services for which the Group has received compensation (or for which compensation is payable) from the buyer. If the buyer pays compensation before the Group transfers the goods or services to the buyer, the obligation under the contract is recognized when the payment is made or when the payment becomes payable (whichever occurs earlier). Contractual obligations are recognized as revenue when the Group fulfils its contractual obligations. The Group recognizes contract liabilities within "Advances received", including value added tax (VAT).

3 Significant accounting policies (continued)

(m) Revenue from contracts with customers (continued)

Advances received from customers are analyzed by the Group for the presence of a financial component. If there is a time interval of more than 1 year between the receipt of advances from buyers and customers and the transfer of promised goods and services for reasons other than providing financing to the counterparty (under contracts for technological connection to the power grid), no interest expense is recognized on the received advances. Such advances are recorded at the fair value of assets received by the Group from buyers and customers in advance.

(n) Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all the attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income, less the related expenses, in equal amounts over the expected useful life of the related asset.

Government grants that compensate the Group for low electricity tariffs (lost income) are recognized in the consolidated statement of profit or loss and other comprehensive income in the same periods in which the respective revenue is earned.

(o) Social expenditure

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

(p) Finance income and costs

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

Finance costs are comprised of interest expense on borrowings, financial leasing, long-term employee benefits obligations, loss on the disposal of financial assets at fair value and financial assets at amortized cost, discounts on financial instruments. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(q) Income tax expense

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income tax payable with respect to previous years.

3 Significant accounting policies (continued)

(q) Income tax expense (continued)

Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination, and that affects neither accounting nor taxable profit or loss;
- temporary differences relating to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group accrues tax liabilities based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(r) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(in thousand of Russian rubles, unless otherwise stated)

4 Measurement of fair values

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

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

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

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

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

5 Significant subsidiaries

	Country of incorporation	31 December 2019 Ownership/voting shares, %	31 December 2018 Ownership/voting shares, %
OJSC Pskovenergosbyt	Russian Federation	100	100
OJSC Pskovenergoagent	Russian Federation	100	100
OJSC Energoservice North-West	Russian Federation	100	100
OJSC Lesnaya Skazka	Russian Federation	98*	98*

* Non-controlling interest of subsidiary OJSC Lesnaya skazka is not significant (2%) that is why it is not disclosed in these consolidated financial statements.

During the extraordinary General meeting of shareholders of OJSC Lesnaya Skazka from 22 May 2019, it was decided to liquidate OJSC "Lesnaya skazka". The liquidation process is expected to be completed no more than 2 years after the decision. Management believes that this event does not have a material impact on these consolidated financial statements.

6 Information about segments

The Management Board of PJSC IDGC of North-West has been determined as the chief operating decision maker.

The Group's primary activity is the provision of services for electricity transmission and distribution, technological connection to electricity grids and sale of electricity to end customers in the territory of North-West Region of the Russian Federation.

The internal management reporting system is based on segments (branches formed on a territorial basis) related to transmission and distribution of electricity, technological connection to electricity grids and sale of electricity to end customers in some regions of the Russian Federation.

Revenue indicators, EBITDA are used to reflect the performance of each reportable segment, since they are included in internal management reporting prepared on the basis of RAS reporting data and are regularly analyzed and evaluated by the Management Board. EBITDA is calculated as profit or loss before interest expenses, taxation and depreciation and amortization. The Management Board believes that these indicators are most relevant when assessing the performance of certain segments in relation to other segments and other companies that operate in these industries.

In accordance with the requirements of IFRS 8 the following reportable segments were identified based on segment revenue, EBITDA and the total assets reported to the Management Board:

- Electricity Transmission Segments – Arkhangelsk branch, Vologda branch, Karelian branch, Murmansk branch, Komi Republic branch, Novgorod branch, Pskov branch;
- Energy Retail Segment – Pskovenergosbyt, Arkhangelsk branch, Vologda branch;
- Other Segments – other Group companies.

Unallocated items comprise corporate balances of the Company's headquarters, which do not constitute an operating segment under IFRS 8 requirements.

Segment information is based on financial information reported in statutory accounts and can differ significantly from those used in the consolidated financial statements prepared under IFRSs. The reconciliation of reportable segment measurements reported to the Management Board with the similar items in these consolidated financial statements includes those reclassifications and adjustments that are necessary for the financial statements to be presented in accordance with IFRS.

(in thousand of Russian rubles, unless otherwise stated)

6 Information about segments (continued)

(a) Information about reportable segments

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

	Electricity Transmission							Energy Retail			Other	Unallocated items	Total
	Arkhangelsk branch	Vologda branch	Karelian branch	Murmansk branch	Komi Republic branch	Novgorod branch	Pskov branch	Arkhangelsk branch	Vologda branch	Pskov-energosbyt			
Revenue from external customers	5,825,208	7,343,140	7,236,998	8,248,282	7,148,585	4,688,557	936,377	–	–	7,821,380	18,507	–	**49,267,034**
Inter-segment revenue	–	–	30	–	–	3	3,703,805	–	–	710,553	456,990	–	**4,871,381**
Segment revenue	**5,825,208**	**7,343,140**	**7,237,028**	**8,248,282**	**7,148,585**	**4,688,560**	**4,640,182**	**–**	**–**	**8,531,933**	**475,497**	**–**	**54,138,415**
Including													
Electricity transmission	5,275,345	6,996,499	7,010,789	7,531,840	7,029,528	4,629,112	4,457,773	–	–	–	–	–	**42,930,886**
Connection services	174,816	240,195	42,678	693,733	47,627	16,516	82,888	–	–	–	–	–	**1,298,453**
Resale of electricity	–	–	–	–	–	–	–	–	–	8,530,855	–	–	**8,530,855**
Rental income	14,464	35,127	151,322	5,840	19,507	7,037	22,672	–	–	–	–	–	**255,969**
Other revenue	360,583	71,319	32,239	16,869	51,923	35,895	76,849	–	–	1,078	475,497	–	**1,122,252**
Finance income	5,090	6,495	9,699	6,022	6,294	5,052	4,791	–	–	1,996	76,340	–	**121,779**
Finance costs	(491,089)	(4,550)	(1,973)	(164,030)	(198,866)	(132,419)	(94,361)	–	–	(13,002)	(5,245)	–	**(1,105,535)**
Depreciation and amortization	(477,439)	(1,107,664)	(495,639)	(361,458)	(1,124,732)	(614,651)	(502,627)	–	–	(281)	(2,127)	(9,879)	**(4,696,497)**
EBITDA	**295,655**	**1,643,264**	**1,254,128**	**1,270,913**	**1,026,025**	**397,805**	**687,306**	**–**	**–**	**183,145**	**16,798**	**9,879**	**6,784,918**
Segment assets	**5,622,687**	**10,176,350**	**4,580,193**	**5,738,341**	**13,448,664**	**6,989,628**	**5,121,621**	**–**	**7,173**	**1,035,054**	**133,735**	**2,776,260**	**55,629,706**
Including property, plant and equipment and construction in progress	4,344,473	8,930,845	3,712,153	4,522,915	12,277,604	6,257,492	4,616,555	–	–	7,235	18,050	25,112	**44,712,434**
Capital expenditure	493,939	1,033,271	499,374	567,895	885,984	472,438	532,657	–	–	7,470	3,937	–	**4,496,965**
Segment liabilities	**776,259**	**1,601,510**	**947,991**	**1,042,751**	**2,997,519**	**975,181**	**578,745**	**24,219**	**24,000**	**861,271**	**219,986**	**19,803,133**	**29,852,565**

(in thousand of Russian rubles, unless otherwise stated)

6 Information about segments (continued)

(a) Information about reportable segments (continued)

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

	Electricity Transmission							Energy Retail					
	Arkhangelsk branch	**Vologda branch**	**Karelian branch**	**Murmansk branch**	**Komi Republic branch**	**Novgorod branch**	**Pskov branch**	**Arkhangelsk branch**	**Vologda branch**	**Pskov-energosbyt**	**Other**	**Unallocated items**	**Total**
Revenue from external customers	4,317,133	6,154,931	7,126,682	7,490,029	7,834,647	6,069,819	1,087,465	8,515,475	9,025,354	7,210,642	21,775	–	**64,853,952**
Inter-segment revenue	–	–	52	–	–	6	3,501,528	–	–	650,257	332,418	–	**4,484,261**
Segment revenue	**4,317,133**	**6,154,931**	**7,126,734**	**7,490,029**	**7,834,647**	**6,069,825**	**4,588,993**	**8,515,475**	**9,025,354**	**7,860,899**	**354,193**	**–**	**69,338,213**
Including													
Electricity transmission	4,080,047	5,975,773	6,893,208	7,411,114	7,144,912	4,539,064	4,383,143	–	–	–	–	–	**40,427,261**
Connection services	98,902	30,315	45,092	16,887	633,888	1,433,931	164,261	–	–	–	–	–	**2,423,276**
Resale of electricity	–	–	–	–	–	–	–	8,515,475	9,025,354	7,859,594	–	–	**25,400,423**
Rental income	16,833	12,313	151,176	5,602	20,482	6,829	22,827	–	–	–	–	–	**236,062**
Other revenue	121,351	136,530	37,258	56,426	35,365	90,001	18,762	–	–	1,305	354,193	–	**851,191**
Finance income	5,199	6,674	10,617	6,489	7,349	4,557	4,593	–	–	2,294	248	–	**48,020**
Finance costs	(487,213)	(5,382)	–	(191,843)	(178,524)	(122,849)	(110,621)	(8,469)	–	(21,481)	(5,418)	–	**(1,131,800)**
Depreciation and amortization	(480,278)	(1,133,245)	(467,615)	(382,604)	(1,112,990)	(546,143)	(478,093)	–	–	(25)	(1,590)	(9,831)	**(4,612,414)**
EBITDA	**1,211,262**	**1,368,086**	**391,899**	**742,836**	**1,497,970**	**1,585,066**	**602,485**	**(570,104)**	**(56,985)**	**75,319**	**2,371**	**9,831**	**6,860,036**
Segment assets	**5,811,562**	**10,605,344**	**4,658,672**	**5,477,091**	**13,798,251**	**7,347,539**	**5,161,504**	**355,067**	**966,394**	**999,692**	**67,769**	**2,236,076**	**57,484,961**
Including property, plant and equipment and construction in progress	4,374,908	9,031,519	3,710,568	4,312,094	12,545,450	6,408,287	4,598,487	–	–	45	16,240	38,739	**45,036,337**
Capital expenditure	694,665	990,756	706,067	871,858	1,843,335	1,682,924	498,576	–	–	–	3,841	2,782	**7,294,804**
Segment liabilities	**1,124,159**	**2,536,340**	**1,030,998**	**1,665,860**	**3,016,811**	**909,884**	**483,144**	**41,674**	**56,584**	**899,880**	**158,165**	**19,848,095**	**31,771,594**

(in thousand of Russian rubles, unless otherwise stated)

6 Information about segments (continued)

(b) Reconciliation of key segment information reportable to the Management Board of the Group with similar items in these consolidated financial statements

The reconciliation of segment revenue:

	Year ended 31 December 2019	Year ended 31 December 2018
Segment revenues	**54,138,415**	**69,338,213**
Intersegment revenue elimination	(4,871,381)	(4,484,261)
Revenue for which the recognition criteria for IFRS 15 have not been met	(131,526)	–
Revenues per consolidated statement of profit or loss and other comprehensive income	**49,135,508**	**64,853,952**

Reconciliation of EBITDA for reporting segments:

	Year ended 31 December 2019	Year ended 31 December 2018
EBITDA of reportable segments	**6,784,918**	**6,860,036**
Discounting of financial instruments	(75)	1,003
Adjustment for expected credit loss	99,906	(10,567)
Adjustment for leases	152,742	3,675
Impairment of property, plant and equipment and right-of-use assets	(428,280)	–
Recognition of post-employment and other long-term employee benefit obligation	992,765	247,864
Adjustment for assets related to employee benefits	(55,892)	(44,193)
Remeasurement of financial assets measured at fair value through other comprehensive income (transfer of remeasurement to equity)	(2,071)	5,767
Valuation adjustment for property, plant and equipment	374	78,042
Revenue for which the recognition criteria for IFRS 15 have not been met	(131,526)	–
Other adjustments	(269,411)	(134,690)
EBITDA	**7,143,450**	**7,006,937**
Depreciation and amortization	(4,587,332)	(4,305,535)
Interest expenses on financial liabilities at amortized cost	(1,100,291)	(1,126,384)
Interest expenses on lease liabilities	(57,158)	(2,431)
Income tax expense	(317,950)	(426,684)
Profit for the year per consolidated statement of profit or loss and other comprehensive income	**1,080,719**	**1,145,903**

(in thousand of Russian rubles, unless otherwise stated)

6 Information about segments (continued)

(b) Reconciliation of key segment information reportable to the Management Board of the Group with similar items in these consolidated financial statements (continued)

The reconciliation of reportable segment total assets:

	Year ended 31 December 2019	Year ended 31 December 2018
Total segment assets	**55,629,706**	**57,484,961**
Intersegment balances	(418,968)	(350,002)
Intersegment financial assets	(21,578)	(24,893)
Valuation adjustment for property, plant and equipment	(2,812,981)	(2,986,922)
Impairment of property, plant and equipment	(1,863,192)	(1,630,956)
Recognition of right-of-use assets	613,705	20,956
Adjustment for inventories valuation	(286,116)	(284,978)
Recognition of assets related to employee benefits	314,159	370,051
Adjustment for expected credit loss	122,546	22,640
Deferred tax assets adjustment	(1,779,828)	(1,440,007)
Discounting of accounts receivable	(24,921)	(784)
Other adjustments	(148,719)	(16,536)
Total assets per consolidated statement of financial position	**49,323,813**	**51,163,530**

The reconciliation of reportable segment total liabilities:

	Year ended 31 December 2019	Year ended 31 December 2018
Total segment liabilities	**29,852,565**	**31,771,594**
Intersegment balances	(418,968)	(350,002)
Deferred tax liabilities adjustment	(1,989,893)	(1,681,060)
Recognition of pension and other long-term employee benefit obligation	983,386	1,912,467
Other reserves and accruals	466,491	147,432
Recognition of lease liabilities	657,514	22,334
Discounting of accounts payable	(24,065)	–
Other adjustments	(14,569)	(4,723)
Total liabilities per consolidated statement of financial position	**29,512,461**	**31,818,042**

(c) Major customer

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

For the years ended 31 December 2019 and 31 December 2018, the Group did not have customers contributing more than 10% of the Group's total revenue.

(in thousand of Russian rubles, unless otherwise stated)

7 Revenue

	Year ended 31 December 2019	Year ended 31 December 2018
Electricity transmission	39,102,834	36,932,840
Sales of electricity and capacity	7,820,302	24,750,165
Connection services	1,298,453	2,423,276
Other revenue	662,979	516,510
	48,884,568	**64,622,791**
Rental income	250,940	231,161
	49,135,508	**64,853,952**

Other revenues are mainly comprised of revenue from services for repair and maintenance of electricity network equipment.

8 Other income

	Year ended 31 December 2019	Year ended 31 December 2018
Income from identified non-contracted electricity consumption	23,727	126,205
Income from fines and penalties on commercial contracts	405,565	643,015
Insurance reimbursement, net	3,511	23,236
Accounts payable write-off	6,251	28,224
Other income	85,531	18,408
	524,585	**839,088**

9 Other expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Loss on disposal of property, plant and equipment	–	121,787
Other expenses	30,139	617
	30,139	**122,404**

(in thousand of Russian rubles, unless otherwise stated)

10 Operating expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Personnel costs	12,624,906	13,452,179
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	4,587,332	4,305,535
Material expenses, including:		
Electricity for compensation of losses	4,685,402	4,523,276
Electricity for sale	4,431,350	15,337,147
Purchased electricity and heat power for own needs	274,290	259,874
Other material costs	2,489,077	2,610,158
Production work and services, including:		
Electricity transmission services	12,408,850	15,215,045
Repair and maintenance services	727,540	908,076
Other production works and services	259,453	203,519
Taxes and charges other than income tax	417,648	691,423
Rent	30,005	323,525
Insurance	59,771	63,498
Other third-party services, including:		
Communication services	160,182	169,672
Security services	283,740	282,992
Consulting, legal and audit services	196,372	76,731
Software costs and servicing	70,606	70,427
Transportation services	149,255	173,463
Other services	749,757	592,916
Provisions	534,463	712,791
Other expenses	663,016	1,601,764
	45,803,015	**61,574,011**

11 Personnel costs

	Year ended 31 December 2019	Year ended 31 December 2018
Wages and salaries	10,065,398	10,152,247
Social security contributions	3,359,650	3,428,525
Gain related to defined benefit plan	(800,142)	(128,593)
	12,624,906	**13,452,179**

The amount of contributions to the defined contribution plan was RUB 13,785 thousand for the year ended 31 December 2019 (for the year ended 31 December 2018: RUB 14,298 thousand).

Remuneration of key management personnel is disclosed in Note 35.

(in thousand of Russian rubles, unless otherwise stated)

12 Finance income and costs

	Year ended 31 December 2019	Year ended 31 December 2018
Finance income		
Interest income on loans, bank deposits, promissory notes and balances in bank accounts	40,494	42,602
Gain on reversal of provision for expected credit losses on financial assets at amortized cost	40,939	37,049
Dividends receivable	750	574
Effect from initial discounting of financial liabilities	24,522	–
Amortization of discount on financial assets	6,581	1,969
	113,286	**82,194**
Finance costs		
Interest expenses on financial liabilities measured at amortized cost	(1,100,291)	(1,126,384)
Interest expenses on lease liabilities	(57,158)	(2,431)
Interest expenses on long-term employee benefit obligation	(66,650)	(139,317)
Effect from initial discounting of financial assets	(30,722)	(998)
Amortization of discount on financial liabilities	(456)	–
	(1,255,277)	**(1,269,130)**

13 Income tax

	Year ended 31 December 2019	Year ended 31 December 2018
Current income tax		
Current tax	614,942	376,753
Adjustment of tax for previous periods	(99,830)	(6,276)
Total	**515,112**	**370,477**
Deferred income tax		
Accrual and reversal of temporary differences	(197,162)	56,207
Total	**(197,162)**	**56,207**
Income tax expense	**317,950**	**426,684**

(in thousand of Russian rubles, unless otherwise stated)

13 Income tax (continued)

Income tax recognized in other comprehensive income:

	Year ended 31 December 2019			Year ended 31 December 2018		
	Before tax	**Income tax**	**Net of tax**	**Before tax**	**Income tax**	**Net of tax**
Financial assets measured at fair value through other comprehensive income	5,386	(1,077)	4,309	(4,496)	899	(3,597)
Remeasurements of the defined benefit liability	(63,682)	12,737	(50,947)	(44,186)	8,837	(35,349)
	(58,296)	**11,660**	**(46,638)**	**(48,682)**	**9,736**	**(38,946)**

In 2019 and 2018, PJSC IDGC of North-West and its subsidiaries applied the standard rate of Russian corporate income tax of 20%. This rate has been used in the calculation of deferred tax assets and liabilities.

Profit before tax is reconciled to income tax expenses as follows:

	Year ended 31 December 2019	**%**	**Year ended 31 December 2018**	**%**
Profit before tax	**1,398,669**		**1,572,587**	
Income tax at the applicable tax rate 20%	**279,734**	**20**	**314,517**	**20**
Tax effect on not taxable or non-deductible for tax purposes items	38,216	3	118,443	7
Adjustments for prior years	–	0	(6,276)	0
	317,950	**23**	**426,684**	**27**

(in thousand of Russian rubles, unless otherwise stated)

14 Property, plant and equipment

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other PPE	Construction in progress	Total
Cost/Deemed cost						
At 1 January 2018	8,093,551	34,321,494	19,426,865	8,897,815	2,503,125	73,242,850
Reclassification between groups	22,178	(3,421)	1,053	(19,810)	–	–
Additions	–	–	–	–	7,508,263	7,508,263
Transfer	345,814	2,911,368	1,339,064	1,510,524	(6,106,770)	–
Disposals	(5,238)	(18,611)	(12,951)	(39,526)	(134,055)	(210,381)
At 31 December 2018	**8,456,305**	**37,210,830**	**20,754,031**	**10,349,003**	**3,770,563**	**80,540,732**
Accumulated depreciation and impairment						
At 1 January 2018	(3,169,387)	(19,057,560)	(8,187,611)	(5,501,647)	(58,826)	(35,975,031)
Reclassification between groups	(7,493)	3,582	(712)	4,623	–	–
Ttransfer of impairment losses upon commissioning assets into operation	(291)	(3,777)	(969)	(229)	5,266	–
Depreciation charge	(339,986)	(1,869,124)	(1,145,385)	(832,783)	–	(4,187,278)
Disposals	2,958	16,839	8,410	35,504	5,410	69,121
At 31 December 2018	**(3,514,199)**	**(20,910,040)**	**(9,326,267)**	**(6,294,532)**	**(48,150)**	**(40,093,188)**
Net book value						
At 1 January 2018	**4,924,164**	**15,263,934**	**11,239,254**	**3,396,168**	**2,444,299**	**37,267,819**
At 31 December 2018	**4,942,106**	**16,300,790**	**11,427,764**	**4,054,471**	**3,722,413**	**40,447,544**
Cost/Deemed cost						
At 31 December 2018	8,456,305	37,210,830	20,754,031	10,349,003	3,770,563	80,540,732
Transfer to right-of-use assets	–	–	–	(29,241)	–	(29,241)
At 1 January 2019	8,456,305	37,210,830	20,754,031	10,319,762	3,770,563	80,511,491
Reclassification between groups	(7,581)	(3,007)	25	10,563	–	–
Additions	–	–	–	–	4,418,037	4,418,037
Transfer	289,929	2,447,177	1,208,066	971,963	(4,917,135)	–
Disposals	(2,928)	(16,694)	(16,534)	(63,431)	(37,582)	(137,169)
At 31 December 2019	**8,735,725**	**39,638,306**	**21,945,588**	**11,238,857**	**3,233,883**	**84,792,359**
Accumulated depreciation and impairment						
At 31 December 2018	(3,514,199)	(20,910,040)	(9,326,267)	(6,294,532)	(48,150)	(40,093,188)
Transfer to right-of-use assets	–	–	–	8,285	–	8,285
At 1 January 2019	(3,514,199)	(20,910,040)	(9,326,267)	(6,286,247)	(48,150)	(40,084,903)
Reclassification between groups	(2,045)	2,294	87	(336)	–	–
Transfer of impairment losses upon commissioning assets into operation	(58)	(380)	(363)	(479)	1,280	–
Depreciation charge	(353,711)	(1,911,630)	(1,167,861)	(890,763)	–	(4,323,965)
Impairment	(65,079)	(198,163)	(131,248)	(14)	(32,905)	(427,409)
Disposals	2,363	12,847	11,049	53,692	1,284	81,235
At 31 December 2019	**(3,932,729)**	**(23,005,072)**	**(10,614,603)**	**(7,124,147)**	**(78,491)**	**(44,755,042)**
Net book value						
At 31 December 2018	**4,942,106**	**16,300,790**	**11,427,764**	**4,054,471**	**3,722,413**	**40,447,544**
Transfer to right-of-use assets	–	–	–	(20,956)	–	**(20,956)**
At 1 January 2019	**4,942,106**	**16,300,790**	**11,427,764**	**4,033,514**	**3,722,413**	**40,426,587**
At 31 December 2019	**4,802,996**	**16,633,234**	**11,330,985**	**4,114,710**	**3,155,392**	**40,037,317**

As at 31 December 2019, construction in progress includes advance payments for property, plant and equipment of RUB 26,062 thousand (31 December 2018: RUB 29,946 thousand) and materials for the fixed assets construction of RUB 1,089,861 thousand (31 December 2018: RUB 1,443,549 thousand).

14 Property, plant and equipment (continued)

Capitalized interest for the year ended 31 December 2019 amounted to RUB 84,764 thousand (for the year ended 31 December 2018: RUB 67,907 thousand), with capitalization rate during the period of 7.08%-8.04% (for 2018: 7.20%-8.16%).

As at 31 December 2019 and 31 December 2018 there are no property, plant and equipment pledged as collateral for loans and borrowings.

Impairment of property, plant and equipment

Due to indicators of impairment of non-current assets of Arkhangelsk branch, Vologda branch, Komi Republic branch, Novgorod branch, Pskov branch the Group conducted an impairment test as at 31 December 2019. Cash flows were analyzed and the estimated recoverable amount was compared with the carrying amount of non-current assets.

A large part of the Group's property, plant and equipment are specialized objects that rarely become objects of purchase and sale on the open market, except in those cases when they are sold as part of existing enterprises. The market for such property, plant and equipment is not active in the Russian Federation and does not provide enough examples of purchase and sale to enable the market approach to determine the fair value of such property, plant and equipment.

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

Cash-generating units ("CGU") are determined by the Group based on the geographical location of its branches and subsidiaries and are the smallest identifiable groups of assets that generate cash inflows regardless of other assets of the Group. CGU Groups defined by Arkhangelsk branch, Vologda branch, Komi Republic branch, Novgorod branch, Pskov branch.

The following basic assumptions were used to estimate the recoverable amount of assets of generating units:

- Forecast cash flows were determined for the period 2020-2024 (for generating units of Arkhangelsk branch, Vologda branch, Komi Republic branch, Novgorod branch, Pskov branch) based on management 's best estimate of electricity transmission volumes, operating and capital costs, and tariffs approved by regulatory authorities for 2020.
- The source for the forecast of electricity transmission tariffs for the forecast period are the business plans that are based on tariff models formed taking into account the average annual growth of the tariff for electricity transmission services in accordance with the medium-term forecast of social and economic development of the Russian Federation until 2024 (basic version) dated 1 October 2018. The growth rates of tariffs in 2020-2024 are limited by the growth rate of inflation according to the Ministry of economic development forecast of 4.0%.
- Projected electricity transmission volumes for all generating units was determined based on annual business plans for the years 2020-2024.
- Projected cash flows were discounted to their present value using a nominal weighted average cost of capital (WACC) of 9.03%.
- The growth rate of net cash flows in the post-forecast period was 4.0%.
- As part of the tariff growth provided for in the model, the Group's management expects to generate the necessary gross revenue, including the necessary amount of adjustments stipulated by law, such as revenue from regulated activities deficit, compensation for actually incurred uncontrolled expenses, savings in electricity losses, deviation of actual tariff calculation parameters from approved ones, etc.

(in thousand of Russian rubles, unless otherwise stated)

14 Property, plant and equipment (continued)

The table below shows the values of the management's assumptions for the rate of growth of electricity transmission tariffs as compared to previous year:

	2020	2021	2022	2023	2024
Arkhangelsk branch	2.60%	3.14%	3.15%	3.15%	3.17%
Vologda branch	2.77%	5.10%	3.12%	3.14%	3.13%
Komi Republic branch	3.60%	3.15%	3.16%	3.16%	3.16%
Novgorod branch	2.56%	3.10%	3.12%	3.11%	3.11%
Pskov branch	2.51%	3.50%	3.51%	3.51%	3.52%

As at 31 December 2019 impairment loss of property, plant and equipment in Komi Republic branch was recognized in the amount of RUB 428,281 thousand.

The sensitivity analysis for significant assumptions that are used to build impairment models for CGU of IDGC of the North-West (for Arkhangelsk branch, Vologda branch, Komi Republic branch, Novgorod branch, Pskov branch) as of 31 December 2019 is presented below:

- Increase in the discount rate to 10.03% results in an impairment loss of RUB 1,909,290 thousand for Komi Republic branch and RUB 422,782 thousand for the Pskov branch.
- Reduction of the required gross revenue to the base value in each period in Arkhangelsk branch by 11% leads to an impairment loss of RUB 3,821,263 thousand; in Vologda branch by 9% leads to an impairment loss of RUB 5,991,563 thousand; in Komi Republic branch by 7% leads to an impairment loss of RUB 8,509,286 thousand; in Novgorod branch by 7% leads to an impairment loss of RUB 4,642,537 thousand; in Pskov branch, an 8% increase results in an impairment loss in the amount of RUB 4,243,968 thousand.
- Increase in operating expenses to the base value in each period by 5% leads to the emergence of impairment losses in Vologda branch in the amount of RUB 934,552 thousand, in Komi Republic branch in the amount of RUB 5,597,206 thousand, Novgorod branch in the amount of RUB 2,413,830 thousand, Pskov branch in the amount of RUB 2,999,425 thousand.
- Decrease in the growth rate of net cash flow in the post-forecast period by 1% leads to an impairment loss for a Komi Republic branch in the amount of RUB 1,608,491 thousand, for the Novgorod branch in the amount of RUB 156,005 thousand, for the Pskov branch in the amount of RUB 292,963 thousand.

(in thousand of Russian rubles, unless otherwise stated)

15 Intangible assets

	Software	Certificates, licenses and patents	Other intangible assets	Total intangible assets
Initial cost				
At 1 January 2018	**328,914**	**28,344**	**54,307**	**411,565**
Additions	132,370	5,056	45,016	182,442
Disposals	(55,621)	(1,798)	–	(57,419)
At 31 December 2018	**405,663**	**31,602**	**99,323**	**536,588**
Accumulated amortization and impairment				
At 1 January 2018	**(184,480)**	**(18,020)**	**(2,093)**	**(204,593)**
Amortization charge	(110,613)	(7,403)	(241)	(118,257)
Disposals	52,871	1,791	-	54,662
At 31 December 2018	**(242,222)**	**(23,632)**	**(2,334)**	**(268,188)**
Net book value				
At 1 January 2018	**144,434**	**10,324**	**52,214**	**206,972**
At 31 December 2018	**163,441**	**7,970**	**96,989**	**268,400**
Initial cost				
At 1 January 2019	405,663	31,602	99,323	536,588
Additions	117,078	1,801	14,731	133,610
Disposals	(119,860)	(16,034)	–	(135,894)
At 31 December 2019	**402,881**	**17,369**	**114,054**	**534,304**
Accumulated amortization and impairment				
At 1 January 2019	(242,222)	(23,632)	(2,334)	(268,188)
Amortization charge	(121,449)	(7,142)	(4,180)	(132,771)
Disposals	117,574	16,027	–	133,601
At 31 December 2019	**(246,097)**	**(14,747)**	**(6,514)**	**(267,358)**
Net book value				
At 1 January 2019	**163,441**	**7,970**	**96,989**	**268,400**
At 31 December 2019	**156,784**	**2,622**	**107,540**	**266,946**

The amount of amortization of intangible assets included in operating expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 is RUB 132,761 thousand (for the year ended 31 December 2018: RUB 118,098 thousand).

The amount of capitalized amortization of intangible assets is RUB 10 thousand (for the year ended 31 December 2018: RUB 159 thousand).

Intangible assets are amortized on a straight-line basis.

The amount of research and development costs recognized as part of operating expenses for 2019 is RUB 4,099 thousand (for 2018: RUB 258 thousand).

(in thousand of Russian rubles, unless otherwise stated)

16 Right-of-use assets

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Total
Initial cost					
At 1 January 2019	**647 210**	**40 031**	**12 490**	**32 248**	**731 979**
Additions	20 229	45 812	2 999	1 814	70 854
Modification of lease terms	(23 369)	(316)	(1 936)	200	(25 421)
Disposal or termination of lease	(23 788)	(36)	(213)	(712)	(24 749)
At 31 December 2019	**620 282**	**85 491**	**13 340**	**33 550**	**752 663**
Accumulated amortization and impairment					
At 1 January 2019	**–**	**–**	**–**	**(8 285)**	**(8 285)**
Amortization charge	(105 538)	(15 772)	(2 311)	(6 984)	(130 605)
Impairment	(829)	(3)	(28)	(11)	(871)
Disposal or termination of lease	699	–	104	–	803
At 31 December 2019	**(105 668)**	**(15 775)**	**(2 235)**	**(15 280)**	**(138 958)**
Net book value					
At 1 January 2019	**647 210**	**40 031**	**12 490**	**23 963**	**723 694**
At 31 December 2019	**514 614**	**69 716**	**11 105**	**18 270**	**613 705**

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

Information about the conducted impairment test is disclosed in Note 14.

(in thousand of Russian rubles, unless otherwise stated)

17 Financial investments

	31 December 2019	31 December 2018
Non-current		
Financial assets at fair value through other comprehensive income		
investments in quoted equity instruments	14,607	9,101
investments in unquoted equity instruments	1,180	1,300
Financial assets at amortized cost	535,757	494,818
	551,544	**505,219**

Financial assets at fair value through other comprehensive income include shares of PJSC "TGC-1" and JSC "FGC UES", as well as other securities the fair value of which amounted to RUB 15,787 thousand as at 31 December 2019 (RUB 10,401 thousand as at 31 December 2018). At the end of each reporting period, the fair value of the shares of PJSC "TGC-1" and JSC "FGC UES" was determined using market quotes (level 1 inputs), fair value of other securities was estimated without the use of observable market data (unobservable inputs – level 3).

For the year ended 31 December 2019 the decrease in the fair value of investments at fair value through other comprehensive income of RUB 5,386 thousand was recognized in other comprehensive income (for the year ended 31 December 2018: RUB 4,497 thousand).

As at 31 December 2019 financial assets at amortized cost represented deposits at the PJSC "Bank Tavrichesky" ("The Bank") of RUB 2,080,000 thousand at the rate of 0.51% per annum maturing on 12 April 2035 (as at 31 December 2018: RUB 2,080,000 thousand).

The rehabilitation procedure in relation to the Bank was started at the beginning of 2015. Major creditors of the Bank: PJSC "Lenenergo" and PJSC "IDGC of North-West" agreed to participate in the reorganization and financial rehabilitation of the Bank, providing co-funding as referred to below. State Corporation "Deposit insurance Agency" (DIA) allocated 28 billion roubles received from the bank of Russia with maturity of 10 years to facilitate the Bank financial restructuring. In accordance with the plan of restructuring part of JSC "IDGC of North-West" deposit (including accrued interest for the use of the deposit) in the Bank was replaced with 20 years deposit with quarterly payment of interest accrued at the rate of 0.51% per annum.

Currently, the Bank operates as usual, providing a full range of services to its customers, including timely settlements and payments.

The Group recognized the deferred tax asset on provision for expected credit loss of financial investments in accordance with IAS 12 "Income Taxes". As at 31 December 2019 the amount of this deferred tax asset was RUB 308,849 thousand (as at 31 December 2018: RUB 317,036 thousand).

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

	Interest rate	31 December 2019	31 December 2018
Bank	0.51%	535,757	494,818

(in thousand of Russian rubles, unless otherwise stated)

18 Deferred tax assets and liabilities

The differences between IFRS and Russian tax law result in temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes.

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Property, plant and equipment	–	–	(2,344,010)	(2,266,751)	(2,344,010)	(2,266,751)
Intangible assets	713	–	–	(844)	713	(844)
Right-of-use assets	–	–	(119,719)	–	(119,719)	–
Financial assets at amortized cost	308,849	317,036	–	–	308,849	317,036
Financial assets at fair value through other comprehensive income	–	–	(1,748)	(671)	(1,748)	(671)
Inventories	192	–	–	(125)	192	(125)
Trade and other receivables and prepayments	835,604	511,617	–	–	835,604	511,617
Advances issued and other assets	10,929	22,428	–		10,929	22,428
Lease liabilities	131,690	4,467	–	–	131,690	4,467
Provisions	422,467	268,087	–	–	422,467	268,087
Employee benefit liabilities	–	132,974	(4,739)	–	(4,739)	132,974
Trade and other payables	–	–	(3,936)	(3,337)	(3,936)	(3,337)
Other	52,377	94,964	(421)	(419)	51,956	94,545
Tax assets/(liabilities)	**1,762,821**	**1,351,573**	**(2,474,573)**	**(2,272,147)**	**(711,752)**	**(920,574)**
Offset of tax	(1,744,288)	(1,322,446)	1,744,288	1,322,446	–	–
Net tax assets/(liabilities)	**18,533**	**29,127**	**(730,285)**	**(949,701)**	**(711,752)**	**(920,574)**

(b) Unrecognized deferred tax liabilities

As at 31 December 2019 deferred tax liability in respect of temporary differences arising on investments in subsidiaries in the amount of RUB 48,387 thousand was not recognized (31 December 2018: deferred tax asset in respect of investments in subsidiaries in the amount of RUB 85,742 thousand was not recognized), due to the fact that the Group is able to control the timing of these temporary differences and the implementation of this temporary difference in the foreseeable future is not expected.

(in thousand of Russian rubles, unless otherwise stated)

18 Deferred tax assets and liabilities (continued)

(c) Movement in temporary differences during the year

	1 January 2019	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2019
Property, plant and equipment	(2,266,751)	(77,259)	–	(2,344,010)
Intangible assets	(844)	1,557	–	713
Right-of-use assets	–	(119,719)	–	(119,719)
Financial assets at amortized cost	317,036	(8,187)	–	308,849
Financial assets at fair value through other comprehensive income	(671)	–	(1,077)	(1,748)
Inventories	(125)	317	–	192
Trade and other receivables and prepayments	511,617	323,987	–	835,604
Advances issued and other assets	22,428	(11,499)		10,929
Lease liabilities	4,467	127,223	–	131,690
Provisions	268,087	154,380	–	422,467
Employee benefit liabilities	132,974	(150,450)	12,737	(4,739)
Trade and other payables	(3,337)	(599)	–	(3,936)
Other	94,545	(42,589)	–	51,956
	(920,574)	**197,162**	**11,660**	**(711,752)**

	1 January 2018	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2018
Property, plant and equipment	(2,079,222)	(187,529)	–	(2,266,751)
Intangible assets	55	(899)	–	(844)
Financial assets at fair value through other comprehensive income	(1,570)	–	899	(671)
Inventories	55	(180)	–	(125)
Trade and other receivables and prepayments	530,237	(18,620)	–	511,617
Advances issued and other assets	19,331	3,097	–	22,428
Finance lease liabilities	5,461	(994)	–	4,467
Provisions	112,349	155,738	–	268,087
Employee benefit liabilities	180,592	(56,455)	8,837	132,974
Trade and other payables	791	(4,128)	–	(3,337)
Other	357,818	53,763	–	411,581
	(874,103)	**(56,207)**	**9,736**	**(920,574)**

(in thousand of Russian rubles, unless otherwise stated)

19 Inventories

	31 December 2019	31 December 2018
Raw materials and supplies	541,699	453,072
Provision for impairment of raw materials and supplies	(7)	(214)
Other inventories	433,814	410,755
Provision for impairment of other inventories	(9,757)	(5,539)
	965,749	**858,074**

As at 31 December 2019 and 31 December 2018 the Group did not pledge inventories as collateral under loan or other agreements.

During the year ended 31 December 2019 RUB 2,489,077 thousand were recognized as expenses (during the year ended 31 December 2018: RUB 2,610,158 thousand) within operating expenses as “Other material expenses”.

20 Trade and other receivables

	31 December 2019	31 December 2018
Non-current trade and other accounts receivable		
Trade receivables	3,305	6,858
Other receivables	136,816	3,410
	140,121	**10,268**
Current trade and other accounts receivable		
Trade receivables	12,631,340	14,525,061
Allowance for expected credit loss on trade receivables	(7,701,505)	(7,772,528)
Other receivables	1,120,943	1,133,268
Allowance for expected credit loss on other receivables	(689,914)	(695,723)
	5,360,864	**7,190,078**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 32.

Balances with related parties are disclosed in Note 35.

(in thousand of Russian rubles, unless otherwise stated)

21 Advances issued and other assets

	31 декабря 2019 года	31 декабря 2018 года
Non-current		
Advances given	8,389	7,972
VAT on advances received	63,151	142,151
	71,540	**150,123**
Current		
Advances given	138,312	144,172
Advances given impairment provision	(17,510)	(12,525)
VAT recoverable	6,968	218,743
VAT on advances from customers VAT on advances given for acquisition of fixed assets	556,079	582,725
Prepaid taxes, other than income tax	22,962	16,772
	706,811	**949,887**

Information about balances with related parties is disclosed in note 35.

22 Cash and cash equivalents

	31 December 2019	31 December 2018
Cash at bank and in hand	232,088	151,123
	232,088	**151,123**

	Rating	Rating agency	31 December 2019	31 December 2018
Bank 1	A+(RU)	ACRA	367	107,697
Bank 2	ruAAA	Expert RA	18,568	8,883
Bank 3	AA+(RU)	ACRA	–	7
Bank 4*	–	–	896	3,882
Bank 5*	AA+(RU)	ACRA	34,181	7,031
Bank 6*	AA+(RU)	ACRA	7,721	6,083
Bank 7*	Baa3	Moody's Investors Service	168,959	15,728
Cash in hand	-	–	1,396	1,812
			232,088	**151,123**

*Government-related banks

(in thousand of Russian rubles, unless otherwise stated)

23 Share capital

(a) Share capital

	Ordinary shares	
	31 December 2019	**31 December 2018**
Par value (RUB)	0.1	0.1
On issue at 1 January (shares)	95,785,923,138	95,785,923,138
On issue at end of year, fully paid (shares)	**95,785,923,138**	**95,785,923,138**

(b) Reserve related to business combination

The Group was formed in 2008 as a result of the combination of a number of businesses under common control. The carrying value of the net assets of the businesses contributed were determined based on as amounts recorded in the IFRS financial statements of the predecessor, rather than the fair values of those net assets. The difference between the value of the share capital issued and the IFRS carrying values of the contributed net assets and non-controlling interests was recorded as a reserve related to business combination within equity.

(c) Dividends

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

The holders of ordinary shares are entitled to vote on all issues on the agenda of the General meeting of shareholders, to receive dividends, in the order determined by the legislation of the Russian Federation and the company Charter, as well as other rights stipulated by the Charter and the legislation of the Russian Federation.

For the 9 months ended 30 September 2019, the amount of declared dividends was RUB 191,570 thousand.

For 2018, the amount of declared dividends was RUB 381,707 thousand (no dividends were declared for 2017).

As at 31 December 2019, the amount of unclaimed dividends was RUB 5,058 thousand (as at 31 December 2018: RUB 1,083 thousand).

(in thousand of Russian rubles, unless otherwise stated)

24 Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2019 was based on the profit attributable to ordinary shareholders for 2019 in the amount of RUB 1,080,736 thousand (for 2018: RUB 1,145,972 thousand), and a weighted average number of ordinary shares outstanding of 95,785,923,138 in 2019 (for 2018: 95,785,923,138).

The Company has no dilutive financial instruments.

	2019	**2018**
Ordinary shares at 1 January (shares)	95,785,923,138	95,785,923,138
Weighted average number of shares for the year ended 31 December (shares)	**95,785,923,138**	**95,785,923,138**

	Year ended 31 December 2019	**Year ended 31 December 2018**
Weighted average number of ordinary shares outstanding, for the year ended 31 December (shares)	95,785,923,138	95,785,923,138
Profit for the year attributable to holders of ordinary shares	1,080,736	1,145,972
Earnings per ordinary share (in RUB) – basic	**0.0113**	**0.0120**

25 Loans and borrowings

	Year ended 31 December 2019	**Year ended 31 December 2018**
Non-current liabilities		
Unsecured loans and borrowings	12,360,000	12,000,000
Lease liabilities	657,514	22,335
Less: current portion of long-term lease liabilities	(213,998)	(5,000)
Less: current portion of long-term loans and borrowings	–	(3,500,000)
	12,803,516	**8,517,335**
Current liabilities		
Unsecured loans and borrowings	2,277,917	3,521,929
Current portion of long-term lease liabilities	213,998	5,000
Current portion of long-term loans and borrowings	–	3,500,000
	2,491,915	**7,026,929**
Including:		
Interests payable on loans and borrowings	23,801	28,890
	23,801	**28,890**

As at 31 December 2019 and 31 December 2018 all balances of loans and borrowings are denominated in rubles.

(in thousand of Russian rubles, unless otherwise stated)

25 Loans and borrowings (continued)

		Effective interest rate		Carrying value	
	Year of maturity	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Unsecured loans and borrowings					
Unsecured bank loans *	2019-2021	–	7.49%-9.15%	–	10,938,993
Unsecured bank loans *	2020-2022	7.15% - 7.5%	–	8,270,267	–
Unsecured bank loans *	2021	Key rate of the Central Bank of the Russian Federation + 1.2%	–	2,004,490	–
Unsecured bank loans *	2019	–	7.5%-8.0%	–	2,582,936
Unsecured bank loans *	2022	7.5%	–	2,103,160	–
Unsecured bank loans	2019-2021	–	7.75%	–	2,000,000
Unsecured bank loans	2021	7.5%	–	200,000	–
Unsecured bank loans	2022	7.53%	–	1,060,000	–
Unsecured bank loans	2021	Key rate of the Central Bank of the Russian Federation		1,000,000	–
				14,637,917	**15,521,929**
Finance lease liabilities	2019-2022	–	10.14 %		22,335
Lease liabilities	2020-2068	6.99%-10.14%	–	657,514	
Total liabilities				**15,295,431**	**15,544,264**

*Loans and borrowings received from state-related companies

The Group does not use hedging instruments to manage interest rate risk. The Group's exposure to interest rate risk is disclosed in Note 32.

(in thousand of Russian rubles, unless otherwise stated)

26 Changes in liabilities from financing activities

	Loans and borrowings		Interest payable, other than % on lease agreements	Lease liabilities	Dividends payable
	Non-current	Current			
At 1 January 2019	**8 500 000**	**6 993 040**	**28 890**	**736 977**	**6 599**
Changes in cash flows from financing activities					
Receiving borrowings	13,100,000	10,995,963	x	x	x
Early repayment of long-term borrowings	(6,740,000)	x	x	x	x
Repayment borrowings	x	(18,234,887)	x	x	x
Repayment of lease liability	x	x	x	(107,118)	x
Interest paid (operating activities)	x	x	(1,190,144)	(46,159)	x
Dividends paid	x	x	x	x	(376,261)
Total	**6,360,000**	**(7,238,924)**	**(1,190,144)**	**(153,277)**	**(376,261)**
Non-monetary changes					
Transfer	(2,500,000)	2,500,000	x	x	x
Interests capitalized	x	x	84,764	x	x
Interest expense	x	x	1,100,291	57,158	x
Additions of leases	x	x	x	70,854	x
Dividends accrued	x	x	x	x	573,277
Other changes, net	–	–	–	(54,198)	(5,059)
Total	**(2,500,000)**	**2,500,000**	**1,185,055**	**73,814**	**568,218**
At 31 December 2019	**12,360,000**	**2,254,116**	**23,801**	**657,514**	**198,556**

(in thousand of Russian rubles, unless otherwise stated)

26 Changes in liabilities from financing activities (continued)

	Loans and borrowings		Interest payable, other than % on lease agreements	Lease liabilities	Dividends payable
	Non-current	Current			
At 1 January 2018	**8,500,000**	**5,739,487**	**67,101**	**27,308**	**7,833**
Changes in cash flows from financing activities					
Receiving borrowings	20,150,000	18,945,697	x	x	x
Repayment borrowings	(16,650,000)	(21,192,144)	x	x	x
Repayment of lease liability	x	x	x	(4,973)	x
Interest paid (operating activities, reference)	x	x	(1,232,503)	(2,431)	x
Dividends paid	x	x	x	x	–
Total	**3,500,000**	**(2,246,447)**	**(1,232,503)**	**(7,404)**	**–**
Non-monetary changes					
Transfer	(3,500,000)	3,500,000	x	x	x
Interests capitalized	x	x	67,907	x	x
Interest expense	x	x	1,126,385	2,431	x
Receipt of lease agreements	x	x	x	–	x
Dividends accrued	x	x	x	x	–
Other changes, net	–	–	–	–	(1,234)
Total	**(3,500,000)**	**3,500,000**	**1,194,292**	**2,431**	**(1,234)**
At 31 December 2018	**8,500,000**	**6,993,040**	**28,890**	**22,335**	**6,599**

(in thousand of Russian rubles, unless otherwise stated)

27 Employee benefits

The Group has a defined benefit pension and other long-term defined benefit plans that cover most full-time and retired employees. Defined post-employment benefits consist of several unfunded plans providing for lump-sum payments upon retirement, financial support for current pensioners, death benefits, and anniversary benefits.

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

	31 December 2019	31 December 2018
Net post-employment benefits obligation	803,478	1,775,254
Net other long-term employee benefit obligation	179,908	137,213
Total net obligation	**983,386**	**1,912,467**

Change in assets related to employee benefit obligations:

	2019	2018
assets at 1 January	**370,051**	**414,244**
Employer contributions	128,510	132,870
Other movements in the accounts	6,203	6,309
Payment of benefits	(190,605)	(183,372)
assets at 31 December	**314,158**	**370,051**

Assets related to pension plans and defined benefit plans are administered by the non-state pension Fund "OTKRITIE", non-State pension Fund "Professional". These assets are not the defined benefit plans' assets, because under the terms of agreements between the Group and the funds the Group has the right to use the contributions paid under defined benefit plans to fund its defined contribution pension plans or transfer to another fund on the Group’s own initiative.

(in thousand of Russian rubles, unless otherwise stated)

27 Employee benefits (continued)

Movements in the present value of defined benefit liabilities:

	Year ended 31 December 2019		Year ended 31 December 2018	
	Post-employment benefits	**Other long-term employee benefits**	**Post-employment benefits**	**Other long-term employee benefits**
Defined benefit plan obligations as at 1 January	**1,775,254**	**137,213**	**1,986,261**	**129,884**
Current service cost	37,016	4,102	52,040	4,170
The past service cost and curtailment	(887,101)	–	(195,214)	22,931
Interest expense on obligations	56,248	10,402	130,761	8,556
Remeasurement arising from:				
– loss/(gain) from change in demographic actuarial assumptions	–	–	–	–
– loss/(gain) from change in financial actuarial assumptions	97,071	27,420	(145,081)	(35,457)
– loss/(gain) from experience adjustment	(33,387)	18,421	189,267	22,937
Contributions to the plan	(241,623)	(17,650)	(242,780)	(15,808)
Defined benefit plan obligations as at 31 December	**803,478**	**179,908**	**1,775,254**	**137,213**

In 2019, changes were made to the program of non-state pension provision, which led to a decrease in the amount of obligations under the Support program, namely, employees who did not reach pension status as of August 15, 2019 were excluded from the number of participants. In this regard, the decrease in the amount of obligations under the "Support" pension program caused the sequestration of obligations under employee benefit plans at the end of employment, which led to a decrease in employee benefit expenses recognized in profit or loss by RUB 887,101 thousand.

Expenses recognized in profit or loss for the period:

	Year ended 31 December 2019	**Year ended 31 December 2018**
Employees service cost	(845,983)	(116,073)
Remeasurement of other long-term employee benefit obligation	45,841	(12,520)
Interest expenses	66,650	139,317
Total (gain)/expenses recognized in profit or loss	**(733,492)**	**10,724**

(Gains)/losses recognized in other comprehensive income for the period:

	Year ended 31 December 2019	**Year ended 31 December 2018**
Loss/(gain) from change in demographic actuarial assumptions	–	–
(Gain)/loss from change in financial actuarial assumptions	97,071	(145,081)
(Gain)/loss from experience adjustment	(33,387)	189,267
Total (gain)/loss recognized in other comprehensive income	**63,684**	**44,186**

(in thousand of Russian rubles, unless otherwise stated)

27 Employee benefits (continued)

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

	2019	2018
Remeasurements at 1 January	**61,622**	**17,436**
Change in re-measurements	63,684	44,186
Remeasurements at 31 December	**125,306**	**61,622**

The key actuarial assumptions are as follows:

	31 December 2019	31 December 2018
Financial assumptions		
Discount rate	6.3%	8.7%
Future salary increase	4.5%	4.6%
Inflation rate	4.0%	4.1%
Demographic assumptions		
Expected age of retirement:		
Men	65	60
Women	60	55

A sensitivity of total employee benefits obligations to changes in the key actuarial assumptions is as follows:

	Change in the assumption	Impact on obligation, %
Discount rate	Increase by 0.5%	-3,1%
Future salary growth	Increase by 0.5%	1,2%
Future growth of benefits (inflation)	Increase by 0.5%	2,4%
Level of staff movement	Increase by 10%	-0,8%
Mortality level	Increase by 10%	-0,5%

Expected payments under the long-term employee benefit plans in 2020 are RUB 379,322 thousand, including:

- RUB 366,683 thousand under the defined benefit plans, including non-state pension schemes;
- RUB 12,638 thousand under the other long-term employee benefit schemes.

(in thousand of Russian rubles, unless otherwise stated)

28 Trade and other payables

	31 December 2019	31 December 2018
Non-current accounts payable		
Other payables	291,552	246,687
Total financial liabilities	**291,552**	**246,687**
Current accounts payable		
Trade payables	3,406,005	5,019,265
Other payables and accrued expenses	371,574	583,716
Dividends payable	198,556	6,599
Total financial liabilities	**3,976,135**	**5,609,580**
Payables to employees	1,569,886	1,089,938
	5,546,021	**6,699,518**

The Group's exposure to liquidity risk related to payables is disclosed in Note 32.

29 Taxes, other than income tax

	31 December 2019	31 December 2018
Value-added tax	917,591	588,920
Property tax	92,383	157,555
Social security contributions	231,603	216,863
Other taxes payable	102,864	103,395
	1,344,441	**1,066,733**

30 Advances received

	31 December 2019	31 December 2018
Non-current		
Advances for connection services	285,533	757,928
Other advances received	65,013	137,002
	350,546	**894,930**
Current		
Advances for connection services	2,969,948	3,456,146
Other advances received	640,671	349,137
	3,610,619	**3,805,283**

(in thousand of Russian rubles, unless otherwise stated)

31 Provisions

	Year ended 31 December 2019	Year ended 31 December 2018
Balance at 1 January	**698,268**	**27,363**
Increase for the year	617,062	717,924
Decrease due to reversal	(82,599)	(5,133)
Provisions used	(234,673)	(41,886)
Balance at 31 December	**998,058**	**698,268**

The provisions were accrued for pending legal cases brought against the Group for ordinary activities, including at 31 December 2019:

- RUB 293,438 thousand for LLC "TNS Energo Veliky Novgorod" disputed debt for the provision of services for the transmission of electric energy purchased in order to compensate for losses for the period from September 2016 to December 2018, as well as for penalties and fines in respect of liability for compensation of losses;
- RUB 550,737 thousand, the Company had assessed the risk on the property tax for the years 2016-2019. Refer to detailed description of tax risk in Note 34.

The Group expects that legal disputes will be resolved within 12 months after the reporting date.

32 Financial risk and capital management

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

This note provides information on the Group's exposure to each of these risks, examines the goals, policies and procedures for assessing and managing risks and the Group's capital management system. More detailed quantitative information is disclosed in the relevant sections of these consolidated financial statements. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

(a) Credit risk

Credit risk is the risk that the Group will incur a financial loss if the buyer or counterparty to a financial instrument fails to meet its contractual obligations in full and on time. Credit risk is mainly related to the Group's accounts receivable, bank deposits, cash and cash equivalents.

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

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

(in thousand of Russian rubles, unless otherwise stated)

32 Financial risk and capital management (continued)

(a) Credit risk (continued)

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

Where possible, the Group uses a prepayment system in its relationships with counterparties. As a rule, prepayment for technological connection of consumers to networks is stipulated in the contract. The Group does not require collateral for receivables.

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

Exposure to credit risk

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

	Carrying amount	
	31 December 2019	**31 December 2018**
Financial assets at fair value through other comprehensive income	15,787	10,401
Trade and other receivables (less allowance for expected credit loss)	5,500,985	7,200,346
Cash and cash equivalents	232,088	151,123
Financial assets at amortized cost	535,757	494,818
	6,284,617	**7,856,688**

At the reporting date the maximum level of credit risk in respect of trade receivables by customer groups was as follows:

	Gross	**Allowance for expected credit loss**	**Gross**	**Allowance for expected credit loss**
	31 December 2019	**31 December 2019**	**31 December 2018**	**31 December 2018**
Buyers of electricity sales services	2,734,504	(1,824,065)	4,184,547	(1,862,977)
Buyers of electricity transmission services	9,500,112	(5,844,823)	10,047,257	(5,877,938)
Buyers of services for sale of heat energy	6,365	(5,938)	5,535	(4,403)
Buyers of technological connection services	162,226	(18,417)	117,983	(20,643)
Other buyers	231,438	(8,262)	176,597	(6,567)
	12,634,645	**(7,701,505)**	**14,531,919**	**(7,772,528)**

The Group's ten most significant debtors account for RUB 2,369,475 thousand of the trade receivables carrying amount at 31 December 2019 (at 31 December 2018: RUB 3,400,629 thousand).

(in thousand of Russian rubles, unless otherwise stated)

32 Financial risk and capital management (continued)

(a) Credit risk (continued)

Expected credit loss on trade and other receivables

The aging of trade and other receivables is provided below:

	31 December 2019		31 December 2018	
	Gross	**Allowance for expected credit loss**	**Gross**	**Allowance for expected credit loss**
Not past due	3,803,170	(361)	4,403,364	(20)
Past due less than 3 months	1,391,918	(190,003)	2,149,216	(90,877)
Past due more than 3 months and less than 6 months	472,235	(159,077)	527,157	(217,835)
Past due more than 6 months and less than 1 year	633,823	(549,189)	1,332,548	(953,873)
Past due more than 1 year	7,591,258	(7,492,788)	7,256,312	(7,205,646)
	13,892,404	**(8,391,418)**	**15,668,597**	**(8,468,251)**

The movement of the allowance for expected credit losses on trade and other receivables is as follows:

	2019	2018
At 1 January 2019	**(8,468,251)**	**(7,419,407)**
Increase in provision for the period	(1,276,281)	(1,691,980)
Amounts of trade and other receivables written off against provision	934,830	188,217
Reversal of provision for the period	418,283	454,919
Balance at 31 December 2019	**(8,391,418)**	**(8,468,251)**

As at 31 December 2019 and 31 December 2018, the Group has no contractual basis for the offsetting of financial assets and financial liabilities, and the Group's management does not envisage any future offsetting on the basis of additional agreements.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Management of liquidity risk involves maintaining sufficient cash and the availability of financial resources by securing credit lines. The Group adheres to a balanced model of financing working capital by using both short-term and long-term sources. Free funds are invested in the short-term financial instruments such as bank deposits.

The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or damaging the Group's reputation. This approach is used to analyse payment dates associated with financial assets, and also to forecast cash flows from operating activities.

As of 31 December 2019, the amount of available limit on open but unused credit lines of the Group was RUB 21,445,884 thousand (31 December 2018: RUB 18,680,086 thousand). The Group has opportunity to attract additional financing within the corresponding limits, including the purpose of execution of the short-term obligations.

Information about the contractual maturities of financial liabilities, including estimated interest payments and without influence of netting, is provided below. With respect to the cash flows included in the maturity analysis, it is not expected that they can arise much earlier in time or in significantly different amounts:

(in thousand of Russian rubles, unless otherwise stated)

32 Financial risk and capital management (continued)

(b) Liquidity risk (continued)

31 December 2019	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years
Non-derivative financial liabilities							
Loans and borrowings	14,637,917	16,263,504	3,226,164	8,729,604	4,307,736	–	–
Lease liabilities	657,514	1,419,170	161,000	152,466	71,489	70,094	964,121
Trade and other payables	5,837,573	5,861,638	5,546,021	315,617	–	–	–
	21,133,004	**23,544,312**	**8.933,185**	**9,197,687**	**4,379,225**	**70,094**	**964,121**

31 December 2018	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years
Non-derivative financial liabilities							
Loans and borrowings	15,521,929	16,057,528	6,861,401	3,023,712	6,172,415	–	–
Lease liabilities	22,335	26,530	7,403	7,403	7,403	4,321	–
Trade and other payables	6,946,205	6,946,205	6,699,518	246,687	–	–	–
	22,490,469	**23,030,263**	**13,568,322**	**3,277,802**	**6,179,818**	**4,321**	–

(in thousand of Russian rubles, unless otherwise stated)

32 Financial risk and capital management (continued)

(c) Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates, prices of goods and cost of capital that will affect the Group's financial results or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return.

i. Currency risk

The majority of the Group's revenues and expenditures, monetary assets and liabilities are denominated in rubles. Accordingly, Group's financial results are insignificantly impacted by changes in exchange rates.

ii. Interest rate risk

Changes in interest rates affect 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, making a decision about new loans and borrowings, the Group management gives priority to loans and borrowings with fixed interest rates, and as a result, the Group is exposed to interest rate risk to a limited extent.

As a rule, loan agreements entered into by the Group do not contain any charges for the early repayment of loans on the borrower's initiative, which facilitates additional flexibility in relation to optimizing interest rates in the current economic environment.

Fair value sensitivity analysis for financial instruments with fixed interest rate

The Group does not account for any financial assets and liabilities with fixed interest rate at fair value through profit or loss for the period. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Below is a quantitative analysis of the sensitivity of changes in the interest rate on profit before tax:

	Change in interest rates	**Impact on profit before tax**
Impact on 2019	+1.25	194,446
	-1.25	(194,446)
Impact on 2018	+1.25	165,849
	-1.40	(185,751)

(d) Fair values and carrying amounts

The fair values and carrying amounts of financial assets and liabilities are as follows:

Financial instruments	Note	**31 December 2019** Carrying amount	Fair value	**Level of fair value hierarchy** 1	2	3
Financial assets at amortized cost:						
Long-term bank deposits	17	535,757	1,144,751	–	–	1,144,751
Long-term accounts receivable	20	140,121	138,158	–	–	138,158
Financial assets at fair value through other comprehensive income:						
Investments in equity instruments	17	15,787	15,787	14,607	–	1,180
Financial liabilities measured at amortised cost:						
Current and non-current loans and borrowings	25	(14,637,917)	(14,314,491)	–	–	(14,314,491)
Non-current accounts payable	28	(291,552)	(286,113)	–	–	(286,113)
		(14,237,804)	**(13,302,422)**	**14,607**	**–**	**(13,316,515)**

(in thousand of Russian rubles, unless otherwise stated)

32 Financial risk and capital management (continued)

(d) Fair values and carrying amounts (continued)

Financial instruments	Note	31 December 2019 Carrying amount	31 December 2019 Fair value	Level of fair value hierarchy 1	Level of fair value hierarchy 2	Level of fair value hierarchy 3
Financial assets at amortized cost:						
Long-term bank deposits	17	494,818	786,323	–	–	786,323
Long-term accounts receivable	20	10,268	10,268	–	–	10,268
Financial assets at fair value through other comprehensive income:						
Investments in equity instruments	17	10,401	10,401	9,101	–	1,300
Financial liabilities measured at amortised cost:						
Current and non-current loans and borrowings	25	(15,544,264)	(15,033,562)	–	–	(15,033,562)
Non-current accounts payable	28	(246,687)	(246,687)	–	–	(246,687)
		(15,275,464)	**(14,473,257)**	**9,101**	**–**	**(14,482,358)**

The interest rate used to discount expected future cash flows on long-term bank deposits for the purpose of determining the disclosed fair value as at 31 December 2019 was 4.64% (as at 31 December 2018: 6.91%).

The interest rate used to discount expected future cash flows on long-term accounts receivable for determining the disclosed fair value as at 31 December 2019 was 4.95-5.93%.

The interest rate used to discount expected future cash flows on long-term accounts payable for determining the disclosed fair value as at 31 December 2019 was 7.95-8.48%.

The interest rate used to discount the expected future cash flows for long-term and short-term loans and borrowings for the purpose of determining the fair value disclosed as at 31 December 2019 was 8.28% (as at 31 December 2018: 9.27%).

During 2019, there were no transfers between the levels of the fair value hierarchy.

The reconciliation of the carrying amounts of financial assets at fair value through other comprehensive income at the beginning and end of the reporting period is presented in the table below:

	Financial assets at fair value through other comprehensive income
At 1 January 2019	**10,401**
Change in fair value recognized in other comprehensive income	5,386
Balance at 31 December 2019	**15,787**

(e) Capital management

The main goal of capital management for the Group is to maintain a consistently high level of capital that allows maintaining the confidence of investors, creditors and market participants and ensuring sustainable business development in the future.

The Group monitors the dynamics of capital structure indicators (debt and equity), including the leverage ratio (target limit on financial leverage), calculated on the basis of RAS accounting statements. In accordance with the credit policy, the Group's companies must maintain a leverage ratio, calculated as the ratio of total borrowed funds to total capital, at a level not higher than 1.

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

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

33 Capital commitments

As at 31 December 2019, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment items for RUB 4,897,014 thousand, including VAT (as at 31 December 2018: RUB 4,638,874 thousand including VAT).

Future lease payments under lease agreements for which the Group has contractual obligations and the lease term has not yet begun at the reporting date amount to RUB 1,085,312 thousand, including VAT, as at 31 December 2019.

34 Contingencies

(a) Insurance

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

(b) Taxation contingencies

Russian tax, currency and customs legislation is subject to varying interpretations and changes. The Group's management's interpretation of the legal provisions applicable to the Group's operations and activities may be challenged by the relevant regional or Federal authorities. Tax administration in Russia is gradually being strengthened. In particular, the risk of checking the tax aspect of transactions without obvious economic substance or with counterparties that violate tax laws increases. Tax audits may cover three calendar years preceding the year when the tax audit decision was made. Under certain conditions, earlier periods may also be checked.

On January 1, 2012, new transfer pricing legislation came into force, which significantly changed the transfer pricing rules, bringing them closer to the principles of the organization for economic cooperation and development (OECD), but also creating additional uncertainty due to the practical application of tax legislation in certain cases.

There is no practice of applying the new transfer pricing rules by tax authorities and courts, since tax audits on compliance with the new transfer pricing rules have recently begun. However, it is expected that transactions that are subject to transfer pricing rules will be subject to detailed review, which could potentially have an impact on these consolidated financial statements.

As the practice of applying property tax rules continues to develop, the group's criteria for classifying property as movable or immovable property may be challenged by the tax authorities and courts. The Group's management does not exclude the risk of resource outflow, and the impact of such developments cannot be reliably estimated.

In the opinion of management, the relevant legal provisions have been interpreted correctly and the Group's position in terms of tax compliance can be justified and protected.

Under the decision of MIFNS Russia № 4 for the largest taxpayers as a result of tax inspection for 2013-2015, the Group was charged with additional property tax in the amount of RUB 66,179 thousand. The property classified by the Group for tax purposes as "movable", was classified by the tax authority as "immovable" (including power lines of low and medium voltage).

The Company on the basis of the claim accrued and paid this amount, reflecting the payment in correspondence with the account of settlements on claims, and disputes the decision of the tax authority in court.

(in thousand of Russian rubles, unless otherwise stated)

34 Contingencies (continued)

(c) Legal proceedings

The Group is party to a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business.

In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

(d) Environmental matters

The Group has been operating in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is being reconsidered. Potential liabilities arising as a result of a change in interpretation of existing regulations, civil litigation or changes in legislation cannot be estimated. Under existing legislation, management believes that there are no probable liabilities, which will have a material adverse effect on the Group's financial position, results of operations or cash flows.

35 Related party transactions

(a) Control relationships

Related parties are shareholders, affiliates and entities under common ownership and control of the Group, members of the Board of Directors and key management personnel of the Company. The Company's parent as at 31 December 2019 and 31 December 2018 was PJSC "ROSSETI". The ultimate controlling party is the state represented by the Federal Property Management Agency, which held the majority of the voting rights of PJSC "ROSSETI".

(b) Transactions with the parent, its subsidiaries and associates

Transactions with the parent company, its subsidiaries and associates include transactions with PJSC "ROSSETI", its subsidiaries and associates:

	Amount of transaction for the year ended 31 December		Carrying amount	
Revenue, other income, finance income	**2019**	**2018**	**2019**	**2018**
The parent company				
Other revenue	1,230	1,230	–	–
Entities under common control of the parent company				
Sales of electricity	–	703	–	–
Other revenue	65,088	55,346	116,134	55,031
Other operating income	27,239	2,582	32,396	–
Dividends receivable	–	38	–	–
	93,557	**59,899**	**148,530**	**55,031**

(in thousand of Russian rubles, unless otherwise stated)

35 Related party transactions (continued)

(b) Transactions with the parent, its subsidiaries and associates (continued)

	Amount of transaction for the year ended 31 December		Carrying amount	
Operating expenses, finance costs	**2019**	**2018**	**2019**	**2018**
The parent company				
Consulting, legal and audit services	126,353	126,607	23,470	23,079
Other production works and services	28,413	28,413	–	–
Interest expenses on financial liabilities measured at amortized cost	–	241,601	–	–
Entities under common control of the parent company				
Sales of electricity	–	47,280	–	–
Electricity transmission services	7,442,479	7,279,030	574,633	635,715
Connection services	540	1,460	8	10
Repair and maintenance services	698	–	–	–
Rent	544	573	351	257
Provisions	22,368	170,314	133,415	150,659
Other expenses	49,808	55,015	29,295	31,177
	7,671,203	**7,950,293**	**761,172**	**840,897**

	Carrying amount	
	2019	**2018**
Entities under common control of the parent company		
Advances given	15,462	14,232
Advances received	2,334	2,436
	17,796	**16,668**

As at 31 December 2019, the liability to the parent company for the payment of dividends amounted to RUB 106,093 thousand (as at 31 December 2018, there was no liability to the parent company for the payment of dividends).

(c) Transactions with key management personnel

For the purposes of these consolidated financial statements, the key management personnel include members of the Board of Directors, General Director and his deputies.

The Group has no transactions or outstanding balances with key management personnel and their close family members except their remuneration in the form of salary and bonuses.

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

	Year ended 31 December 2019	Year ended 31 December 2018
Short-term remuneration for employees	264,308	220,308
Post employment benefits and other long-term benefits	1,959	2,477
	266,267	**222,785**

35 Related party transactions (continued)

(c) Transactions with key management personnel (continued)

As at 31 December 2019, the present value of liabilities for defined benefit programs recorded in the consolidated statement of financial position includes liabilities to key management personnel in the amount of RUB 79 thousand (31 December 2018: RUB 18,074 thousand).

(d) Transactions with government-related entities

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

Revenues from government-related entities for the year ended 31 December 2019 constitute 20.38% (for the year ended 31 December 2018: 14.08%) of total Group revenues, including 16.78% (for the year ended 31 December 2018: 11.82%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for government-related entities for the year ended 31 December 2019 constitute 68.84% (for the year ended 31 December 2018: 54.91%) of total electricity transmission costs.

Interest accrued on loans and borrowings from state-related banks for the year ended 31 December 2019 amounted to 82% (for the year ended 31 December 2018: 83%) of total interest accrued.

As at 31 December 2019 cash and cash equivalents held in government-related banks amounted to RUB 211,756 thousand (as at 31 December 2018: RUB 32,724 thousand).

Loans and borrowings received from government-related banks are disclosed in Note 35.

As at 31 December 2019, lease obligations for state-related companies amounted to RUB 181,176 thousand.