Grid Company Group

Consolidated financial statements
in accordance with International Financial
Reporting Standards and
Independent Auditor's Report

31 December 2019

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Independent Auditor's Report

To the Shareholders and Board of Directors of Joint Stock Company Grid Company:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Joint Stock Company Grid Company (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

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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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 those charged with governance 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.

PricewaterhouseCoopers Audit

14 May 2020

Moscow, Russian Federation

G. N. Nizamieva, certified auditor (licence No. 01-001513), AO PricewaterhouseCoopers Audit

Audited entity: Joint Stock Company Grid Company

Record made in the Unified State Register of Legal Entities on 11 October 2002 under State Registration Number 1021602830930

Taxpayer Identification Number 1655049111

420094, Russian Federation, Republic of Tatarstan, Kazan, Bondarenko str., bld. 3

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Taxpayer Identification Number 7705051102

Member of Self-regulatory organization of auditors Association «Sodruzhestvo»

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 12006020338

Group Grid Company
Consolidated Statement of Financial Position
(in thousands of Russian Roubles)

	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	8	60,810,349	59,722,780
Intangible assets	9	673,468	313,443
Right-of-use assets	10	4,056,913	-
Investments in equity securities	11	196,555	149,205
Other non-current assets	12	1,171,538	1,145,707
Total non-current assets		**66,908,823**	**61,331,135**
Current assets			
Property, plant and equipment held for sale		3,292	-
Inventory	13	284,223	275,294
Trade and other receivables	14	1,674,113	1,640,507
Income tax prepaid		71,883	49,110
Short-term investments	15	2,990,915	1,509,763
Cash and cash equivalents	16	2,426,300	3,545,422
Total current assets		**7,450,726**	**7,020,096**
TOTAL ASSETS		**74,359,549**	**68,351,231**
EQUITY AND LIABILITIES			
Equity			
Share capital	17	7,932,212	7,670,678
Share premium	17	3,227,680	1,961,854
Accumulated loss as a result of revaluation of net pension liability		(91,326)	(39,050)
Revaluation reserve for investments in equity securities	11	(61,079)	(98,959)
Retained earnings		48,862,851	47,646,328
Equity attributable to the Group's shareholders		59,870,338	57,140,851
TOTAL EQUITY		**59,870,338**	**57,140,851**
Non-current liabilities			
Deferred income tax liabilities	18	5,003,162	4,967,503
Lease liabilities		3,041,127	7,451
Advances from customers	19	70,633	84,666
Employee benefit obligations	20	712,632	596,811
Total non-current liabilities		**8,827,554**	**5,656,431**
Current liabilities			
Trade and other payables	21	2,804,485	3,666,702
Advances from customers	19	368,537	490,908
Provisions for legal and other claims	27	930,129	512,646
Lease liabilities		715,970	162,523
Other taxes payable	22	842,513	721,170
Income tax payble		23	-
Total current liabilities		**5,661,657**	**5,553,949**
TOTAL LIABILITIES		**14,489,211**	**11,210,380**
TOTAL EQUITY AND LIABILITIES		**74,359,549**	**68,351,231**

Approved and signed:

General Director I. Sh. Fardiev

Deputy General Director for Finance –
Head of Financial Division N. A. Bomonina

14 May 2020

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements.

Group Grid Company
Consolidated Statement of Profit or Loss and Other Comprehensive Income
(in thousands of Russian Roubles)

	Note	2019	2018
Revenue	23	25,050,344	24,991,778
Operating expenses (net) before impairment of property, plant and equipment and loss on disposal of property, plant and equipment	24	(20,500,121)	(20,534,515)
Release of provision for legal and other claims		8,141	513,560
Recognition of impairment of property, plant and equipment and right-of-use assets	8	(2,470,148)	(2,024,958)
Loss on disposal of property, plant and equipment		(212,272)	(117,700)
Profit from operating activities		**1,875,944**	**2,828,165**
Finance income	25	425,198	444,226
Finance expenses	26	(311,071)	(64,938)
Profit before tax		**1,990,071**	**3,207,453**
Income tax expense	18	(651,970)	(805,011)
Profit for the year		**1,338,101**	**2,402,442**
Other comprehensive income/(loss)			
Items that will not be subsequently reclassified to profit or loss			
Revaluation of net defined benefit liability	20	(52,276)	113,615
Changes in fair value of investments in equity securities	11	47,350	(14,537)
Income tax recorded directly in other comprehensive income	18	(9,470)	2,908
Total items that will not be subsequently reclassified to profit or loss		**(14,396)**	**101,986**
Other comprehensive income/(loss) for the reporting year		**(14,396)**	**101,986**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,323,705**	**2,504,428**

Group Grid Company
Consolidated Statement of Cash Flows
(in thousands of Russian Roubles)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,990,071**	**3,207,453**
Adjustments to reconcile profit before income tax to net cash from operating activities:			
Depreciation of property, plant and equipment, right-of-use assets and amortisation of intangible assets	24	3,691,951	3,487,616
Increase/(decrease) in allowance for expected credit losses	24	14,220	(24,448)
(Recovery of inventories write-down)/write-down of inventories to net realisable value	13	(475)	475
Increase/(decrease) of provision for legal and other claims	24, 27	444,840	(37,504)
Deferred employee benefit compensation		11,265	14,760
Finance income	25	(425,198)	(444,226)
Finance expenses	26	311,071	64,938
Loss on disposal of property, plant and equipment		212,272	117,700
Reversal of impairment loss on held-for-sale property, plant and equipment	24	-	(1,605)
Recognition of impairment of property, plant and equipment and right-of-use assets	8	2,470,148	2,024,958
Other non-cash transactions		(4,677)	(57,778)
Operating cash flow before changes in working capital and provisions		**8,715,488**	**8,352,339**
Changes in working capital:			
Decrease in inventories		83,037	70,708
(Increase)/decrease in trade and other receivables		(33,095)	49,935
Decrease in restricted cash		-	7,230
Decrease in advances received		(139,326)	(249,595)
Increase/(decrease) in trade and other payables		170,386	(226,999)
Increase in taxes payable other than income tax		119,825	416,541
Increase of other non-current liabilities		63,546	38,286
Cash flows from operating activities before income tax		**8,979,861**	**8,458,445**
Income tax paid in cash		(641,375)	(562,878)
Net cash flows from operating activities		**8,338,486**	**7,895,567**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		25,269	558,448
Interest received		362,988	443,139
Purchases of property, plant and equipment and intangible assets		(8,337,222)	(8,835,329)
Bank deposits placement		(3,622,210)	-
Repayment of bank deposits		2,200,550	-
Net cash used in investing activities		**(9,370,625)**	**(7,833,742)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issue/ prepayment for shares		651,355	332,962
Lease payments		(339,640)	(356,528)
Interest on lease		(305,083)	(50,069)
Dividends paid to the shareholders	17	(93,615)	-
Net cash flows used in financing activities		**(86,983)**	**(73,635)**
Decrease in cash and cash equivalents		**(1,119,122)**	**(11,810)**
Cash and cash equivalents at the beginning of the year		3,545,422	3,557,232
Cash and cash equivalents at the end of the year		**2,426,300**	**3,545,422**

(in thousands of Russian Roubles)

		Equity attributable to the Group's shareholders					
	Note	**Share capital**	**Share premium**	**Accumulated loss as a result of revaluation of net pension liability**	**Revaluation reserve for investments in equity securities**	**Retained earnings**	**Total**
At 1 January 2018		**7,670,678**	**1,961,854**	**(152,665)**	**(87,330)**	**45,243,886**	**54,636,423**
Profit for the year		-	-	-	-	2,402,442	2,402,442
Other comprehensive income/(loss) for the year							
Changes in fair value of investments in equity securities		-	-	-	(11,629)	-	(11,629)
Revaluation of net defined benefit liability	20	-	-	113,615	-	-	113,615
Total comprehensive income/(loss) for the year		**-**	**-**	**113,615**	**(11,629)**	**2,402,442**	**2,504,428**
At 31 December 2018		**7,670,678**	**1,961,854**	**(39,050)**	**(98,959)**	**47,646,328**	**57,140,851**
Adjustment of retained earnings at 1 January 2019 as a result of adoption of IFRS 16		-	-	-	-	(26,900)	(26,900)
At 1 January 2019		**7,670,678**	**1,961,854**	**(39,050)**	**(98,959)**	**47,619,428**	**57,113,951**
Issue of shares		261,534	1,265,826	-	-	-	1,527,360
Profit for the year		-	-	-	-	1,338,101	1,338,101
Other comprehensive income/(loss) for the year							
Changes in fair value of investments in equity securities		-	-	-	37,880	-	37,880
Revaluation of net defined benefit liability	20	-	-	(52,276)	-	-	(52,276)
Total comprehensive income for the year		**-**	**-**	**(52,276)**	**37,880**	**1,338,101**	**1,323,705**
Dividends		**-**	**-**	**-**	**-**	**(94,678)**	**(94,678)**
At 31 December 2019		**7,932,212**	**3,227,680**	**(91,326)**	**(61,079)**	**48,862,851**	**59,870,338**

1. The Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2019 for OAO Grid Company (the "Company") and its subsidiary CHOU DPO "Centre of works under voltage" (jointly referred to as the "Group").

OAO Grid Company was established on 11 December 2001 in accordance with the framework for Russian energy systems restructuring approved by Resolution of the Russian government No. 526 of 11 July 2001 "On Restructuring of the Russian Energy Industry", and pursuant to Decree of the President of the Republic of Tatarstan No. UP-673 of 8 August 2001 "On Further Measures to Restructure the Energy Industry of the Republic of Tatarstan".

The Company's principal activities are energy transmission and connection of consumers to the electric grid facilities in the Republic of Tatarstan. The Company is a territorial grid company which owns electricity grids of all voltage levels: from 0.4 kV to 500 kV.

From the date of its establishment and until 1 July 2009, the Company had been a subsidiary of OAO Tatenergo, a vertically integrated holding company, involved in generating, transmission, distribution and sale of electricity and heat within the Republic of Tatarstan. On 1 July 2009, OAO Grid Company and OAO Tatenergo were restructured. As a result, the Company became an independent entity with the Republic of Tatarstan represented by the Ministry of Land and Property Relations being its major shareholder.

At 31 December 2019, the Company has eleven branches located in the Republic of Tatarstan: Almetyevsk Grids, Bugulma Grids, Buinsk Grids, Elabuga Grids, Kazan Grids, Naberezhniye Chelni Grids, Nizhnekamsk Grids, Privolzhskie Grids, Chistopol Grids, Administration of construction projects, Administration of consumer services (at 31 December 2018: eleven branches).

As of December 31, 2019, the Company exercises control over the activities of the subsidiary CHOU DPO "Centre for work under voltage", which operates in the Russian Federation, the Republic of Tatarstan, Zainsk. The main activity is the provision of services in the field of additional professional education under the programs of training, professional retraining and advanced training of personnel of electric power enterprises.

The Company's registered address is: 420094 Russian Federation, the Republic of Tatarstan, Kazan, Bondarenko str., 3.

2. Operating environment of the Group

The Group carries out its operations in the Republic of Tatarstan of the Russian Federation. Therefore, the economy and financial markets of the Russian Federation, which displays certain characteristics of emerging markets, have an impact on the Group's business. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and possible varying interpretations. The Russian economy continues to be negatively impacted by ongoing political tension and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2019.

Such business environment has a significant impact on the Group's operations and financial position. Management takes all necessary steps to provide for the Group's sustainable operations. However, the future effects of the current economic situation are difficult to predict, and management's current expectations and estimates could differ from actual results.

Relations with the government and their impact on the Group's operations

At 31 December 2019 and 31 December 2018, the Group is controlled by the Government of the Republic of Tatarstan. At 31 December 2019 the Company's share capital had the following structure inclusive of the additional issue results (Note 17):

- 74.43% owned by the Republic of Tatarstan, represented by the Ministry of Land and Property Relations;
- 12.69% –Joint Stock Commercial Bank "Ak Bars" (a public joint stock company);
- 6.57% –State Unitary Enterprise of the Republic of Tatarstan "Electric Networks";
- 6.31% – Other legal entities each holding less than 5% voting shares.

2. Operating environment of the Group (continued)

AO Tatenergosbyt (a state-owned company) is the Group's major customer for electricity transmission services (Note 7). In addition, the Government significantly influences certain Group's service and materials providers (Note 7).

The government also directly affects the Group's operations via regulation over electricity transmission and connection tariffs by the Federal Antimonopoly Service (before July 2015 the Federal Tariff Service) and the Tatarstan State Tariff Committee. The Company's tariffs are determined under regulations for electricity transmission, connection of power receivers to the power grids and under regulations applicable to natural monopolies.

The Company's investment programmes are approved and monitored by federal executive agencies represented by the Ministry of Energy of the Russian Federation.

The Company's investment programs are approved and controlled by the authorized executive body of the Republic of Tatarstan represented by the Ministry of Industry and Trade of the Republic of Tatarstan (until 2019 by federal executive agencies represented by the Ministry of Energy of the Russian Federation).

3. Summary of Significant Accounting Policies

Basis of preparation of the financial statements

These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16 "Leases" effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated.

The Group companies maintain their own books of accounts and prepares their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying consolidated financial statements are based on the statutory records, which were adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and reporting currency

The national currency of the Russian Federation is the Russian Rouble ("RR"), which is the functional currency of the Group and the currency in which these consolidated financial statements are presented. All financial information presented in RR has been rounded to the nearest thousand.

Consolidated financial statements

Subsidiaries are those investees, that the Group controls because the Group:

(i) has power to direct the relevant activities of the investees that significantly affect their returns,

(ii) has exposure, or rights, to variable returns from its involvement with the investees, and

(iii) has the ability to use its power over the investees to affect the amount of the investor's returns.

The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

3. Significant accounting policies (continued)

Consolidated financial statements (continued)

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Financial instruments – key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. A financial instrument is regarded as quoted in an active market if the transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation methods such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of assets and liabilities for which external market pricing information is not available. The Group applies methods of fair value measurement which are the most acceptable in current conditions and uses the observable inputs as much as possible.

Fair value measurements are analysed by level in the fair value hierarchy as follows:

(a) level one measurements are at quoted market prices (unadjusted) in active markets for identical assets or liabilities,

(b) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and

(c) level three measurements are valuations that are not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Transaction costs are incremental costs that are attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related assets and liabilities in the consolidated statement of financial position.

The effective interest method is a method of allocating and recognising interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or a financial liability to the amortised cost of the financial asset (excluding its adjustment for the loss allowance) or to the amortised cost of the financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

3. Significant accounting policies (continued)

Classification of financial assets

The Group's financial assets have the following categories:

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

The classification depends on (a) the Group's business model for managing the related assets portfolio and (b) the cash flow characteristics of the asset.

a) The business model reflects how the Group manages its financial assets in order to generate cash flows:

- If the Group's objective is to hold the assets to collect the contractual cash flows that represent solely payments of principal and interest, the financial assets are classified as measured at amortised cost;
- If the Group's objective is to hold the assets to collect both the contractual cash flows and the cash flows arising from the sale of assets, then, the financial assets are classified as measured at fair value through other comprehensive income;
- If the financial assets do not fall under any of the above categories, they are classified as other business models and measured at fair value through profit or loss.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed.

б) For determining the cash flow characteristics of the asset, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed at initial recognition of a financial asset and it is not subsequently reassessed.

Financial assets – reclassification

Financial assets are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current period and did not make any reclassifications.

Financial assets – initial recognition and subsequent measurement

Financial assets at fair value through profit or loss (FVTPL) are initially recognised at fair value. All other financial assets are initially recognised at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same financial instrument or by a valuation technique whose inputs include only data from observable markets.

An expected credit loss allowance is recognised for financial assets measured at amortised cost, resulting in an immediate accounting loss at initial recognition.

3. Significant accounting policies (continued)

Financial assets – initial recognition and subsequent measurement (continued)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Dividends on equity financial assets measured at fair value through other comprehensive income ("FVOCI") are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected.

Income or expenses attributable to financial assets measured at fair value though other comprehensive income are recognised in other comprehensive income and are not subsequently transferred to profit or loss.

Interest income on financial assets at amortised cost is included into finance income using the effective interest rate method. A gain or loss on derecognition of a financial asset is recognised directly in profit or loss.

Financial assets impairment – allowance for expected credit losses

Under IFRS 9 "Financial Instruments", the Group recognises an ECL allowance for financial assets measured at amortised cost.

The Group applies two approaches to ECL measurement: a general model and a simplified model.

The simplified model provides for recognition of allowance for expected credit losses in the amount equal to the lifetime ECL for the financial asset. The model is applied to trade and other receivables, contract assets and lease receivables.

For other financial assets the Group applies the general model which provides for the recognition of allowance for expected credit losses based on changes in the credit quality of the financial instrument since initial recognition:

- if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group estimates the loss allowance in the amount equal to 12-month expected credit losses;
- if the credit risk on a financial instrument has increased significantly since initial recognition, the Group estimates the loss allowance in the amount equal to lifetime expected credit losses;
- if the significant increase in credit risk ("SICR") that was previously recognised is no longer supported at the current reporting date, the Group again estimates the loss allowance in the amount equal to 12-month expected credit losses.

The Group's assessment of whether there has been a significant increase in credit risk ("SICR") since initial recognition is based on the change in the risk of default for the financial instrument rather than on the change in the expected credit losses.

The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (a) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (b) time value of money and (c) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

3. Significant accounting policies (continued)

Impairment of financial assets – allowance for expected credit losses (continued)

The loss allowance for expected credit losses is recognised in profit or loss. If in a subsequent period, the amount of the loss allowance for expected credit losses decreases and the decrease can be related objectively to an event occurring after the allowance for expected credit losses was recognised, the previously recognised loss is reversed through profit or loss The carrying value of financial assets at the date of the ECL allowance reversal may not exceed the amortised cost that would have been recorded if no impairment had been recognised.

Changes in the ECL allowance for financial assets are recognised in the consolidated statement of profit or loss and other comprehensive income within operating expenses.

Financial assets – write-off.

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may also write-off financial assets that are not yet subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Derecognition of financial assets

The Group derecognises financial assets when (a) they are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Classification of financial liabilities

Financial liabilities are classified as subsequently measured at AC, except for financial liabilities at FVTPL: this classification is applied to derivatives and other financial liabilities designated as such at initial recognition.

The Group has no financial liabilities at fair value through profit or loss.

Initial recognition and subsequent measurement of financial liabilities

Financial liabilities that are subsequently measured at amortised cost, including trade and other payables and lease obligations, are initially recognised at their fair value, net of transaction costs, and are subsequently stated at amortised cost using the effective interest method.

Financial liabilities – derecognition

The Group derecognises financial liabilities when they are extinguished (i. e. when the obligation specified in the contract is discharged, cancelled or expires).

Financial assets at amortised cost

Cash and cash equivalents

Cash comprises cash on hand and cash deposited on demand at banks. Cash equivalents comprise current, highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

3. Significant accounting policies (continued)

Financial assets at amortised cost (continued)

Loans issued and trade and other receivables

Loans issued and trade and other receivables are initially recognised at the fair value taking into account the market rate of interest for similar borrowers at the date of origination of the receivables and are subsequently carried at amortised cost using the effective interest method less ECL allowance. Receivables are recorded inclusive of value added tax.

Financial assets at fair value through other comprehensive income.

Investments in equity securities

Equity securities that are not quoted in an active market are recorded at fair value that is determined based on the comparative approach using market multipliers for similar banks.

Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. Trade and other payables are recorded inclusive of value added tax.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off must not be contingent on a future event and must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) in the event of default and (c) in the event of insolvency or bankruptcy.

Share capital

Ordinary shares are classified as share capital and are recorded at their par value. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared (approved by shareholders) before or on the reporting date. Dividends are disclosed in Note “Subsequent events” when they are declared after the reporting date but before the date of approval of the consolidated financial statements.

Provisions for legal and other claims

Provisions for legal and other claims are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

3. Significant accounting policies (continued)

Value-added tax

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

Other taxes

Obligations on payment of mandatory charges and levies, such as taxes other than income tax and duties, are recorded upon occurrence of an obligating event resulting in the obligation to make such payments in accordance with the law, even if the calculation of such mandatory payments is based on the data from the period preceding the period for which they are due. If a mandatory payment is made prior to occurrence of an obligating event, it is recognised as prepayment.

Property, plant and equipment

Except as noted below, all property plant and equipment are stated at cost less accumulated depreciation and accrued impairment losses where required. The cost of property, plant and equipment held by the Group at 1 January 2011, the date of transition to IFRS, was determined by reference to its fair value. The fair value represented the assets' deemed cost and was the basis for charging depreciation on such property, plant and equipment.

Subsequent costs are recognized in the carrying amount of the asset or recognized as a separate asset as appropriate when it is recognized that the future economic benefits associated with those costs will be received by the Group and the cost of those costs can be measured reliably.

The costs of repair and maintenance are expensed as incurred. Cost of replacing major parts or components of property, plant and equipment are capitalised and the replaced part is retired.

Property, plant and equipment include assets under construction for future use as property, plant and equipment.

Gains and losses on disposals are determined by comparing proceeds from the sale with carrying amount and are recognised in profit or loss for the year.

Depreciation of property, plant and equipment. Depreciation on items of property, plant and equipment is accrued using the straight-line method to allocate their cost to their residual values over their estimated useful lives: Land is not depreciated. The useful lives, in years, of assets by type of facility are as follows:

Type of facility	**Useful life (in years)**
Buildings and installations	15 – 50
Electric power transmission grids	30 – 50
Transformers and transforming substations	15 – 40
Other	5 – 30

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

3. Significant accounting policies (continued)

Accounting policy for lease in effect after 1 January 2019

Right-of-use assets

The lessee shall recognise a right-of-use asset and a lease liability at the date of start of the lease. The right-of-use assets are carried at historical cost less accumulated depreciation and accumulated impairment loss. The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred;
- costs to restore the asset to the condition required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain that is will obtain the title to the leased asset, the right-of-use asset is depreciated over the underlying asset's useful live. Right-of-use assets are tested for impairment.

The average useful lives, in years, of right-of-use assets are presented as follows:

Type of facility	Useful life (in years)
Land	2 – 60
Buildings and installations	2 – 50
Electric power transmission grids	8
Plant and machinery	2- 40
Other	16

As a rule, the Group's lease agreements provide options for the extension and termination of leases. These conditions are used to provide maximum operational flexibility in managing the assets that the Group uses in its activities. Extension options are included in the lease term only if there is sufficient confidence that the contract will be extended.

Lease liabilities

At the lease commencement date, the Group recognises a lease liability in the amount equal to the present value of lease payments to be made during the lease term. Lease payments include:

- fixed payments (including in-substance fixed payments), less any incentives receivable;
- variable lease payments which depend on an index or a rate;
- amounts expected to be payable under residual value guarantees,
- exercise price of a purchase option, provided that the Group is reasonably certain to exercise that option;
- lease payments to be made under reasonably certain extension options if the lease is reasonably certain to be extended.

The lease payments are discounted using the interest rate implicit in the lease. If this rate is not easily determinable, which is generally the case with the Group's existing lease contracts, the Group applies the incremental borrowing rate, i.e. the rate that the Group would pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset with a cost similar to the cost of the right-of-use asset in a similar economic environment.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, or when the lease term is changed, the lease liability is reassessed and adjusted against the right-of-use asset.

3. Significant accounting policies (continued)

Accounting policy for lease in effect after 1 January 2019 (continued)

Lease liabilities (continued)

Lease payments are allocated between principal and finance expenses. The finance expenses are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments under contracts on the lease of land plots from state and municipal authorities are based on their cadastral value and are variable but do not depend on an index or a rate, therefore they are recognised within lease costs in the period in which the event triggering the payment takes place.

Short-term lease and lease of low value assets

The Group uses a practical expedient to leases for which the lease term ends within 12 months, and which do not have the option to extend the lease. The Group also applies the practical expedient to leases for which the value of underlying asset is below RR 300 000. Lease payments under short-term leases and lease of low value assets are expensed on a straight-line basis over the lease term and are recorded as lease expenses in the profit or loss.

Accounting policy for lease in effect before 1 January 2019

Operating lease

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Finance lease

Where the Group is a lessee in a lease which transferred all the risks and rewards incidental to assets ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between finance charges and the outstanding liability to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in finance lease liability.

The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Sale and leaseback transactions

Sale and leaseback transactions are not treated as a sale of assets since the Group retains all ownership risks and benefits, but as a way of providing finance by the lessor to the lessee, in which the asset is used as a collateral. If sale proceeds exceed the carrying value of assets no sales revenue is recognised and the surplus is carried over to subsequent periods and amortised over the lease term. If sale proceeds are below the carrying value of assets, the Group determines their recoverable amount and recognises an impairment loss, if applicable.

Intangible assets

The carrying amount of intangible assets is based on the cost of their acquisition less accumulated amortisation. All intangible assets have finite useful lives. Amortisation is accrued on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. Amortisation charges for the period are included within the current period expenses.

3 Significant accounting policies (continued)

Intangible assets (continued)

The following useful lives are established for intangible assets:

Asset	Useful life (in years)
Software products	3 – 15
Research and development, purchased from third parties	4 – 5

Development costs directly attributable to identifiable software controlled by the Group are recognized as intangible assets if the amount of additional economic benefits is expected to exceed these costs. Costs associated with maintaining the software are recognized as an expense as incurred.

Impairment of non-financial assets

At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment (PP&E), right-of-use assets and of intangible assets. If the Group identifies at least one such indication that their carrying amount may not be recoverable, management of the Group estimates the recoverable amount of PP&E, right-of-use assets and intangible assets, which is determined as the higher of: 1) the assets' fair value less costs to sell and 2) its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which cash inflows are largely independent (cash-generating units). The carrying amount of assets is reduced to the recoverable amount and the impairment loss is recognised in the profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a positive change in the estimates used to determine the recoverable amount of PP&E, right-of-use assets and intangible assets.

Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

Non-current assets held for sale

Non-current assets are classified as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction and not from its continued use. Non-current assets are classified as 'non-current assets held for sale' when all the following conditions are met:

a) the assets are available for immediate sale in their present condition;

b) the Group's management approved and initiated an active programme to locate a buyer;

c) the assets are actively marketed for a sale at a reasonable price;

d) the sale is expected within one year;

e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Impairment loss arising when the asset's carrying amount is written down to its fair value less transaction costs is recognised in the profit or loss for the year.

Non-current assets classified as held for sale are not depreciated.

Advances paid

Advances paid are carried at cost less provision for impairment. Advances paid are classified as non-current when goods or services relating to these advances are expected to be obtained after one year, or when these advances relate to an asset which will itself be classified as non-current upon initial recognition. Advances paid to acquire an asset are included in its carrying amount once the Group obtains control over this asset and it is probable that future economic benefits associated with the asset will flow to the Group. If there is an indication that assets, goods or services relating to advances paid will not be received, the carrying value of the advances is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year. Advances paid are recognised in the consolidated statement of financial position net of VAT on advances paid.

3. Significant accounting policies (continued)

Inventory

Inventories are recorded at the lower of cost and net realisable value. When inventories are disposed of in the normal course of the Group's business they are measured at FIFO, if they are disposed otherwise, they are measured using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to sell.

Income tax

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is calculated using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for f consolidated financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse, or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Advances from customers

Advances received from customers are recorded in consolidated financial statements at cost. Advances received are classified as non-current when services relating to the advances are expected to be obtained after one year. Advances from customers are recognised in the consolidated statement of financial position net of VAT on advances received.

Post-employment benefits and other social obligations

The Group finances post-employment benefits plans in terms of employees who have less than ten years left to be awarded with their labour old-age pension under the Russian law. The programme is based on a defined benefit plan and allows employees to contribute a part of their salaries to the pension fund. The Group makes its own additional payments depending on the staff grade. The plan is managed by a non-state pension fund.

In the normal course of business, the Group contributes to the Russian Federation State Pension Plan on behalf of its employees. Mandatory contributions to the State Pension Plan and under the additional retirement insurance plan are expensed when incurred.

3. Significant accounting policies (continued)

Post-employment benefits and other social obligations (continued)

The Group also provides a number of post-employment and other long-term benefits to employees. The programmes represent defined benefit plans. The plan covers most of the Group's employees and the closed group of pensioners retired before 1 January 2006. For current employees the Group provides lump sum payments upon retirement and jubilee payments at certain age or upon completion of a certain number of years of service. The pensioners retired before 1 January 2006 receive regular life financial support. In addition, the Group makes annual payments to its retired employees for the International Day for Elderly People, compensates the expenses on SPA resort treatment and pays other benefits. All the benefits are fully unfunded. Expenses related to provision of post-employment and other long-term benefits are included in operating expenses in the consolidated statement of profit or loss and other comprehensive income.

The liability recognised in the consolidated statement of financial position in respect of the defined benefit pension plans is the net value of liabilities under the plans - the present value of liabilities at the reporting date less any unrecognised past service cost. The defined benefit obligation is calculated using the projected unit credit method. The net value of defined benefit obligations is determined through the discounting of the estimated future cash outflow using interest rates on government bonds of the Russian Federation which are denominated in the pension benefits currency and have a maturity term approximating the settlement terms of the related obligations.

Revaluation of net defined benefit liability is recognised immediately in other comprehensive income.

Liabilities to employees

Payroll and current leave liabilities are recognised in the consolidated statement of profit or loss and other comprehensive income on an undiscounted basis as the employee's services are provided.

Environmental liabilities

Liabilities for environmental remediation are recorded where there is a present obligation, reliable estimates can be made, and related expenses are probable.

Revenue recognition

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. Revenue is recognised net of value added tax.

The Group identifies the following performance obligations: rendering of electricity transmission services; rendering of services to connect the customers to the electricity grid network; other revenue.

The Group recognises revenue from rendering of electricity transmission services over time. Revenue from services is recognised in the reporting period in which they are rendered, based on the actual amount of services provided by the end of the reporting period.

Revenue from rendering of services to connect the customers to the electricity grid network and other revenue are recognised at a point in time. Revenue from rendering of services to connect the customers to the electricity grid network represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions and size of the fee are defined individually and do not depend on revenue from transmission services.

The Group provides services under fixed-price contracts. The customer pays the fixed amount based on a payment schedule. Contracts on provision of services to connect customers to the electricity grid network generally require prepayments.

Contracts for all types of revenue do not include a significant financing component as the payment dates agreed with the parties to the contracts do no provide a significant benefit from financing to customers or the Group. Therefore, the Group does not adjust revenue for the time value of money.

3. Significant accounting policies (continued)

Revenue recognition (continued)

Contract assets. A contract asset is the consideration to which the Group is entitled in exchange for the transfer of goods or services to the customer. A contract asset is recognised for the received contingent consideration when the Group transfers goods or services to the customer prior to the customer's transfer of consideration or before the consideration becomes payable.

Trade receivables. Receivables represent the Group's right to unconditional consideration, i.e. only the passage of time is required before the payment of that consideration is due.

Contract liabilities. A contract liability is the Group's obligation to transfer goods or services to the customer for which the Group received a consideration from the customer. Contract liabilities are recognised as revenue when the Group has performed its contractual obligations. The Group's contract liabilities are recorded in line "Advances from customers" of the consolidated statement of financial position. Advances received from customers mainly represent deferred income for future services to connect the customers to the electricity grid infrastructure and are recognised at the nominal value, net of VAT.

Operating lease

When the Group leases out its assets under an operating lease that does not involve transferring to the lessee practically all the risks and benefits associated with owning the asset, lease payments receivable are recognised as lease income on a straight-line basis over the lease term.

Finance income and expenses

Finance income includes interest income on investments, interest income on loans issued, the effect from discounting financial instruments and interest income on cash and cash equivalents. Finance expenses include interest expense under lease, effect of discounting of financial instruments.

Interest income and expenses are recognised in profit and loss when incurred in the amount calculated using the effective interest rate method.

Changes in comparative information

In the reporting year the Group changed the presentation of certain items of the consolidated statement of financial position and the statement of profit or loss and other comprehensive income, this resulted in the changed comparative information.

4. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the carrying amounts of assets and liabilities recognised in these financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and assumptions are continually critically evaluated and are based on management's experience and other factors, including expectations of future events which are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Useful lives of property, plant and equipment

The estimation of the useful lives of items of premises and equipment is a matter of judgement based on the experience with similar assets. In determining the useful life of an asset, management considers its expected usage, estimated technical obsolescence, physical wear and tear and the physical environment and use of the asset. Changes in any of these assumptions may result in adjustments for future depreciation rates.

4. Critical accounting estimates and judgements in applying accounting policies (continued)

Lease liabilities

When recognizing lease obligations for energy-service contracts classified as lease agreements in accordance with IFRS 16 “Leases”, the Group applies the judgment that the electricity purchase rate to compensate for losses and the electricity transmission rate based on which payments under these contracts are determined represent the rate as set out in paragraph 27 (b) and 28 of IFRS 16.

Lease term

The Group determines the lease term as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option. The Group uses judgement in assessing whether it is reasonable to exercise an option to extend a lease, considers all relevant facts and circumstances that create an economic incentive for the Group to exercise the option to extend the lease.

Post-employment benefit obligations

Employee benefit plan liabilities are estimated using actuarial techniques and assumptions. Actuarial results may differ from the estimates, and the Group estimates can be revised in the future.

The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of corporate bonds of the Russian Federation that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 20.

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

If any indication of impairment exists the Group tests property, plant and equipment and right-of-use assets for their impairment for each cash-generating unit. The Group as a whole was treated as a cash-generating unit. The recoverable amounts of the cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of assumptions as further detailed in Note 8.

Provisions for legal and other claims

The assessment of the time-limit for execution and the value of the estimated obligations for legal and other claims is associated with a high degree of uncertainty. The Group uses professional judgement to assess the likelihood of an event that will require the outflow of resources, estimates of the due dates and the value of estimated obligations. Additional information is disclosed in Note 27.

5. Adoption of New or Revised Standards and Interpretations

The following new amended standards became effective for the Group from 1 January 2019:

IFRS 16 “Leases”. On adoption of IFRS 16, ‘Leases’, from 1 January 2019, the Group recognised lease assets and liabilities under those leases that were previously classified as operating leases under IAS 17, ‘Leases’. The Group used transition provisions and practical expedients provided for by the standard.

The Group used the modified retrospective method without restatement of comparatives. The right to use the asset under administrative building lease and lease of a part of the 220-kV overhead transmission line was evaluated from the date the lease began, taking into account the cumulative effect of the asset's retrospective adjustment. All other right-of-use assets were measured at the present value of remaining lease payments.

(in thousands of Russian Roubles)

5. Adoption of new or revised standards and interpretations (continued)

The lease liabilities were measured at the present value of lease payments that were not yet settled at the date of the standard's initial application, discounted using the weighted average borrowing rate of the lessee as at 1 January 2019. The weighted average incremental borrowing rate applied by the Group to the lease liabilities on 1 January 2019 was 8.63%.

The Group did not recognise assets and liabilities for operating lease agreements under which lease payments are based on cadastral value of land and are variable, as well as for short-term lease and lease of low-value assets.

The Group did not change the initial carrying value of assets and liabilities recognised at the date of lease commencement and classified earlier as financial lease.

In addition, the Group decided not to reassess whether agreements are or contain a lease at the date of the first-time adoption of the standard. Instead, the Group decided to use the assessment carried out upon application of IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement Contains a Lease" for agreements signed before the date of initial recognition.

Effect of adopting IFRS 16:

	Carrying amount at 31 December 2018 as per IAS 17	Effect of adopting IFRS 16	Carrying amount at 1 January 2019 as per IFRS 16
Statement of Financial Position			
Property, plant and equipment	59,722,780	(497,783)	59,224,997
Right-of-use assets	-	897,525	897,525
Lease payable	169,974	433,367	603,341
Deferred income tax liabilities	4,967,503	(6,725)	4,960,778
Retained earnings	47,646,328	(26,900)	47,619,428

Reconciliation of lease liabilities at 1 January 2019 with operating lease liabilities at 31 December 2018 is presented in the table below.

Operating lease liabilities at 31 December 2018	**1,028,845**
Adjustment of operating lease liabilities in connection with:	
the exclusion of land lease agreements with variable payments;	(262,056)
the exclusion of liabilities under short-term leases;	(7,960)
the exclusion of liabilities related to low-value assets;	(50,161)
the revision of lease terms and other adjustments.	(38,729)
Adjusted operating lease liabilities at 31 December 2018	669,939
Present value of lease payments at 1 January 2019	433,367
Liabilities under leases that were previously classified as finance leases	169,974
Lease liabilities at 1 January 2019	603,341
Of which are:	
Short-term lease liabilities	253,110
Long-term lease liabilities	350,231

Right-of-use assets recognised at 1 January 2019 relate to the following underlying assets:

	1 January 2019
Land	45,487
Buildings and facilities	107,048
Electric power transmission grids	246,604
Other	603
Assets under leases that were previously classified as operating leases	**399,742**
Transformers and transforming substations	456,779
Other	41,004
Assets under leases that were previously classified as finance leases	**497,783**
Total right-of-use assets	897,525

5. Adoption of new or revised standards and interpretations (continued)

The following amendments and interpretations became effective for the Group from 1 January 2019, but did not have any material effect on its consolidated financial statements:

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 "Income Taxes" specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that the tax authorities will audit the amounts that they have the right to audit and they will be fully aware of all relevant information. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a tax authority, changes in rules established by a tax authority or the expiry of a tax authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation.

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to identify pension expenditure when there are changes in the defined benefit plan. When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 "Employee Benefits" requires remeasuring net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 'Financial Instruments' (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in a gain or loss in profit or loss and other comprehensive income.. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification.

Amendments to IAS 28, Investments in Associates and Joint Ventures, - "Long-Term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 'Financial Instruments' to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares.

5 Adoption of new or revised standards and interpretations (continued)

Annual Improvements to IFRS 2015-2017 cycle – Amendments to IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements', IAS 12 'Income Taxes' and IAS 23 'Borrowing Costs' (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete.

6. New Accounting Pronouncements

The following new standards, interpretations and amendments thereto have been issued that are mandatory for annual periods beginning on or after 1 January 2020, and which the Group has not early adopted:

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) an amount representing the unearned profit in the group of contracts (the contractual service margin).

Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The new standard is not expected to have any material impact on the Group.

"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" – Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the International Accounting Standard Board). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The amendments are not expected to have any impact on the Group.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions (in particular, the definition of a liability) and guidance and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

6. New accounting pronouncements (continued)

Definition of a business – Amendments to IFRS 3 "Business Combinations" (issued on 22 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods or services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired operations and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are not expected to have any impact on the Group.

Definition of materiality – Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of materiality and the application of this definition through providing the guidance regarding the definition that was previously provided in other IFRS standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of materiality is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Interest Rate Benchmark Reform – Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosure" (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of interest rate benchmarks such as LIBOR and other interbank offered rates (IBORs). The amendments provide a temporary exemption from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the exemption provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking projection in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the exemption applies from the moment when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers determining when the exemption will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. The amendments are not expected to have any impact on the Group.

(in thousands of Russian Roubles)

6. New accounting pronouncements (continued)

Classification of Liabilities as Current and Non-Current – Amendments to IAS 1 "(Presentation of Financial Statements" (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These amendments clarify that liabilities are classified as current or non-current depending on the rights that exist at the end of the reporting period. Liabilities are non-current if at the end of the reporting period an entity has a substantial right to postpone their settlement for at least 12 months. The standard guidance no longer contains a requirement that such right should be unconditional. Expectations of the management on whether it will subsequently use its right to defer the settlement of liabilities does not impact their classification. The right to postpone settlement of liabilities arises only if the entity complies with all applicable covenants at the year end. The liability is classified as current if the covenant is violated as at or before the reporting date even if at the end of the reporting period the creditor releases the entity from the obligation to comply with such covenant. And the liability is classified as non-current if the loan agreement covenant is violated only after the reporting date. In addition, the amendments clarify requirements to the classification of debt which an entity may repay by converting it into the entity's equity. "Repayment' is determined as termination of the liability through settlements in the form of cash, other resources embodying economic benefits or the entity's equity instruments. There is an exception for convertible instruments that may be converted into equity, but only for those instruments where a conversion option is classified as an equity instrument being a separate component of the combined financial instrument. The amendments are not expected to have any material impact on the Group.

7. Transactions and balances with related parties.

The Republic of Tatarstan owns the majority of the Company's shares and is the controlling party of the Company.

In the course of its business, the Group operates with other companies, on which the Republic of Tatarstan or Russian Federation have significant influence or control, including industrial undertakings, financial institutions and various governmental agencies. Related party transactions are mainly based on regulated tariffs. The Group has part of its deposits opened with government related banks and at effective market rates.

The following services represent a majority of the Group's transactions with these entities in 2019 and 2018:

	2019	2018
Services rendered by the Group	**20,065,115**	**20,370,114**
Electricity transmission	19,940,065	20,119,663
Repair and maintenance of power supply items	78,132	72,519
Connection services	46,918	177,932
Finance income	**271,944**	**264,450**
Interest income on bank deposits and settlement accounts	271,944	264,450
Expenses incurred by the Group	**5,530,757**	**3,700,106**
Services by allied grid companies	1,871,627	1,670,965
Recognition of right-of-use assets	1,837,241	-
Social expenditures and charity	687,131	1,097,352
Electricity transmission through Unified National Electric Grid	492,738	333,296
Purchases of property, plant and equipment	274,770	205,059
Electricity consumed in production	94,343	92,680
Payments for housing construction under a social mortgage programme	88,651	88,651
Purchase of inventories	72,754	28,830
Purchase of trip vouchers	71,316	71,673
Communication services	43,546	43,972
Lease of property, plant and equipment	-	60,960
Educational services	-	29,718
Recovery of provision for expected credit losses	(3,360)	(23,050)

Balances on the above transactions are as follows:

	31 December 2019	31 December 2018
Trade and other accounts receivable	1,348,927	1,367,136
Allowance for expected credit losses of accounts receivable	(2,432)	(5,792)
Bank deposits	1,481,254	-
Cash and cash equivalents	2,323,254	2,916,278
Trade and other payables	358,607	1,351,731
Advances from customers	1,201	79,580

(in thousands of Russian Roubles)

7. Transactions and balances with related parties (continued)

Transactions with the Republic of Tatarstan and Russian Federation also include tax settlements disclosed in Notes 18 and 22.

Remuneration to the key management personnel

Remuneration is paid to the key management personnel of the Group for their services and is comprised of a contractual salary and performance bonuses, which are dependent on the results for the period according to the Russian statutory financial statements.

During the reporting periods, the following remuneration was allocated:

	2019	**2018**
Salaries and bonuses	101,043	104,846
State pension and social security costs	17,533	17,760
Defined contribution plans	709	767
Retirement benefits and other long-term benefits	1,735	-
Total	**121,020**	**123,373**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

8. Property, Plant and Equipment

	Land	**Buildings and facilities**	**Electric power transmission grids**	**Transformers and transforming substations**	**Other**	**Construction in progress**	**Total**
For 2019:							
Cost							
At 31 December 2018	**216,784**	**10,386,343**	**50,835,314**	**33,696,662**	**5,771,116**	**1,228,265**	**102,134,484**
Reclassification to right-of-use assets	-	-	-	(481,187)	(44,207)	-	(525,394)
Reclassification between PP&E categories	-	14,180	(16,371)	(1,044)	3,254	-	19
Additions	6,101	5,074	194,867	56,697	168,715	7,256,326	7,687,780
Transfer to/new PP&E items	-	1,151,833	3,443,567	2,584,305	636,247	(7,815,952)	-
Disposals	(4,561)	(212,731)	(154,984)	(175,506)	(36,279)	(122,817)	(706,878)
Transfer to assets held for sale	(2)	-	(7,982)	-	-	-	(7,984)
At 31 December 2019	**218,322**	**11,344,699**	**54,294,411**	**35,679,927**	**6,498,846**	**545,822**	**108,582,027**
Accumulated depreciation and impairment							
At 31 December 2018	**(66,681)**	**(4,230,684)**	**(20,541,280)**	**(14,780,865)**	**(2,714,892)**	**(77,302)**	**(42,411,704)**
Reclassification to right-of-use assets	-	-	-	24,408	3,203	-	27,611
Reclassification between PP&E categories	-	(10,906)	4,648	7,292	(1,053)	-	(19)
Depreciation charge	-	(278,227)	(1,638,603)	(1,108,674)	(404,164)	-	(3,429,668)
Written-off on disposal	1,502	121,363	96,299	106,697	27,210	-	353,071
Transfer to assets held for sale	1	-	4,691	-	-	-	4,692
Recognition of impairment	(5,618)	(254,810)	(1,181,937)	(731,050)	(125,059)	(17,187)	(2,315,661)
At 31 December 2019	**(70,796)**	**(4,653,264)**	**(23,256,182)**	**(16,482,192)**	**(3,214,755)**	**(94,489)**	**(47,771,678)**
Net book value							
At 31 December 2018	**150,103**	**6,155,659**	**30,294,034**	**18,915,797**	**3,056,224**	**1,150,963**	**59,722,780**
At 31 December 2019	**147,526**	**6,691,435**	**31,038,229**	**19,197,735**	**3,284,091**	**451,333**	**60,810,349**

(in thousands of Russian Roubles)

8. Property, plant and equipment (continued)

	Land	Buildings and facilities	Electric power transmission grids	Transformers and transforming substations	Other	Construc-tion in progress	Total
For 2018:							
Cost							
At 31 December 2017	**210,167**	**9,173,689**	**48,767,622**	**31,921,767**	**4,920,049**	**1,498,124**	**96,491,418**
Reclassification between PP&E categories	-	16,285	(15,834)	41,089	(41,540)	-	-
Additions	7,256	32,966	162,946	557,833	389,758	5,374,532	6,525,291
Transfer to/new PP&E items	-	1,241,120	2,028,441	1,753,122	619,109	(5,641,792)	-
Disposals	(639)	(77,717)	(107,861)	(577,149)	(116,260)	(2,599)	(882,225)
At 31 December 2018	**216,784**	**10,386,343**	**50,835,314**	**33,696,662**	**5,771,116**	**1,228,265**	**102,134,484**
Accumulated depreciation and impairment							
At 31 December 2017	**(61,680)**	**(3,765,392)**	**(17,883,028)**	**(12,980,349)**	**(2,417,059)**	**(38,277)**	**(37,145,785)**
Reclassification between PP&E categories	-	(9,166)	9,297	(18,782)	18,651	-	-
Depreciation charge	-	(288,755)	(1,697,294)	(1,197,386)	(269,720)	-	(3,453,155)
Written-off on disposal	88	41,343	56,893	57,010	56,860	-	212,194
Recognition of impairment	(5,089)	(208,714)	(1,027,148)	(641,358)	(103,624)	(39,025)	(2,204,958)
At 31 December 2018	**(66,681)**	**(4,230,684)**	**(20,541,280)**	**(14,780,865)**	**(2,714,892)**	**(77,302)**	**(42,411,704)**
Net book value							
At 31 December 2017	**148,487**	**5,408,297**	**30,884,594**	**18,941,418**	**2,502,990**	**1,459,847**	**59,345,633**
At 31 December 2018	**150,103**	**6,155,659**	**30,294,034**	**18,915,797**	**3,056,224**	**1,150,963**	**59,722,780**

At 31 December 2019 and 31 December 2018 construction in progress was primarily represented by projects for the construction of new and reconstruction of existing PP&E assets aimed at ensuring reliable and uninterrupted power supply to consumers.

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment.

At 31 December 2019, property, plant and equipment include assets, which are fully depreciated but still in use, with historical cost of RR 3,122,442 thousand (at 31 December 2018: RR 2,206,559 thousand).

Had the useful life of property, plant and equipment been 10% shorter or 10% longer than the Group management's estimates, the depreciation charge for the year ended 31 December 2019 would have been RR 370,860 thousand higher or RR 286,583 thousand lower, respectively (31 December 2018: RR 350,824 thousand higher or RR 262,858 thousand lower, respectively).

Recoverable amount of property, plant and equipment and right-of-use assets

The Russian government policy has been aimed at controlling the electricity tariff growth which evidences that there are objective indicators of the impairment of the Group's assets. At 31 December 2019 and 31 December 2018, the Group performed an impairment test of its property, plant and equipment and right-of-use assets to determine their recoverable amount.

At 31 December 2019, the recoverable amount of property, plant and equipment and right-of-use assets was RR 64,867,262 thousand (at 31 December 2018: RR 59,722,780 thousand). The recoverable amount of the PP&E and right-of-use assets (value in use) was calculated using the discounted cash flow method. This method allows determining future net cash flows to be generated by these property plant and equipment and right-of-use assets in the process of their operation until retirement.

(in thousands of Russian Roubles)

8. Property, plant and equipment (continued)

The following inputs and assumptions were used for establishing the recoverable amount of the property, plant and equipment and right-of-use assets:

Inputs and assumptions used for impairment testing purposes	**Year ended 31 December 2019**	**Year ended At 31 December 2018**
Forecast period	7 years (from 2020 to 2026)	7 years (from 2019 to 2025)
Discount rate before taxes (WACC-based)	13.27%	14.82%
Forecast electricity transmission tariffs	For 2020 – in accordance with the tariff decision of the regulator. Starting from 2021 – based on the method of long-term indexation of the required gross revenue, applicable at the reporting date	For 2019 – in accordance with the tariff decision of the regulator. Starting from 2020 – based on the method of long-term indexation of the required gross revenue, applicable at the reporting date
Productive supply	In 2020 – based on the consolidated forecast of electricity and capacity production and supply balance approved by the Russian Federal Anti-Monopoly Service for the Republic of Tatarstan for 2020. Starting from 2021 – using the electricity consumption growth index of 101.0% per year	In 2019 – based on the consolidated forecast of electricity and capacity production and supply balance approved by the Russian Federal Anti-Monopoly Service for the Republic of Tatarstan for 2019. Starting from 2020 – using the electricity consumption growth index of 101.6% per year
Losses	Determined based on actual losses by level of voltage for 2019 as applied to the estimated input in the Company's grid	Determined based on actual losses by level of voltage for 2013 as applied to the estimated input in the Company's grid
Projected loss value	For 2020 – 2026 it was adopted based on the forecast of the Company at an unregulated price in the wholesale electricity and capacity market	For 2019 – in accordance with the tariff decision of the regulator; For 2020-2025, based on the forecast for the growth of non-regulated prices in the wholesale electricity market published by the Ministry of Economic Development on 27.10.2017
Projected capital expenditures	For 2020 – 2024 based on 2020–2024 investment programme items approved by the Ministry of Industry and Trade of the Republic of Tatarstan; In 2025-2026 – based on management's assessment of the required capital expenditures for the maintenance of existing PP&E	For –2019 – based on 2015–2019 investment programme items approved by the Russian Ministry of Energy. In 2020-2025 – based on management's assessment of the required capital expenditures for the maintenance of existing PP&E
Working capital needs	Set at − 5.74% of the necessary gross revenue, based on the analysis of the Group's actual working capital requirements	Set at − 6.43% of the necessary gross revenue, based on the analysis of the Group's actual working capital requirements
Growth interest rate after the forecast period	4.19% (as per the long-term CPI forecast published by Global Insight)	4.15% (as per the long-term CPI forecast published by Global Insight)

As a result of the testing performed at 31 December 2019, the Group recognised the net decrease of the carrying value of property, plant and equipment and right-of-use assets in the amount of RR 2,470,148 thousand (at 31 December 2018 the Group recognised a net decrease of the carrying value of property, plant and equipment in the amount of RR 2,024,958 thousand). The decrease in the recoverable amount of the Group's PP&E and right-of-use assets as at 31 December 2019 is due to the fact that the established tariffs reimburse the capital costs incurred without taking into account the necessary investment return. The decrease in the recoverable amount of the Group's PP&E as at 31 December 2018 is due to the 0.48% increase of the discount rate resulting from the increase of the risk-free rate and the decrease of the growth rate in the post-forecast period due to the projected decrease of the consumer price index.

The most sensitive indicators in determining the recoverable amount of PP&E and right-of-use assets are the discount rate and the growth rate in the post-forecast period.

Had the discount rate been 1.0% higher, the carrying value of property, plant and equipment and right-of-use assets would have decreased by RR 7,245,589 thousand (at 31 December 2018: RR 5,546,564 thousand). Had the discount rate been 1.0% lower, the carrying value of property, plant and equipment and right-of-use assets would have increased by RR 9,597,048 thousand (at 31 December 2018: RR 7,009,486 thousand).

(in thousands of Russian Roubles)

8. Property, plant and equipment (continued)

Had the growth rate in the post-forecast period been 1.0% higher, the carrying value of property, plant and equipment and right-of-use assets would have increased by RR 6,808,743 thousand (at 31 December 2018: RR 4,626,341 thousand). Had the growth rate in the post-forecast period been 1.0% lower, the carrying value of property, plant and equipment and right-of-use assets would have decreased by RR 5,132,923 thousand (at 31 December 2018: RR 3,643,342 thousand).

9. Intangible assets

Cost	**Software products**	**Research and development**	**Total**
At 31 December 2018	353,600	120,124	473,724
Additions	381,099	27,621	408,720
Disposals	(34,851)	-	(34,851)
At 31 December 2019	**699,848**	**147,745**	**847,593**
Accumulated amortisation			
At 31 December 2018	(96,436)	(63,845)	(160,281)
Charge for the period	(16,396)	(12,973)	(29,369)
Disposals	15,525	-	15,525
At 31 December 2019	**(97,307)**	**(76,818)**	**(174,125)**
Net book value at 31 December 2018	**257,164**	**56,279**	**313,443**
Net book value at 31 December 2019	**602,541**	**70,927**	**673,468**

Cost	**Software products**	**Research and development**	**Total**
At 31 December 2017	268,695	101,720	370,415
Additions	107,036	25,037	132,073
Disposals	(22,131)	(6,633)	(28,764)
At 31 December 2018	**353,600**	**120,124**	**473,724**
Accumulated amortisation			
At 31 December 2017	(89,229)	(51,002)	(140,231)
Charge for the period	(25,667)	(12,843)	(38,510)
Disposals	18,460	-	18,460
At 31 December 2018	**(96,436)**	**(63,845)**	**(160,281)**
Net book value at 31 December 2017	**179,466**	**50,718**	**230,184**
Net book value at 31 December 2018	**257,164**	**56,279**	**313,443**

Intangible assets primarily include software and intangible assets representing research and development materials (design documentation, methods and technologies used in production) purchased from third parties.

(in thousands of Russian Roubles)

10. Right-of-use assets and lease liabilities

	Land	Buildings and facilities	Electric power transmission grids	Transformers and transforming substations	Other	Total
For 2019:						
Cost						
At 1 January 2019	**45,487**	**107,048**	**246,604**	**481,187**	**44,810**	**925,136**
Additions	3,081	42,035	-	-	3,508,280	3,553,396
At 31 December 2019	**48,568**	**149,083**	**246,604**	**481,187**	**3,553,090**	**4,478,532**
Accumulated depreciation and impairment						
At 1 January 2019	**-**	**-**	**-**	**(24,408)**	**(3,203)**	**(27,611)**
Depreciation charge	(6,374)	(16,979)	(38,938)	(18,500)	(158,730)	(239,521)
Recognition of impairment	(1,548)	(4,846)	(7,618)	(16,077)	(124,398)	(154,487)
At 31 December 2019	**(7,922)**	**(21,825)**	**(46,556)**	**(58,985)**	**(286,331)**	**(421,619)**
Net book value						
At 1 January 2019	**45,487**	**107,048**	**246,604**	**456,779**	**41,607**	**897,525**
At 31 December 2019	**40,646**	**127,258**	**200,048**	**422,202**	**3,266,759**	**4,056,913**

At the end of 2018, the Group entered into energy-service contracts with companies of PAO "Rostelecom" and OOO "Smartenergo" for the installation of 120,000 points of smart metering for electricity in order to reduce electricity losses and increase productive supply. These contracts were recognized as leases in accordance with IFRS 16. The total amount of right-of-use assets under these contracts recognized during 2019 amounted to RR 3,507,809 thousand.

To recognise lease liabilities in 2019, the Group used the lessee's weighted average incremental borrowing rate, determined at the date of entering the lease agreement.

Reconciliation of changes in liabilities and cash flows from operations is presented below:

	At 31 December 2019
Lease liabilities at the beginning of the period	**603,341**
Lease liabilities under new contracts	3,553,396
Changes related to cash flows from operations	
Settlement of liabilities under lease agreements	(644,723)
Payments in prior periods	(60,000)
Total changes related to cash flows from operations	**(704,723)**
Other changes	
Interest expenses	305,083
Total other changes	305,083
Lease liabilities at the end of the period	**3,757,097**

Interest expenses included in finance costs in 2019 amounted to RR 305,083 thousand.

The Group leases land and movable and real estate items owned by local authorities and other entities and institutions under lease agreements. Lease agreements are made for fixed periods but may have extension options.

In 2018, asset sales contracts with further leaseback were signed. The residual value of these assets at the time of sale amounted to ERR 525,395 thousand. Until 31 December 2018, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use.

As at 31 December 2019, future (undiscounted) cash flows in the amount of RR 262,400 thousand that are expected to be paid by the Group over the lease term were not included in the lease liability because they included variable lease payments under land leases that depend on the cadastral value of land. A 10% growth of the cadastral value of such land plots would result in the increase of total lease payments approximately by RR 26,240 thousand.

(in thousands of Russian Roubles)

10. Right-of-use assets and lease liabilities (continued)

Future total minimum lease payments under non-cancellable operating lease (calculated at rates effective as at 31 December 2018) were as follows:

	At 31 December 2018
Less than one year	124,189
1 – 5 years	412,540
Over five years	492,116
Total	**1,028,845**

11. Investments in equity securities

	At 31 December 2019		At 31 December 2018	
	Ownership %	Carrying value	Ownership %	Carrying value
PAO Akibank	8,24%	196,555	8,24%	149,205
Total		**196,555**		**149,205**

At 31 December 2019 and 31 December 2018, the Group's investments in the shares of PAO Akibank were carried at fair value determined based on the comparative approach using market multipliers for similar banks, since PAO Akibank's shares are not quoted at the exchange, and public sources do not contain any information on the price of recent trading transactions with the shares. In 2019, the Group recognised a RR 47,350 thousand increase in the fair value of investments in PAO Akibank (less income tax), which was recognised within other comprehensive loss for the year ended 31 December 2019 (2018: a RR 14,537 thousand decrease in the fair value of investments). A revaluation provision of RR 61,079 thousand (at 31 December 2018: RR 98,959 thousand) for investments in equity securities, including deferred taxes, was recognised in the statement of financial position.

Had the market multiplier for the carrying value or equity of PAO Akibank at 31 December 2019 been 10% higher or 10% lower than the Group management's estimates, the fair value of investments in the shares of PAO Akibank for the year ended 31 December 2019 would have been RR 19,656 thousand higher or RR 19,656 thousand lower, respectively (31 December 2018: RR 14,921 thousand higher or RR 14,921 thousand lower, respectively).

12. Other non-current assets

	At 31 December 2019	At 31 December 2018
Long-term other receivables	37,516	12,789
ECL allowance for other accounts receivable	(34)	(13)
Long-term loans issued	5,314	6,996
Long-term trade receivables	1,437	746
ECL allowance for trade receivables	(1)	(1)
Total financial assets within other non-current assets	**44,232**	**20,517**
Advances to construction companies and suppliers of PP&E	1,103,866	1,100,580
Deferred employee benefits	23,440	24,610
Total	**1,171,538**	**1,145,707**

Long-term loans represent loans issued to employees. The Group provides interest-bearing long-term loans to its employees on the terms of full or partial write-off of the debt if the employee is employed by the company until the expiration of the loan agreement. These loans to be written off against the Group's funds are classified by the Group as deferred employee benefits. Long-term loans issued to the employees are secured by third party guarantees. At 31 December 2019, the guarantee amount in accordance with the terms of the agreement is RR 43,262 thousand (31 December 2018: RR 42,137 thousand).

(in thousands of Russian Roubles)

12. Other non-current assets (continued)

At 31 December 2019, advances paid to construction companies and suppliers of property, plant and equipment are attributable to: RR 397,837 thousand – to the contract with OOO UK KER Holding for the reconstruction of the 220 kV Zelenodolskaya substation and RR 210,475 thousand – to the contract with OOO Opora Plus for the construction of the 110 kV Verkhny Uslon substation together with the reconstruction of the high voltage line 35 kV Kuralovo – Pechishi, being part of Energy Production and Technology Complex No.1 in the Verkhneuslonsky district, the high voltage line 35 kV Matyushino – Pechishi and construction of entering points to the 110 kV Verkhny Uslon substation for them.

At 31 December 2019, repayment of advances paid to construction companies and suppliers of property, plant and equipment is secured by bank guarantees issued for RR 936,222 thousand (31 December 2018: RR 458,379 thousand).

13. Inventory

	At 31 December 2019	At 31 December 2018
Raw and other materials	176,050	155,077
Work clothes in use	107,264	119,624
Other	909	593
Total	**284,223**	**275,294**

The cost of inventories recognised over the reporting period represents as expenses on raw and other materials is RR 849,061 thousand (2018: RR 869,496 thousand) (Note 24).

In 2019, the Group recognised within operating expenses the reversal of inventory impairment in the amount of RR 475 thousand (in 2018: the write-down of inventory to the net realisable value for RR 475 thousand). At 31 December 2019 and 31 December 2018, none of the Group's inventories were under pledge.

14. Trade and other receivables

	At 31 December 2019	At 31 December 2018
Trade receivables	1,552,251	1,533,812
ECL allowance for trade receivables	(14,994)	(18,378)
Other receivables	104,074	83,197
ECL allowance for other receivables	(39,890)	(35,119)
Short-term loans issued	3,296	3,786
Total financial assets within trade and other receivables	**1,604,737**	**1,567,298**
Prepayments to suppliers	39,117	50,691
Deferred employee benefits (current portion)	12,002	12,810
Taxes prepaid	18,145	9,485
VAT recoverable	112	223
Total	**1,674,113**	**1,640,507**

Short-term loans issued include current portion of loans issued to employees.

The Group applies two approaches to assessment of its credit risk expose with respect to ECL under IFRS 9: a general model and a simplified model. Note 28 provides information about inputs, assessment criteria and assumptions used for ECL calculation purposes.

Management believes that the Group will be able to settle its receivables through direct collection of cash and, therefore, the carrying amounts of these receivables approximate their fair values.

(in thousands of Russian Roubles)

14. Trade and other receivables (continued)

Movements in the allowance for expected credit losses are as follows:

	Trade receivables	Other receivables	Total
Balance at 1 January 2019	**18,379**	**35,132**	**53,511**
Accrued ECL allowance	4,951	19,058	24,009
Amounts written off as uncollectable	(3,394)	(9,418)	(12,812)
Released ECL allowance	(4,941)	(4,848)	(9,789)
Balance at 31 December 2019	**14,995**	**39,924**	**54,919**

	Trade receivables	Other receivables	Total
Balance at 1 January 2018	**33,495**	**48,030**	**81,525**
Accrued ECL allowance	60,632	6,524	67,156
Amounts written off as uncollectable	(156)	(3,410)	(3,566)
Released ECL allowance	(75,592)	(16,012)	(91,604)
Balance at 31 December 2018	**18,379**	**35,132**	**53,511**

15. Short-term investments

		At 31 December 2019		At 31 December 2018	
Rating	**Rating agency**	**Rate, %**	**Carrying value**	**Rate, %**	**Carrying value**
Bank deposits					
BB-	ACRA	7.5-7.75	1,509,661	7.5-7.9	1,509,763
Ba1	Moody’s	7.85	750,063	-	-
Ba3	Moody’s	7.6	731,191	-	-
Total			**2,990,915**		**1,509,763**

Bank deposits are for a term of up to one year and are fixed rate deposits.

16. Cash and cash equivalents

Rating	Rating agency	At 31 December 2019	At 31 December 2018
Cash at bank and in hand			
BB-	ACRA	73,942	552,326
Baa3	Moody’s	403	-
Ba3	Moody’s	149	1,770,376
Ba1	Moody’s	36	9,395
B1	Moody’s	12	-
BBB+	ACRA	3	-
Ba2	Moody’s	-	2,585
B2	Moody’s	-	1,050
Total cash at bank and cash in hand		**74,545**	**2,335,732**
Cash equivalents			
Baa3	Moody’s	1,819,066	-
Ba1	Moody’s	503,618	600,197
BB-	ACRA	29,071	-
Ba2	Moody’s	-	609,493
Total cash equivalents		**2,351,755**	**1,209,690**
Total cash and cash equivalents		**2,426,300**	**3,545,422**

The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents.

Cash equivalents represent deposits with maturities less than three months.

(in thousands of Russian Roubles)

17. Equity

Share capital

	Number of shares issued, set out in the Charter and fully paid, items		Share capital	
	At 31 December 2019	**At 31 December 2018**	**At 31 December 2019**	**At 31 December 2018**
Ordinary shares	14,405,345,396	13,882,276,879	7,932,212	7,670,678
Total	**14,405,345,396**	**13,882,276,879**	**7,932,212**	**7,670,678**

Share capital consists of 14,405,345,396 ordinary shares with a par value of RR 0.5 per share. Share capital was adjusted for the effects of inflation that existed in Russia up to the end of 2002.

In 2019, the charter capital amount was increased by RR 261,534 thousand based on the report on the results of the additional issue of ordinary registered shares registered by the Bank of Russia on 30 December 2019.

Additional issue of shares. On 13 December 2016, the Company registered 523,068,517 ordinary registered uncertified shares with a par value of RR 2.92 per share. The additional issue of ordinary registered shares was finalized on 10 December 2019. The results of the additional issue show that the announced issue of shares with a par value of RR 0.5 per share was placed in full.

Dividends. In accordance with Russian legislation, the Company distributes net profit as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. Net statutory profit of the Company as reported in the published statutory financial statements for the year ended 31 December 2019 was RR 1,896,809 thousand (for the year ended 31 December 2018: RR 1,789,908 thousand). On 26 June 2019 the General Meeting of the Company's shareholders decided to pay dividends on ordinary shares based on the 2018 results in the amount of RR 94,678 thousand. The amount of dividends was paid net of income tax on income received in the form of dividends in the amount of RR 1,063 thousand.

18. Income tax

The Group's income tax expense is as follows:

	2019	**2018**
Current income tax expense	619,056	681,816
Deferred income tax expense	32,914	123,195
Income tax expense	**651,970**	**805,011**

The following table presents a reconciliation of the theoretical income tax charge to the amount of actual income tax expense recorded in the statement of profit or loss and other comprehensive income:

	2019	**2018**
Profit before tax	**1,990,071**	**3,207,453**
Theoretical income tax expense at the rate of 20%	398,014	641,491
Tax effect of income and expenses which are not assessable for taxation purposes	264,537	140,643
Tax effect of other comprehensive income items	(10,455)	22,723
Other	(126)	154
Total income tax expense	**651,970**	**805,011**

Net deferred tax liabilities are attributable to the following:

	31 December 2019	**31 December 2018**
Deferred income tax assets	(1,186,402)	(410,967)
Deferred income tax liabilities	6,189,564	5,378,470
Net deferred income tax liabilities	**5,003,162**	**4,967,503**

(in thousands of Russian Roubles)

18. Income tax (continued)

Differences between IFRS and statutory tax regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences for the reporting period is detailed below and is recorded at the rate of 20% (2018: 20%).

The deferred tax balances relate to the following assets and liabilities:

	At 31 December 2018	Effect of adopting IFRS 16	Recognised in profit or loss	Recognised within other comprehensive income	At 31 December 2019
Deferred tax liabilities					
Property, plant and equipment	5,337,196	(99,557)	107,860	-	5,345,499
Right-of-use assets	-	179,505	631,878	-	811,383
Intangible assets	12,917	-	(1,624)	-	11,293
Inventory	24,706	-	(3,317)	-	21,389
Trade and other receivables	3,651	-	(3,651)	-	-
Total deferred tax liabilities	**5,378,470**	**79,948**	**731,146**	**-**	**6,189,564**
Deferred tax assets					
Investments in equity securities	(27,830)	-	-	9,470	(18,360)
Other non-current assets	(38,835)	-	11,713	-	(27,122)
Trade and other receivables	-	-	(16,836)	-	(16,836)
Cash and cash equivalents	(32)	-	7	-	(25)
Lease liabilities	(33,994)	(86,673)	(630,751)	-	(751,418)
Advances from customers	(18,530)	-	6,108	-	(12,422)
Employee benefit obligations	(33,504)	-	(5,663)	-	(39,167)
Provisions for legal and other claims	(102,529)	-	(83,497)	-	(186,026)
Trade and other payables	(155,713)	-	20,687	-	(135,026)
Total deferred tax assets	**(410,967)**	**(86,673)**	**(698,232)**	**9,470**	**(1,186,402)**
Deferred tax liabilities, net	**4,967,503**	**(6,725)**	**32,914**	**9,470**	**5,003,162**

	At 31 December 2017	Effect of adopting IFRS 15	Recognised in profit or loss	Recognised within other comprehensive income	At 31 December 2018
Deferred tax liabilities					
Property, plant and equipment	5,248,178	-	89,018	-	5,337,196
Intangible assets	14,832	-	(1,915)	-	12,917
Inventory	25,524	-	(818)	-	24,706
Trade and other receivables	-	-	3,651	-	3,651
Advances from customers	29,068	(86,101)	57,033	-	-
Total deferred tax liabilities	**5,317,602**	**(86,101)**	**146,969**	**-**	**5,378,470**
Deferred tax assets					
Investments in equity securities	(26,696)	-	1,774	(2,908)	(27,830)
Other non-current assets	(6,597)	(2,496)	(29,742)	-	(38,835)
Trade and other receivables	(28,912)	(11,488)	40,400	-	-
Cash and cash equivalents	(8)	-	(24)	-	(32)
Finance lease	(221)	-	(33,773)	-	(33,994)
Advances from customers	-	-	(18,530)	-	(18,530)
Employee benefit obligations	(28,300)	-	(5,204)	-	(33,504)
Provisions for legal and other claims	(110,158)	-	7,629	-	(102,529)
Trade and other payables	(169,409)	-	13,696	-	(155,713)
Total deferred tax assets	**(370,301)**	**(13,984)**	**(23,774)**	**(2,908)**	**(410,967)**
Deferred tax liabilities, net	**4,947,301**	**(100,085)**	**123,195**	**(2,908)**	**4,967,503**

(in thousands of Russian Roubles)

19. Advances from customers

	At 31 December 2019	At 31 December 2018
Advances received under connection contracts	70,633	84,666
Total long-term advances received	**70,633**	**84,666**
Advances received under connection contracts	335,114	466,112
Advances received under contracts for the sale of other services	29,047	24,317
Advances received under assets purchase-and-sale contracts	2,237	112
Advances received under electric-power transmission contracts	2,139	367
Total short-term advances received	**368,537**	**490,908**

Advances received under connection contracts, contracts for the sale of other services and electric-power transmission contracts represent obligations under contracts with customers in accordance with IFRS 15 "Revenue from contracts with customers".

At 1 January 2019, revenue of RR 358,515 thousand was recognized for short-term obligations under contracts with customers in the current reporting period.

20. Employee benefit obligations

Defined contribution plans

The Group finances post-employment benefits plans in terms of employees who have less than ten years left to be awarded with their labour old-age pension under the Russian law. The programme is based on a defined benefit plan and allows employees to contribute a part of their salaries to the pension fund. The Group makes its own additional payments depending on the staff grade. The plan is managed by a non-state pension fund. The 2019 costs related to the plan made RR 17,302 thousand (2018: RR 18,517 thousand).

The Group pays social insurance contributions according to the Russian legislation. The 2019 costs associated with the social insurance contributions made RR 1,592,074 thousand (2018: RR 1,557,017 thousand).

Defined benefit plans

The Group employees are covered by defined benefit pension plans with employee benefits being paid to retiring employees. The amount of benefits depends on a participant’s past service and the tariff at the time of retirement. In addition to the defined benefit plan the Group makes quarterly payments to its pensioners and yearly payments in connection with the International Day for Elderly People, and it compensates costs of sanatorium-resort therapy and pays other benefits. Plus, there are seniority and jubilee payments the size of which also depends on the length of service and the tariff. All the payments are regulated by the collective employment agreement that is approved for a three-year period. The Group's policy with regard to defined benefit plans does not provide for accumulation of assets to cover its pension obligations.

The Group’s pension and other employee obligations and actuarial assumptions used in their determination are presented below.

(in thousands of Russian Roubles)

20. Employee benefit obligations (continued)

Changes in the present value of liabilities under defined benefit plans of the Group are as follows:

	Pension liabilities		Other liabilities	
	2019	**2018**	**2019**	**2018**
Net liabilities at the beginning of the year	349,022	447,025	247,789	225,115
Current service cost	18,268	13,509	19,321	15,816
Interest expense	29,635	33,395	21,650	17,551
Revaluation of net liabilities	52,276	(113,615)	19,586	4,647
Actuarial (gain)/loss – experience	*(27,958)*	*(58,772)*	*(26,144)*	*(27,816)*
Actuarial (gain)/ loss – changes in financial assumptions	*85,674*	*(1,852)*	*51,065*	*(1,514)*
Actuarial (gain)/ loss – changes in demographic assumptions	*(5,440)*	*(1,763)*	*(5,335)*	*231*
Actuarial (gain)/ loss – changes in retirement age	-	*(51,228)*	-	*33,746*
Pensions /benefits paid	(26,659)	(31,292)	(18,256)	(15,340)
Net liabilities at the end of the year	**422,542**	**349,022**	**290,090**	**247,789**

Amounts recognised in the statement of profit or loss within payroll costs are presented below:

	Pension liabilities		Other liabilities	
	2019	**2018**	**2019**	**2018**
Current service cost	18,268	13,509	19,321	15,816
Interest expense	29,635	33,395	21,650	17,551
Revaluation of net liabilities	-	-	19,586	4,647
Actuarial (gain)/loss – experience	-	-	*(26,144)*	*(27,816)*
Actuarial (gain)/ loss – changes in financial assumptions	-	-	*51,065*	*(1,514)*
Actuarial (gain)loss – changes in demographic assumptions	-	-	*(5,335)*	*231*
Actuarial losses – changes in retirement age	-	-	-	*33,746*
Expense recognised within profit or loss	**47,903**	**46,904**	**60,557**	**38,014**

Amounts recognised within other comprehensive income:

	Pension liabilities		Other liabilities	
	2019	**2018**	**2019**	**2018**
Revaluation of net liabilities	52,276	(113,615)	-	-
Actuarial gains – experience	*(27,958)*	*(58,772)*	-	-
Actuarial (gain)/ loss – changes in financial assumptions	*85,674*	*(1,852)*	-	-
Actuarial (gain)/ loss – changes in financial assumptions	*(5,440)*	*(1,763)*	-	-
Actuarial (gain) – changes in retirement age	-	*(51,228)*		
Expense recognised within other comprehensive income	**52,276**	**(113,615)**	**-**	**-**

Defined benefit plan obligations recorded in the statement of financial position are as follows:

	Pension liabilities		Other liabilities	
	At 31 December 2019	**At 31 December 2018**	**At 31 December 2019**	**At 31 December 2018**
Present value of liabilities	422,542	349,022	290,090	247,789
Net value of liabilities	**442,542**	**349,022**	**290,090**	**247,789**

(in thousands of Russian Roubles)

20. Employee benefit obligations (continued)

Principal actuarial assumptions are presented below:

Financial assumptions:

	At 31 December 2019, %	At 31 December 2018, %
Discount rate	6.58	8.70
Salary growth rate	5.00	5.00
Flat-rate benefit growth rates	4.52	4.43

Financial actuarial assumptions were based on market projections at the end of the reporting period as related to the period when the calculation of obligations should be made.

Demographic assumptions:

	At 31 December 2019	At 31 December 2018
Mortality table	2018	2017
Average staff turnover, males	4.16%	3.73%
Average staff turnover, females	3.75%	3.14%
Average term to maturity (years)	11	10

Average length of life, years:

	At 31 December 2019	At 31 December 2018
Males, 60 years of age	16	16
Female, 55 years of age	27	25

Due to the existing post-employment benefit obligations, the Group is exposed to various risks. The most significant risks are described below:

1) Interest rate risk. Lower yields on government bonds will lead to an increase in obligations on post-employment benefits.

2) Inflation risk. As a part of the Group's pension liabilities is adjusted based on the consumer price index, the pension plan is exposed to the inflation risk. Higher inflation rate will lead to an increase in post-employment benefit obligations.

Sensitivity of pension and other long-term liabilities to changes in fundamental actuarial assumptions at 31 December 2019 is shown below:

		At 31 December 2019		At 31 December 2018	
	Changes in assumptions	Changes in pension liabilities	Changes in other liabilities	Changes in pension liabilities	Changes in other liabilities
Discount rate	+ 1%	(40,423)	(25,003)	(30,180)	(17,457)
	- 1%	48,142	29,052	34,357	24,918
Future salary growth	+ 1%	28,744	29,224	21,304	25,539
	- 1%	(24,447)	(25,578)	(19,196)	(18,285)
Future flat-rate benefit growth	+ 1%	37,498	-	28,121	-
	- 1%	(32,325)	-	(25,396)	-
Average staff turnover	+ 1%	(37,814)	(27,706)	(27,420)	(19,960)
	- 1%	45,656	32,044	31,528	27,725
Mortality rate	+ 10%	(11,478)	(3,069)	(8,897)	(288)
	- 10%	12,236	3,119	8,435	4,813

The Group's best estimate of the pension plan contributions to be made in 2020 is RR 55,808 thousand.

(in thousands of Russian Roubles)

21. Trade and other payables

	At 31 December 2019	31 December 2018
Payables to other suppliers and contractors	1,097,515	949,682
Payables to contractors and suppliers of property, plant and equipment	473,979	699,603
Other payables	45,400	28,560
Payables on shares issue	-	876,005
Total financial liabilities within trade and other payables	**1,616,894**	**2,553,850**
Short-term employee benefit payables and other accruals	717,447	728,699
Payroll payable	470,144	384,153
Total	**2,804,485**	**3,666,702**

Accounts payable on shares issue as at 31 December 2019 were settled by the additional issue of ordinary registered shared (Note 17).

22. Other taxes payable

	At 31 December 2019	31 December 2018
Value-added tax	494,600	300,946
Insurance contributions	173,291	140,011
Personal income tax	82,871	69,829
Property tax	74,213	191,619
Land tax	16,338	16,741
Other taxes	1,200	2,024
Total	**842,513**	**721,170**

23. Revenue

Analysis of revenue by category is presented in the table below:

	2019	2018
Revenue from contracts with customers, including:	**25,003,141**	**27,954,822**
Electricity transmission	24,454,360	24,143,548
Connection services	412,661	667,732
Other revenue	136,120	143,542
Lease income	47,203	36,956
Total	**25,050,344**	**24,991,778**

Timing of revenue recognition under contracts with customers is as follows:

	2019	2018
Connection services	412,661	667,732
Other revenue	136,120	143,542
Total revenue recognised at a point in time	**548,781**	**811,274**
Electricity transmission	24,454,360	24,143,548
Total revenue recognised over time	**24,454,360**	**24,143,548**
Total revenue from contracts with customers	**25,003,141**	**24,954,822**

(in thousands of Russian Roubles)

24. Operating expenses, net

	2019	2018
Payroll, employee benefits and payroll taxes	7,094,686	6,898,974
Depreciation of property, plant and equipment and right-of-use assets and amortisation of intangible assets	3,691,951	3,487,616
Services by allied grid companies	2,543,726	2,177,666
Repairs and maintenance	1,900,456	1,884,944
Motor transportation services	1,169,193	1,073,700
Expenses on raw materials and supplies	849,061	869,496
Social expenditures and charity	711,473	1,160,562
Electricity transmission through Unified National Electric Grid	492,738	333,296
Provisions for legal and other claims, accrued	452,981	476,056
Property tax	291,719	775,473
Expenses on security, including fire safety	267,823	266,209
Information services	134,538	153,144
Expenses on personnel training and development	118,611	121,853
Communication services	106,345	102,581
Electricity consumed in production	100,094	90,080
Payments for housing construction under a social mortgage programme	88,651	88,651
Land tax	65,455	67,629
Expenses on property rights registration and cadastral registration	45,009	54,315
Rental services	27,247	136,721
Foundation settlement monitoring services	25,625	20,645
Accrual/(reversal) of allowance for expected credit losses	14,220	(24,448)
(Reversal) of impairment for inventories/ Write-down of inventories to their net realisable value	(475)	475
Reversal of impairment loss on available-for-sale property, plant and equipment	-	(1,605)
Other expenses	308,994	320,482
Total	**20,500,121**	**20,534,515**

The Group recognises revenue from electricity transmission and expenses on compensation of losses under the contract with the guaranteeing supplier on a net basis. The compensation of losses for 2019 of RR 3,940,363 thousand (2018: RR 3,731,342 thousand) due to the guaranteeing supplier is allocated to decrease the revenue from electricity transmission services for the same period.

25. Finance income

	2019	2018
Interest income on bank deposits and settlement accounts	417,853	440,530
Interest income on loans issued	7,345	3,696
Total	**425,198**	**444,226**

Discounting of loans gives rise to expense. Subsequent to the initial recognition, the discount is amortised over the period of repayment as finance income.

26. Finance expenses

	2019	2018
Interest expense on lease	305,083	50,069
Interest expense from discounted financial instruments	5,988	14,802
Initial effect from discounted financial instruments	-	67
Total	**311,071**	**64,938**

27. Contingencies and commitments

Capital commitments

At 31 December 2019, future capital expenditures under existing contracts totalled RR 13,441,586 thousand (31 December 2018: RR 12,137,157 thousand). Expected capital expenditures primarily relate to construction and reconstruction of transmission lines and substations.

Insurance

The Group insures certain assets, civil responsibility and other insurable risks. Accordingly, the Group may be exposed to those risks for which it does not have insurance.

Legal risks

Judicial practice is of great importance in the modern system of law enforcement in the Russian Federation and has an impact on the Group's activities. Being an integral part of an increasingly complex legal system, judicial practice has been constantly expanding and undergoing changes. In the conditions of dynamically developing law and potential inconsistency of federal, regional and local legal acts, the risk exists that the uniformity of judicial practice may be violated or that interpretation and application guidance of certain rules of law are unavailable.

Legal proceedings

The Group has been and continues to be the subject of legal proceedings, and the Group's management believe that no material losses will be incurred in respect of any of the claims in excess of provisions which have been made in these financial statements.

At 31 December 2019 the Group made provisions totalling RR 29,662 thousand (31 December 2018: RR 65,171 thousand) for potential litigations and other legal claims resulting primarily from uncertainties in the interpretation of applicable law.

Tax contingencies

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review were made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). Transfer pricing legislation provides for the possibility of imposing additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm’s length. The Group's management has implemented internal controls to be in compliance with the new transfer pricing legislation.

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

At 31 December 2019 the Group made a provision of RR 900,467 thousand (31 December 2018: RR 447,475 thousand) for potential claims resulting from uncertain tax positions due to differences in tax law interpretations. Since detailed disclosure of information may weaken the position of the Group during the settlement of possible disputes with tax authorities, this information is not disclosed.

27. Contingencies and commitments (continued)

Environmental matters

The Group and its predecessor companies have operated in the electric power industry in the Russian Federation for many years. The environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group entities periodically evaluate their obligations under the environmental regulations.

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

28. Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of the Group's internal policies and procedures, in order to minimise these risks.

Credit risk

The Group takes on exposure to credit risk, which is the risk that the other party to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group’s sales of products or services on credit terms, or deferred payments, and other transactions with counterparties giving rise to financial assets.

Financial assets which potentially subject the Group to credit risk, consist primarily of trade receivables, short-term investments, cash and cash equivalents.

Although collectability of receivables can be influenced by economic factors, management does not believe that there is any significant risk of loss to the Group beyond the allowance for expected credit loss already recorded.

The Group applies two approaches to assessment of its credit risk expose with respect to ECL under IFRS 9: a general model and a simplified model. The simplified model is applied to trade receivables, contract assets and lease receivables, while the general model is applied to other financial assets in accordance with the rules described in Note 3.

In the absence of an independent evaluation of counterparties’ solvency, for the purpose of reducing its credit risk, the Group evaluates its counterparties’ solvency at the stage of signing the agreement, taking into account its financial position and credit history. The solvency of current counterparties is evaluated taking into account their past experience and other factors. The Group does not apply any forecasts of future conditions, as its receivables are mostly short-term.

For the purpose of evaluating the credit risk, receivables and other financial assets are split into following groups:

Group 1 – new and existing counterparties without any outstanding payments;

Group 2 – current counterparties with identified cases of overdue payments within the recent 12 months;

Group 3 – current counterparties with the history of overdue payments.

At 31 December 2019 and 31 December 2018, receivables and other financial assets are mostly included in Group 1.

In respect of each financial asset, the Group also analyses whether there are any signs of increased credit risk and probability of default.

(in thousands of Russian Roubles)

28. Financial risk management (continued)

For purposes of measuring PD in financial instruments, the Group's management defines default as a situation when the exposure meets one or more of the following criteria:

- the counterparty is more than 12 months days past due on its contractual payments;
- analysis of the counterparty's financial position shows evidence of insolvency indicators;
- the counterparty is declared bankrupt or proceedings on deeming the counterparty insolvent are initiated;
- international/national rating agencies assign a default rating to the counterparty.

If at least one of the above criteria is met by a financial asset, the allowance for expected credit losses is set up for the total amount outstanding at the reporting date.

The Group regularly monitors the existing amounts outstanding and is engaged in a successful claims and collection work in respect of overdue receivables. Using the existing statistics for collection of receivables the Group's management estimates that the probability of default on the receivables that are 12 months past due is low.

Receivables in respect of which there is no increased risk of default are split into groups by overdue period, and proportions of expected loss are defined for each of them based on assessment of credit risk according to previous experience.

The level of expected loss under the general model is provided below:

	31 December 2019		
Overdue status of receivables	**Expected credit losses, %**	**Amount of receivables**	**Allowance for expected credit losses**
Current	4.0%	113,955	4,604
Up to 1 month	81.7%	1,472	1,202
1 to 3 months	87.9%	2,286	2,009
3 to 6 months	89.5%	2,151	1,926
6 to 9 months	93.8%	682	640
9 to 12 months	94.5%	2,024	1,913
Over 12 months	100%	26,892	26,892
Individually impaired	100%	738	738
Total		**150,200**	**39,924**

	31 December 2018		
Age of receivables	**Expected credit losses, %**	**Amount of receivables**	**Allowance for expected credit losses**
Current	0.5%	64,310	325
Up to 1 month	3.7%	3,827	142
1 to 3 months	9.8%	521	51
3 to 6 months	33.2%	2,555	848
6 to 12 months	72.5%	6,504	4,715
Over 12 months	100.0%	15,158	15,158
Individually impaired	100.0%	13,893	13,893
Total		**106,768**	**35,132**

(in thousands of Russian Roubles)

28 Financial risk management (continued)

The level of expected loss under the simplified model is provided below:

	31 December 2019		
Age of receivables	**Expected credit losses, %**	**Amount of receivables**	**Allowance for expected credit losses**
Current	0.1%	1,522,745	1,370
Up to 1 month	0.2%	13,998	31
1 to 3 months	0.7%	1,758	12
3 to 6 months	65.3%	3,097	2,022
6 to 9 months	73.9%	1,910	1,412
9 to 12 months	79.2%	154	122
Over 12 months	100%	9,633	9,633
Individually impaired	100%	393	393
Total		**1,553,688**	**14,995**

	31 December 2018		
Age of receivables	**Expected credit losses, %**	**Amount of receivables**	**Allowance for expected credit losses**
Current	0.1%	1,506,403	1,506
Up to 1 month	1.9%	3,295	63
1 to 3 months	4.8%	1,242	60
3 to 6 months	10.3%	1,815	187
6 to 9 months	16.1%	5,044	812
9 to 12 months	48.9%	1,974	966
Over 12 months	100.0%	12,596	12,596
Individually impaired	100.0%	2,189	2,189
Total		**1,534,558**	**18,379**

The Group places its cash with banks that are considered to have minimal risk of default. The Group's management approves deposit banks as well as rules for placing cash, including making cash deposits. The Group performs regular review of financial institutions and monitors their ratings assigned by independent agencies. For banks with credit rating below investment grade, the Group's management performs monthly monitoring procedures to establish their compliance with CB RF's ratios and reviews changes in their financial performance.

The Group has not set up any allowance for expected credit losses related to cash and cash equivalents and bank deposits, as based on the investment level credit rating, such financial assets are not impaired, and fair value of cash and cash equivalents and bank deposits is not significantly different from their carrying amount. Allowance for expected credit losses in respect of these financial assets is not material for the purpose of these financial statements. The aggregate data on placement of cash and cash equivalents and bank deposits as at the end of the reporting period are provided in Notes 15 and 16.

The Group's maximum exposure to credit risk by class of assets approximates the carrying value of each financial asset at the reporting date.

	At 31 December 2019	**31 December 2018**
Cash and cash equivalents	2,426,300	3,545,422
Trade and other receivables	1,604,737	1,567,298
Short-term investments	2,990,915	1,509,763
Other non-current assets	44,232	20,517
Total	**7,066,184**	**6,643,000**

Concentration of credit risk. The Group is exposed to concentrations of credit risk. At 31 December 2019 and at 31 December 2018, the Group has a sole counterparty represented by AO Tatenergosbyt which is an ensured electricity supplier in the Republic of Tatarstan. Its share in total trade and other receivables as at 31 December 2019 was 81% (31 December 2018: 84%). At 31 December 2019, these receivables totalled RR 1,296,399 thousand (31 December 2018: RR 1,311,872 thousand).

(in thousands of Russian Roubles)

28. Financial risk management (continued)

Other price risk. The Group assesses the price risk related to equity securities as remote due to the fact that the Group carries its investments at fair value determined using the comparative approach.

Liquidity risk. The liquidity risk is related to potential inability of the Group to fulfil its payment obligations in due time. Liquidity risk management implies maintaining sufficient level of cash, ensuring reliable access to credit resources and ability to manage the market position. The table below presents analysis of financial obligations of the Group by maturity dates. The amount of liability represents undiscounted amount of contractual cash flows.

			Due for repayment				
	Carrying value	Total undiscounted contractual amount of cash flows	Less than 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Over 5 years
At 31 December 2019							
Lease liabilities	3,757,097	5,116,408	449,536	298,443	785,075	2,601,967	981,387
Trade and other payables	1,616,894	1,625,473	1,618,984	4,232	1,640	617	-
Total	**5,373,991**	**6,741,881**	**2,068,520**	**302,675**	**786,715**	**2,602,584**	**981,387**
At 31 December 2018							
Finance lease liabilities	169,974	196,083	179,806	2,335	4,046	9,896	-
Trade and other payables	2,553,850	2,559,839	2,558,214	1,342	283	-	-
Total	**2,723,824**	**2,755,922**	**2,738,020**	**3,677**	**4,329**	**9,896**	

Currency risk

The Group is not exposed to the currency risk as the Group has no assets and liabilities denominated in foreign currency. The Group transmits electricity at fixed rates in Russian Roubles in Russia. The extent of exchange rates' impact on the Group's financial position, liquidity, financial sources and performance is insignificant as the Group has no plans to operate in foreign markets. Therefore, the effect of exchange rates fluctuations on the financial results of the Group is deemed immaterial.

Interest rate risk

The Group's operating income and cash flows are substantially independent of changes in market interest rates. The Group is exposed to fair value interest rate risk through market value fluctuations of interest-bearing financial liabilities. The Group does not have any floating rate borrowings. Interest rates on lease contracts are also fixed.

Capital management

Equity is the key element of capital, in management's opinion. Capital management of the Group is aimed at retaining ability of the Group to continue its operations as a going concern ensuring profit to shareholders, accommodating the interest of parties and maintaining the optimal capital structure which allows minimising capital costs.

The capital structure of the Group can be maintained and adjusted by issuing shares, raising credits and loans, selling non-core assets and revising the investment plans.

At the Group level monitoring of the capital structure is performed by determining the leverage level which is the ratio of net debt to equity. In its turn, the net debt is determined as the difference between total borrowings and cash and cash equivalents. Total equity is determined by summing up share capital and net debt.

(in thousands of Russian Roubles)

28. Financial risk management (continued)

The level of financial leverage at 31 December 2019 and 31 December 2018 is presented below:

	At 31 December 2019	At 31 December 2018
Trade and other payables and lease payable	5,373,991	2,723,824
Less: Payables on share issue	-	(876,005)
Less: Cash and cash equivalents	(2,426,300)	(3,545,422)
Net debt / (net cash)	2,947,691	(1,697,603)
Equity	59,870,338	57,140,851
Equity including net cash	59,870,338	58,838,454
Total equity	**62,818,029**	**58,838,454**
Share of borrowings in the capital structure	4,7%	0,0%
Share of equity in the capital structure	95,3%	100%
Debt/equity ratio	0,049	0,00

Information on financial instruments in terms of measurement categories is presented below:

At 31 December 2019	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial liabilities at amortised cost	Total
Assets as per the statement of financial position				
Investments in equity securities	-	196,555	-	196,555
Other non-current assets	44,232	-	-	44,232
Trade and other receivables	1,604,737	-	-	1,604,737
Short-term investments	2,990,915	-	-	2,990,915
Cash and cash equivalents	2,426,300	-	-	2,426,300
Total financial assets	**7,066,184**	**196,555**	**-**	**7,262,739**
Liabilities as per the statement of financial position				
Lease payable	-	-	3,757,097	3,757,097
Trade and other payables	-	-	1,616,894	1,616,894
Total financial liabilities	**-**	**-**	**5,373,991**	**5,373,991**

At 31 December 2018	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial liabilities at amortised cost	Total
Assets as per statement of financial position				
Investments in equity securities	-	149,205	-	149,205
Other non-current assets	20,517	-	-	20,517
Trade and other receivables	1,567,298	-	-	1,567,298
Short-term investments	1,509,763	-	-	1,509,763
Cash and cash equivalents	3,545,422	-	-	3,545,422
Total financial assets	**6,643,000**	**149,205**	**-**	**6,792,205**
Liabilities as per the statement of financial position				
Finance lease payable	-	-	169,974	169,974
Trade and other payables	-	-	2,553,850	2,553,850
Total financial liabilities	**-**	**-**	**2,723,824**	**2,723,824**

29. Fair value of financial instruments

When classifying financial instruments within a specific fair value hierarchy, management uses judgement. The fair value calculation procedure is described in Note 3.

Financial assets recognised at fair value. Investments in equity securities are recorded in the statement of financial position at their fair value and relate to Level 2 of the fair value hierarchy (Note 11).

(in thousands of Russian Roubles)

29. Fair Value of Financial Instruments (continued)

At the reporting date, the Group has financial assets and liabilities which are not measured at fair value, but for which fair value disclosure is required. They relate to Level 2 and 3 of the fair value hierarchy.

With regard to such assets and liabilities, the Group's management believes that their fair value approximates their carrying value. Presented below are fair values of assets and liabilities that are not measured at fair value. Cash and cash equivalents are not recorded in the table below as their present value reasonably approximates their fair value due to their short-term nature or revision of discount rates in favour of current market rates.

	At 31 December 2019			At 31 December 2018		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Trade and other receivables	-	-	1,640,359	-	-	1,577,033
Short-term investments	-	2,990,915		-	1,509,763	-
Loans issued	-	8,610	-	-	10,782	-
Total financial assets	**-**	**2,999,525**	**1,640,359**	**-**	**1,520,545**	**1,577,033**
	-					
Trade and other payables	-	1,616,894	-	-	2,553,850	-
Total financial liabilities	**-**	**1,616,894**	**-**	**-**	**2,553,850**	**-**

Financial assets recognised at amortised cost. The estimated fair value of fixed interest rate financial instruments is based on estimated future cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Financial liabilities carried at amortised cost. Fair values of liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

30. Events after the reporting date

Changes in the Charter. On 10 February 2020, changes were registered in the Charter of OAO Grid Company based on the decision of the extraordinary general meeting of shareholders to increase the authorized capital of the Company dated 25 October 2016 and the report on the results of the additional issue of securities registered on 30 December 2019 by the Bank of Russia.

Relations with the government and their impact on the Group's operations. Late in 2019 news first emerged from China about the outbreak of coronavirus (COVID-19). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus spread globally, and its negative impact has gained momentum. While this is still an evolving situation at the time of issuing these financial statements, it appears that the negative impact on global trade and on the Group may be more severe than originally expected. Certain currencies have weakened, stock markets have declined, and commodity prices have decreased significantly. Management considers this outbreak to be a non-adjusting post balance sheet event.

To date there has been no discernible impact on the Group's operations, however the future effects cannot be predicted. Management will continue to monitor the potential impact of these developments and will take all steps possible to mitigate any effects.