

SO UPS GROUP

**Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards (IFRS)
for the year ended 31 December 2018
and Auditors' Report**

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AUDITOR'S REPORT

To the shareholders of the Joint Stock Company System Operator of the United Power System and other users of the financial reporting.


Opinion

We have audited the accompanying consolidated financial statements of the Joint Stock Company System Operator of the United Power System (OGRN 1027700201352, 7 Kitaigorodsky proezd, bld. 3, Moscow, 109074) and its subsidiaries (the «Group»), which comprise the consolidated balance sheet as at December 31, 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements comprising a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants applicable to our audit of financial statements in the jurisdiction of the Russian Federation, and we have fulfilled

 **АУДИТОР**
Куликов Владимир Владимирович³
Лицензия № 03-000364

our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The order of disclosure in the financial statements affects significantly the reporting indicators and the understanding of the user. Our audit procedures included: inspection of the established forms of financial statements and notes to them, testing of information about Events after the balance sheet date, about contingencies, related parties, and the main elements of accounting policy.

Responsibilities of Management and board members for the Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of

accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The board members are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- a) identify and assess the risks of material misstatement of the 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;
- b) 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;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management of the Group;

d) 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 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;

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

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

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

From the matters communicated with the board members, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter

should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's conclusion under the financial statement is V.V.Kulikov.

Auditor «GF», LLC



V.V.Kulikov

(acting on the basis of order of General Director «GF», LLC dated April, 18, 2019 № 2-1; the qualifying certificate of the auditor dated October, 15, 2012 № 03-000364, issued for an indefinite period, ORNZ № 20803034553)

Auditing firm:

Limited Liability Company «Group Finances»


OGRN 1082312000110

Russian Federation, 109052, Moscow, ul. Nizhegorodskaya, 70, korpus 2, office 16A, floor 1, room 4.

«Group Finances» LLC is a member of self-regulatory organization of auditors – «Russian Union of auditors» (Association).

ORNZ № 11203052793

24 April 2019



АУДИТОР
Куликов Владимир Владимирович
Аттестат № 03-000364

SO UPS GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

In millions of Russian Roubles

	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	5	27,280	26,009
Intangible assets	6	2,530	2,411
Other non-current assets	7	3,005	2,713
Total non-current assets		32,815	31,133
Current assets			
Inventories		256	246
Deposits		23	92
Accounts receivable and prepayments made	8	738	532
Income tax prepayments		119	398
Cash and cash equivalents	18	3,547	4,810
Other current assets		16	27
Total current assets		4,699	6,105
TOTAL ASSETS		37,514	37,238
EQUITY AND LIABILITIES			
Equity attributable to the shareholder			
Share capital registered	9	2,576	2,576
Share premium	9	7,800	7,800
Revaluation reserve	5	4,928	5,073
Contribution from the shareholder	9	833	833
Retained earnings and other reserves		15,049	14,619
Total equity		31,186	30,901
Non-current liabilities			
Non-current debt		-	70
Deferred income tax liabilities	15	359	441
Retirement benefit obligations	10	2,026	2,373
Total non-current liabilities		2,385	2,884
Current liabilities			
Current debt and current portion of non-current debt		11	-
Accounts payable	11	2,627	2,199
Taxes payable	12	1,305	1,254
Total current liabilities		3,943	3,453
Total liabilities		6,328	6,337
TOTAL EQUITY AND LIABILITIES		37,514	37,238

Chairman of the Management Board

Chief Accountant



B.I. Ayuev

M.S. Sedyakin

«23 » April 2019

SO UPS GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

In millions of Russian Roubles

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Operating revenues			
Income from operational dispatch management		26,260	25,819
Other income		759	597
Total operating revenues		27,019	26,416
Operating expenses			
	13	(26,448)	(25,530)
Operating profit		571	886
Other income and costs			
Income from the sale of a subsidiary		-	87
Finance income	14	267	406
Finance costs	14	(181)	(189)
Profit before tax for the year		657	1,190
Income tax expense	15	(211)	(484)
Profit for the year		446	706
Other comprehensive income			
<i>Items that will never be reclassified subsequently to profit or loss:</i>			
Revaluation of property, plant and equipment		(182)	-
Remeasurements of net defined benefit liability	10	454	(11)
Related income tax		(54)	2
		218	(9)
<i>Items that will be reclassified subsequently to profit or loss</i>			
Fair value of available-for-sale financial assets		-	1
		-	1
Other comprehensive income for the year, net of income tax		218	(8)
Total comprehensive income for the year		664	698
Total comprehensive income attributable to Shareholder		664	698

Chairman of the Management Board



B.I. Ayuev

Chief Accountant

M.S. Sedyakin

« 23 » April 2019

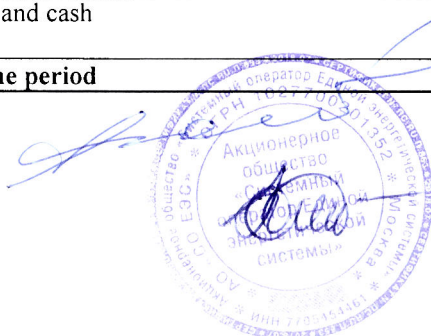
SO UPS GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
In millions of Russian Roubles

	Note	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax		657	1,190
<i>Adjustments to reconcile profit before tax to net cash provided by operations:</i>			
Depreciation and revaluation of property, plant and equipment and amortization of intangible assets	5, 6	3,625	3,828
Retirement benefit charge	10	243	243
Foreign exchange gain/(loss)	14	(1)	(19)
Finance income, net (excluding interest expenses on retirement benefit obligations)	14	(264)	(378)
Non-refundable VAT		-	7
Losses on disposal of property, plant and equipment, net		14	92
Change in provision for impairment of receivables	13	30	(2)
Profit on disposal of a subsidiary		-	(87)
Operating cash flows before working capital changes and income tax paid		4,304	4,874
<i>Working capital changes:</i>			
Change in accounts receivable and prepayments made		52	98
Change in other assets		7	(38)
Change in inventories		(10)	(21)
Change in accounts payable and accruals		428	76
Change in taxes payable, other than income tax		51	47
Income tax paid		(289)	(697)
Retirement benefits paid	10	(227)	(100)
Net cash generated by operating activities		4,316	4,239
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and intangible assets		(5,481)	(4,316)
Proceeds from sale of property, plant and equipment		5	77
Proceeds from sale of subsidiary		-	697
Interest received		266	319
Deposits		69	(54)
Net cash used in investing activities		(5,141)	(3,277)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from (repayment of) loans and borrowings		(59)	17
Interest paid		(2)	(9)
Dividends paid by the Group		(378)	(584)
Net cash used in financing activities		(439)	(576)
Net (decrease) increase in cash and cash equivalents		(1,264)	386
Cash and cash equivalents at the beginning of the period		4,810	4,405
Effect of exchange rate fluctuations on cash and cash equivalents		1	19
Cash and cash equivalents at the end of the period		3,547	4,810

Chairman of the Management Board

Chief Accountant



B.I. Ayuev

M.S. Sedyakin

« 23 » April 2019

SO UPS GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018
In millions of Russian Roubles

	Share capital	Share premium	Revaluation reserve	Contribution from the shareholder	Remeasurements of net defined benefit liability (asset)	Retained earnings	Total equity
At 31 December 2016	2,576	7,800	5,752	833	(262)	14,088	30,787
Profit for the year	-	-	-	-	-	619	619
Sale of a subsidiary	-	-	(679)	-	-	766	87
Other comprehensive income, net of tax	-	-	-	-	(9)	1	(8)
Total comprehensive income for the year	-	-	(679)	-	(9)	1,386	698
Dividends	-	-	-	-	-	(584)	(584)
At 31 December 2017	2,576	7,800	5,073	883	(271)	14,890	30,901
Profit for the year	-	-	-	-	-	446	446
Other comprehensive income, net of tax	-	-	(145)	-	363	-	218
Total comprehensive income for the year	-	-	(145)	-	363	446	664
Dividends	-	-	-	-	-	(378)	(378)
At 31 December 2018	2,576	7,800	4,928	833	92	14,957	31,186

Chairman of the Management Board

Chief Accountant





B.I. Ayuev

M.S. Sedyakin

» April 23 2019

SO UPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 In millions of Russian Roubles

Note 1. General information

The Company and its operations

The Joint Stock Company System Operator of the United Power System (hereinafter – “the Company” or JSC SO UPS) was founded based on the Resolution of the Russian Joint Stock Company for Energy and Electrification Unified Energy System of Russia (hereinafter – “JSC RAO UES”) No.39r of 13 June 2002 in accordance with the Decree of the Russian Federation Government No.526 of 11 July 2001 “On reforming of electricity (power) generation industry of the Russian Federation”.

The Company’s registered office: 7 Kitaigorodsky proezd, bld. 3, 109074, Moscow, Russia.

The Company’s principal activities include electricity operational-dispatching functions within the Unified Energy System of the Russian Federation and organization of forecasting of power production and consumption.

As at 31 December 2018, the Company had 58 branches and 16 representative offices (31 December 2017: 58 branches and 16 representative offices).

The SO UPS Group (“the Group”) includes JSC SO UPS and its subsidiaries. As at 31 December 2018 the Company owned 100 % shares – 1 share of the share capital of JSC Scientific and Technical Center of Unified Power System (JSC “STC UPS”) and 100 % shares – 1 share of the share capital of JSC “Inspection of Electric Power Facilities” (JSC “Technical Inspection of UES”). JSC SO UPS through JSC “STC UPS” controls JSC “STC UPS (Moscow branch)”. All subsidiaries have been established and operate in the territory of the Russian Federation.

Business environment

The Group’s operations are located in the Russian Federation. Consequently, the Group is exposed to the national economics and financial markets, which display the characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. Management of the Company believes it is taking appropriate measures to support the sustainability of the Company’s business in the current circumstances.

Relations with the State

As at 31 December 2018 and as at 31 December 2017 the Russian Federation represented by the Federal Agency of State Property Management owned 100 percent of JSC SO UPS.

The Group’s customer base includes a large number of enterprises which are either controlled by or directly relate to the State.

The Government of the Russian Federation directly affects the Company’s operations through:

- participation of its representatives on the Board of Directors of the Company;
- regulation by the Federal Service on Tariffs (“FST”) of the fees chargeable by the Company for the provision of dispatching services related to electric power transmission in the Unified Energy System of Russia;
- control over and approval of the Company’s investment program;
- antimonopoly regulation.

SO UPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 In millions of Russian Roubles

Note 2. Basis of preparation

Statement of compliance

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

Each company of the Group maintains its accounting records and prepares its financial statements in accordance with the Regulation on Accounting and Reporting of the Russian Federation. These Financial Statements are based on the statutory accounting records, with adjustments recorded for the purposes of fair presentation in accordance with the requirements of IFRS.

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the property, plant and equipment class “Buildings” which is stated at a revalued amount, and available-for-sale financial assets which are stated at fair value.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the functional currency of the Company and each of the Group’s consolidated entities and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million, unless otherwise stated.

Critical accounting estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is provided below:

Note 5 - Revaluation of the class ‘Buildings’ within property, plant and equipment;

Notes 3 and 5 - Useful life of property, plant and equipment;

Note 10 - Retirement benefit obligations.

New standards and Interpretations not yet adopted

In 2018, the Group applied all IFRS, amendments and interpretations which are effective as at 1 January 2018 and relevant to its operations. None of them had material impact on the Group’s consolidated financial statements.

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2018 and have not been applied in preparing these Consolidated

SO UPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 In millions of Russian Roubles

Financial Statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

IFRS 16 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single, on-balance lease sheet accounting model. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessee will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. There are optional recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 was issued in January 2016 and replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

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

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

SO UPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 In millions of Russian Roubles

Measurement of fair values

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

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

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

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

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

Note 3. Summary of significant accounting policies

Except for the changes in accounting policies set out in Note 2, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Consolidation principles

The Group's consolidated financial statements incorporate the results, cash flows, assets and liabilities of JSC "SO UPS" and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity generally accompanying a shareholding of more than one half of the voting rights.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control over subsidiaries is transferred to the Group. Subsidiaries are de-consolidated from the date that control ceases.

All intragroup transactions and balances, and any unrealized income and expenses arising from the intragroup transactions are eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted subsidiaries are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

The Group's monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RUB at the exchange rates effective at that date. Foreign currency transactions are accounted for at the exchange rates effective at the date of the

SO UPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 In millions of Russian Roubles

transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(c) Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared (approved by the shareholders) before or on the balance sheet date. Dividends are disclosed in the financial statements when they are declared after the reporting date, but before the financial statements are authorized for issue.

(d) Property, plant and equipment

Items of property, plant and equipment (except for “Buildings” class) are stated at acquisition or construction cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Property, plant and equipment items comprising the Buildings class are stated at a revalued amount being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is carried out on a regular basis to ensure that the carrying amount does not differ significantly from that which would be determined using fair value at the reporting date. The frequency of revaluations depends upon the movements in the fair values of the assets being revalued.

The increase in the carrying amount arising on revaluation of an item of property, plant and equipment is recognised directly under the heading of “revaluation reserve” in other comprehensive income. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. A revaluation decrease on property, plant and equipment is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Group recognizes deferred tax assets and liabilities arising from revaluation of items of property, plant and equipment directly in equity, except when the revaluation result was recognised in profit or loss.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment (other than the class Buildings). If any such indication exists, management estimates the recoverable amount which is determined as the higher of two values: an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in profit or loss. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

Renewals and improvements are capitalized and the assets replaced are retired. Repair and maintenance costs are expensed as incurred.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss for the

SO UPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 In millions of Russian Roubles

year. When revalued assets are sold, any related amount included in the revaluation reserve as revaluation surplus is transferred to retained earnings.

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the item of property, plant and equipment when it is available for use. Land is not depreciated.

The useful lives (in years) of property, plant and equipment by type are as follows:

	The useful lives
Industrial buildings	20 to 80 years
Electrical equipment	15 to 20 years
Computer, dispatching and communication equipment	3 to 20 years
Other PPE (motor vehicles, office equipment, furniture and fixtures etc.)	3 to 20 years

Useful lives of property, plant and equipment are reviewed annually.

(e) Intangible Assets

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

Acquired computer software and licences are capitalized on the basis of the costs incurred to acquire and bring them to use.

After initial recognition, intangible assets are carried at cost of acquisition (creation) less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful lives of intangible assets of 1-5 years.

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

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

(f) Cash and Cash Equivalents

Cash comprises cash at banks, cash on hand and short-term deposits with an original maturity of three months or less.

(g) Accounts receivable and prepayments made

Accounts receivable are recorded inclusive of value added taxes less an allowance made for impairment of these receivables. An allowance for doubtful debtors is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows,

SO UPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 In millions of Russian Roubles

discounted at the original effective rate of interest. Where provision has been made for impairment of receivables, the impairment loss is recognised for the gross amount of the debtor's balance, including value added tax.

(h) Value added tax on purchases and sales

Value added tax ("VAT") related to sales is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is recoverable against output VAT. The tax authorities permit the payment of the difference between input VAT and output VAT.

(i) Loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method; any difference between the initial fair value of the consideration received (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the loan or borrowing.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily requires extended period to prepare the asset for its intended use or sale are capitalised as part of the initial cost of the asset. All other borrowing costs are recognised as an expense in the period in which they were incurred. Borrowing costs include interest costs and other costs incurred by the Group in connection with loans and borrowings.

The Group capitalizes borrowing costs relating to all the qualifying assets for which the commencement date for construction is on or after 1 January 2009. The Group continues to recognize as an expense borrowing costs associated with construction projects for which the commencement date is before 1 January 2009.

(j) Accounts payable and accrued charges

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

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(l) Employee benefits

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in wages, benefits and payroll taxes in the statement of comprehensive income.

The Group incurs employee costs related to the provision of benefits such as medical insurance and accident insurance, which are also expensed when incurred.

The Group operates defined benefit plans that cover the majority of the Group's employees.

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Benefit plans define the amount of pension benefits that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

For defined benefit plans, the amount of costs is determined using the Project Unit Credit Method, with actuarial valuations being carried out as at 31 December 2018, 2017 and 2016.

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

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

Remeasurements of Other non-current employee benefits are recognised in profit or loss in the period in which they arise.

(m) Deferred income tax

Deferred tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

A deferred tax asset for deductible temporary differences is recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted (or substantively enacted) at the balance sheet date.

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

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(n) Revenue recognition

Revenue from rendering services is recognised in the period the services are provided. Revenue amounts are presented exclusive of value added taxes. Revenue from rendering dispatching services related to electric power transmission and reliability control services is determined based on tariffs authorised and approved by the Federal service on tariffs ("FST").

(o) Leases

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present (discounted) value of the minimum lease payments. Subsequently, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and the related leased assets are not recognised on the Group's statement of financial position.

Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Note 4. Balances and transactions with related parties

The Group's related parties are :

- other government-related entities;
- members of the Company's Board of Directors and members of the Company's Management Board.

Government-related entities

In the normal course of business the Group enters into transactions with other government-related entities. Balances receivable and turnover of such transactions for such operations are presented below:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Dispatch management fees	17,090	15,627
Purchase of goods, works and services	2,226	2,315
	31 December 2018	31 December 2017
Accounts receivable	632	587
Cash and cash equivalents	3,191	4,163
Accounts payable	326	378

Dispatch services were provided to government-related entities on the same terms as those to the other companies at the set tariffs.

Compensation paid to members of the Board of Directors and members of the Management Board

Compensation is paid to the members of the Company's Management Board for their services at their management positions and is made up of a contractual salary, non-cash benefits and a performance bonus depending on results for the period according to Russian statutory financial statements. The compensation is approved by the Company's Board of Directors.

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Remuneration and compensation to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year.

The short-term compensations paid to the members of the Board of Directors and Management Board in monetary and non-monetary (medical insurance, provision of accommodation) forms amounted to RUB 236 million and RUB 237 million for the years 2018 and 2017, respectively.

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Note 5. Property, plant and equipment

Cost / Revalued amount	Buildings	Electrical equipment	Computer, dispatching and communication equipment	Land	Other Property, Plant and Equipment	Construction in progress	TOTAL
Balance at 1 January 2018	14,370	2,680	17,898	766	1,293	5,688	42,695
Additions	17	137	1,561	48	118	2,380	4,261
Transfer from construction in progress	365	142	434	-	34	(975)	-
Disposals	(1)	(78)	(322)	-	(25)	-	(426)
Revaluation increase recognised in equity	(182)	-	-	-	-	-	(182)
Revaluation decrease recognised in profit or loss	(107)	-	-	-	-	-	(107)
Elimination of depreciation of revalued assets	(724)	-	-	-	-	-	(724)
Balance at 31 December 2018	13,738	2,881	19,571	814	1,420	7,093	45,517
Accumulated depreciation and impairment loss							
Balance at 1 January 2018	(231)	(1,928)	(13,717)	-	(806)	(4)	(16,686)
Charge for the period	(499)	(219)	(1,864)	-	(100)	-	(2,682)
Disposals	-	73	323	-	11	-	407
Elimination of depreciation of revalued assets	724	-	-	-	-	-	724
Balance at 31 December 2018	(6)	(2,074)	(15,258)	-	(895)	(4)	(18,237)
Net book value as at							
1 January 2018	14,139	752	4,181	766	487	5,684	26,009
Net book value as at							
31 December 2018	13,732	807	4,313	814	525	7,089	27,280

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Cost / Revalued amount	Buildings	Electrical equipment	Computer, dispatching and communication equipment	Land	Other Property, Plant and Equipment	Construction in progress	TOTAL
Balance at 1 January 2017	14,787	2,370	17,338	766	1,244	4,930	41,435
Additions	32	189	901	-	38	1,459	2,619
Transfer from construction in progress	453	166	35	-	47	(701)	-
Disposals	(155)	(46)	(376)	-	(21)	-	(598)
Selling a subsidiary	(747)	-	-	-	(15)	-	(762)
Balance at 31 December 2017	14,370	2,680	17,898	766	1,293	5,688	42,695
Accumulated depreciation and impairment loss							
Balance at 1 January 2017	(1)	(1,754)	(11,859)	-	(732)	(4)	(14,350)
Charge for the period	(233)	(215)	(2,234)	-	(98)	-	(2,780)
Disposals	1	41	376	-	10	-	428
Selling a subsidiary	2	-	-	-	14	-	16
Balance at 31 December 2017	(231)	(1,928)	(13,717)	-	(806)	(4)	(16,686)
Net book value as at 1 January 2017	14,786	616	5,479	766	512	4,926	27,085
Net book value as at 31 December 2017	14,139	752	4,181	766	487	5,684	26,009

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The table below provides information about the carrying amount of the property, plant and equipment of the “Buildings” class that would have been recognised in the financial statements if those assets continue to be accounted for at historical cost:

	Buildings
Cost	
At 1 January 2018	9,990
Additions	17
Transfer from construction in progress	364
Disposals	(3)
At 31 December 2018	10,367
8	
Accumulated Depreciation and Impairment	
At 1 January 2018	(1,145)
Charge for the period	(345)
Disposals	2
At 31 December 2018	(1,488)
Net book value as at 1 January 2018	8,845
Net book value as at 31 December 2018	8,880

	Buildings
Cost	
At 1 January 2017	10,044
Additions	32
Transfer from construction in progress	77
Disposals	(128)
Selling a subsidiary	(35)
At 31 December 2017	9,990
Accumulated Depreciation and Impairment	
At 1 January 2017	(1,063)
Charge for the period	(109)
Disposals	16
Selling a subsidiary	11
At 31 December 2017	(1,145)
Net book value as at 1 January 2017	8,981
Net book value as at 31 December 2017	8,845

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation.

Depreciation is charged once an asset of property, plant and equipment is available for use.

Revaluation Starting from 1 January 2007 the Group adopted the revaluation model for property, plant and equipment comprising the “Buildings” class (see Note 3).

Property, plant and equipment items comprising the “Buildings” class were revalued as at 1 January 2007, as at 31 December 2008, as at 31 December 2010, as at 31 December 2012, as at 31 December 2014, as at 31 December 2016 and as at 31 December 2018 by independent appraisers.

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As at 31 December 2017 the management of the Group has estimated the possible change in fair value of property compared to the carrying amount as a insignificant. Revaluation was not carried out.

Operating leases

The Group leases a number of land areas, buildings and other properties under operating lease. The lease payments due are determined based on the lease agreements and payable as follows:

	31 December 2018	31 December 2017
Under one year	206	198
Between one and five years	386	245
Over five years	660	582
Total	1,252	1,025

The above lease agreements are signed for 1 to 49 years for land areas and for short-term period (less than 1 year) for other properties with the right to extend for a longer period. The lease payments are subject to review on a regular basis to reflect market rent prices.

Note 6. Intangible assets

	Computer software and licences	Construction in progress (computer software SCADA/EMS system)	Development costs	Total
Initial Cost				
At 1 January 2018	5,756	409	288	6,453
Additions	46	47	1,090	1,182
Transfer from construction in progress	1,543	(456)	(1,087)	-
Disposals	(714)	-	(39)	(752)
At 31 December 2018	6,631	-	252	6,883
Accumulated amortisation and impairment				
At 1 January 2018	(3,958)	(80)	(4)	(4,042)
Charge for the period	(943)	-	-	(943)
Transfer from construction in progress	(80)	80	-	-
Disposals	628	-	4	632
At 31 December 2018	(4,353)	-	-	(4,353)
Net book value				
At 1 January 2018	1,798	329	284	2,411
At 31 December 2018	2,278	-	252	2,530

Initial Cost				
At 1 January 2017	5,326	409	123	5,858
Additions	340	-	409	749
Transfer from construction in progress	244	-	(244)	-
Disposals	(154)	-	-	(154)
At 31 December 2017	5,756	409	288	6,453
Accumulated amortisation and impairment				
At 1 January 2017	(3,060)	-	-	(3,060)
Charge for the period	(963)	(80)	(5)	(1,048)
Disposals	66	-	1	67
At 31 December 2017	(3,958)	(80)	(4)	(4,042)

Net book value

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At 1 January 2017	2,266	409	123	2,798
At 31 December 2017	1,798	329	284	2,411

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Note 7. Other non-current assets

	31 December 2018	31 December 2017
Advances to suppliers of Plant, Property and Equipment	2,936	2,639
Financial assets available-for-sale	67	72
Accounts receivable from buyers and customers	1	1
Non-current portion of value added tax recoverable	1	1
Total	3,005	2,713

Financial assets available-for-sale relate to the Group contributions accumulated in the solidary and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). Subject to certain restrictions contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

Note 8. Accounts receivable and prepayments

	31 December 2018	31 December 2017
Accounts receivable from buyers and customers (net of provision for impairment of RUB 537 million as at 31 December 2018 and RUB 558 million as at 31 December 2017)	552	395
Other receivables (net of provision for impairment of RUB 1 million as at 31 December 2018 and RUB 9 million as at 31 December 2017)	101	72
Financial accounts receivable	653	467
Advances to suppliers	29	19
Value added tax recoverable	56	46
Non-financial accounts receivable and prepayments	85	65
Total	738	532

Value added tax recoverable balances will be settled by means of offset against future tax liabilities.

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows. Management believes that the Group will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore, the recorded value of accounts receivable reflects their fair value.

Note 9. Equity

Share capital

	31 December 2018	31 December 2017
Issued and fully paid:		
Registered share capital:		
Ordinary shares	2,576	2,576
Share premium	7,800	7,800
Total	10,376	10,376

As at 31 December 2018 the total number of authorised ordinary shares was 3,810,560,564 (31 December 2017: 3,810,560,564) with a nominal value per share of 1 (one) RUB each, including 2,576,367,429 (31 December 2017: 2,576,367,429) issued, fully paid and registered shares of the Company of.

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Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the statutory financial statements prepared in accordance with Russian Accounting Principles.

According to the order of the Federal Agency for State Property Management № 500-p dated 30 June 2018, dividends were paid out in the amount of RUB 378 million for 2017 (2017 - RUB 584 million).

Note 10. Retirement benefit obligations

Defined benefit plans

The Group has unfunded pension plan with a defined benefit, which includes:

- Lump sum payment upon retirement;
- Death benefits;
- Jubilee benefits;
- Non-state pension benefits;
- Regular financial support after retirement which includes annual payments for holidays.

The actuarial valuation of the Group's defined benefit obligations as at 31 December 2018 and 2017 was performed by an independent actuary.

As at 31 December 2018 the Group has 7,652 employees who are the active participants of pension and social security and also has 2,049 unemployed pensioners who are the recipients of financial support.

According to the pension contribution programme the Group makes payments to the Non-state Pension Fund of the Electric Power (further in the text – NPF), which accumulates the money received on pension accounts open according to contracts signed between the Group and NPF. In accordance with the terms of the accounts under contracts with NPF as well as the ability stipulated by the contract of termination of contracts and payment of the redemption amount to the Depositor, funds due to NPF does not meet the criteria for the definition of plan assets. Resources on NPF's electric power joint accounts and employees' personal accounts who do not receive state pensions are recognised as a Group's separate asset. As at 31 December 2018 the amount of the Group's separate asset is RUB 63 million (as at 31 December 2017 – RUB 68 million).

Revaluation effects of the defined benefit obligation are recognised in other comprehensive income.

Past service cost is recognised immediately in profit and loss.

Key actuarial assumptions used to measure the obligations are presented below:

Financial actuarial assumptions	31 December 2018	31 December 2017
Discount rate, (nominal)	8.80%	8.00%
Inflation rate	4.05%	4.20%
Future salary increases (nominal)	4.05%	4.20%

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Financial actuarial assumptions are based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The average period over which the Group obligations are to be settled is 13.9 years.

Demographic actuarial assumptions	31 December 2018	31 December 2017
Expected retirement age		
Males	62	63
Females	57	57
Average rate of employee turnover (per year)	2.4%	2.9%
Mortality table	2017 adjusted	2011 adjusted

Assumptions regarding future mortality have been based on published 2017 Russia mortality table modified with following ratios based on statistics of the mortality of plan members both during and after employment: 80% for plan members during employment and 40% for plan members after employment.

The assumption of staff turnover was made on the basis of statistical data of the Group layoffs, turnover rate depends on the sex and age of workers and continuously decreases during seniority of workers. Averaged males rates point: at age 20 to 30 years – 10.9% per year, at age of 30 to 40 years – 2.7% per year, at age 40 to 50 years – 2.1% per year, at age of more than 50 – 1.8% per year.

Averaged females rates point: at age of 20 to 30 years – 7.1% per year, at age 30 to 40 years – 3.0% per year, at age of 40 to 50 years – 2.2% per year, at age of more than 50 – 1.6% per year.

Net defined benefit liability is as follows:

	31 December 2018	31 December 2017	31 December 2016
Net value of defined benefit obligation	1,771	2,112	1,998
Net value of Other long-term employee benefit obligation	255	262	243
Total net defined benefit liability	2,026	2,373	2,241

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Profits and losses recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income:

	Year ended 31 December 2018		Year ended 31 December 2017		
	Post-employment benefits	Other long-term employee benefits	Post-employment benefits	Other long-term employee benefits	Total
Profits and losses in the consolidated statement of profit or loss and other comprehensive income:					
<i>Service cost:</i>					
Current service cost	74	18	92	68	85
Past service cost as a result of changes in the plan	-	-	-	(19)	(21)
Net interest expense	159	20	179	161	180
Revaluation effects (for other long-term benefits):					
Actuarial losses/(gains) - experience	-	-	-	-	-
Actuarial gains - changes in actuarial assumptions	-	-	-	-	(1)
Total to be recognised in "profit and losses" in the consolidated statement of profit or loss and other comprehensive income:	233	38	271	210	243
Other comprehensive income in the consolidated statement of profit or loss and other comprehensive income::					
Revaluation effects (for post-employment benefits):					
Actuarial losses/(gains) - experience	45	(11)	34	15	15
Actuarial (gains) - changes in actuarial assumptions	(499)	(17)	(516)	(4)	(4)
Total to be recognised in "other comprehensive income" in the consolidated statement of profit or loss and other comprehensive income:	(454)	(28)	(482)	11	11

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Changes in the present value of the Group's defined benefit plan obligations are presented below:

	Year ended 31 December 2018			Year ended 31 December 2017		
	Post-employment benefits	Other long-term employee benefits	Total	Post-employment benefits	Other long-term employee benefits	Total
Benefit obligations at the period beginning	2,112	261	2,373	1,998	243	2,241
Current service cost	74	18	92	68	18	85
Interest cost	159	20	179	161	19	180
Past service cost as a result of changes in the plan				(19)	(2)	(21)
Actuarial losses/(gains) - experience	45	(11)	34	16	(1)	15
Actuarial gains - changes in finance assumptions	(237)	(17)	(254)	(7)	(1)	(8)
Actuarial losses - changes in demographic assumptions	(262)	-	(262)	3	-	4
Benefit payments	(120)	(15)	(135)	(108)	(15)	(123)
Benefit obligations at the period end	1,771	255	2,026	2,112	261	2,373

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Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions is presented below:

	Change in assumption	Impact on liability
Discount rate	Increase / decrease by 0.5%	Decrease/ Increase by 5.48%
Future salary increases	Increase / decrease by 0.5%	Increase / Decrease by 1.69%
Future pension increases (inflation)	Increase / decrease by 0.5%	Increase / Decrease by 4.04%
Employee turnover level	Increase / decrease by 10%	Decrease/ Increase by 0.71%
Mortality level	Increase / decrease by 10%	Decrease/ Increase by 1.88%

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

The amount of the expected payments is RUB 225 million to the defined long-term benefit plans for 2019 (2018 - RUB 199 million).

The Group is exposed to a number of risks, the most significant of which are detailed below:

- Changes in government bond yields
Decrease in profitability of government bonds will cause the increase of present value of the Group's defined benefit obligations.
- Inflation risk and employees' compensation increase risk
The majority of the Group's pension obligations are linked to wage and salary level, while an increase in inflation affects directly on the increase of the Group employees' compensation. Higher inflation will lead to higher defined benefit liabilities to the Group's employees.
- Mortality level decrease risk
The majority of the plans' obligations consist of one-time payments when a certain age or employment period is achieved, including retirement payments; the amount of such obligations depends also on the probability that an employee reaches an expected moment of repayment. In addition to mentioned benefit plans, the Group makes life-long payments to employees after retirement, and the amount of such obligations depends on life expectancy. A decrease in mortality level will result in an increase in the present value of the plans' liabilities.

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Note 11. Accounts payable

	31 December 2018	31 December 2017
Payroll liabilities	1,691	1,501
Accounts payable to suppliers and contractors	891	631
Other accounts payable	45	67
Total	2,627	2,199

Note 12. Taxes payable

	31 December 2018	31 December 2017
Value added tax	679	660
Insurance contributions to the non-budgetary funds	379	380
Personal income tax	149	131
Property tax	70	74
Other taxes	28	9
Total	1,305	1,254

Note 13. Operating expenses

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Wages, benefits and payroll taxes		(16,402)	(15,474)
Depreciation of property, plant and equipment and amortization of intangible assets	5, 6	(3,625)	(3,828)
Repairs and maintenance expenses		(1,346)	(1,306)
Services on regulation of frequency		(846)	(800)
Consulting services		(538)	(562)
Telecommunication services		(417)	(421)
Transportation expenses		(352)	(337)
Taxes other than income tax		(327)	(328)
Insurance expense		(321)	(276)
Security services		(317)	(300)
Rental expenses		(308)	(332)
Utilities expenses		(268)	(261)
Business travel expenses		(238)	(241)
Expenses for the purchase of other materials		(215)	(218)
Change in provision for impairment of receivables	8, 18	(107)	2
Research costs		(96)	(170)
The increase in the provision for impairment of property, plant and equipment	5	(30)	-
Other operating expenses		(695)	(679)
Total		(26,448)	(25,530)

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Note 14. Finance income and finance costs

	Year ended 31 December 2018	Year ended 31 December 2017
Interest expense	(2)	(9)
Interest expense on retirement benefit obligation	(179)	(180)
Finance costs	(181)	(189)
Interest income	266	387
Foreign exchange gain	1	19
Finance income	267	406
Net finance income	86	217

Note 15. Income tax

	Year ended 31 December 2018	Year ended 31 December 2017
Current income tax	(345)	(555)
Adjustments in respect of income tax of previous years	(1)	20
Deferred income tax (expense)/benefit	135	51
Total income tax expense	(211)	(484)

During 2018 the Group was subject to a 20% income tax rate (in 2017: 20%).

Reconciliation between the theoretical and the actual income tax charge reflected in profit and loss statement is provided below:

	Year ended 31 December 2018	Year ended 31 December 2017
Profit before tax	643	1,190
Theoretical tax charge at the applicable tax rate	(129)	(238)
Deferred tax write-off as a result of the sale of a subsidiary	-	(140)
Tax effect of items which are not deductible or assessable for taxation purposes	(83)	(106)
Total income tax expense	(211)	(484)

Tax effects of items of Statement of Comprehensive Income:

	Year ended 31 December 2018			Year ended 31 December 2017		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Revaluation of property and plant equipment	(182)	36	(146)	-	-	-
Actuarial gains / (losses) on defined benefit plans	454	(91)	363	(11)	2	(9)
Total	272	(55)	217	(11)	2	(9)

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. Deferred income tax assets and liabilities are measured at 20%, the rate expected to be applicable when the assets or liabilities are realized.

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Deferred income tax assets/(liabilities)	1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2018
Property, plant and equipment	(1,124)	60	36	(1,028)
Pension obligation	475	21	(91)	405
Accounts payable and accrued charges	200	5	-	205
Accounts receivable	7	8	-	15
Intangible assets	(2)	40	-	38
Others	3	3	-	6
Total deferred income tax assets/(liabilities), net	(441)	137	(55)	(359)

Deferred income tax assets/(liabilities)	1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2017
Property, plant and equipment	(1,275)	151	-	(1,124)
Pension obligation	448	25	2	475
Accounts payable and accrued charges	191	9	-	200
Accounts receivable	2	5	-	7
Intangible assets	2	(4)	-	(2)
Others	(1)	4	-	3
Total deferred income tax assets/(liabilities), net	(633)	190	2	(441)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be sufficient to cover them. Temporary differences on property, plant and equipment relate to differences in depreciation rates and revaluation.

Note 16. Contractual obligations

Commitments for the acquisition of property, plant and equipment. Future capital expenditures for which contracts have been signed amounted to RUB 1,504 million as at 31 December 2018 (as at 31 December 2017: RUB 3,207 million).

Note 17. Contingent assets and liabilities

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

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Taxation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. The Group's Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. In the current enforcement climate under existing legislation, management believes that the Group does not have any significant liabilities for environmental damage.

Note 18. Financial instruments and risk management

The Company's activities are exposed to different risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Management Board is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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The Management Board oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The oversight role is assigned to Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures.

Financial instruments by categories:

	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial liabilities measured at amortised cost	Total
At 31 December 2018				
Other non-current assets (Note 7)	1	-	-	1
Financial assets available for sale (Note 7)	-	67	-	67
Loans issued	23	-	-	23
Accounts receivable (Note 8)	653	-	-	653
Cash and cash equivalents	3,547	-	-	3,547
Total financial assets	4,224	67	-	4,291
Current debt and current portion of non-current debt				
Accounts payable (Note 11)	-	-	11	11
Total financial liabilities	-	-	2,627	2,627
At 31 December 2017				
Other non-current assets (Note 7)	1	-	-	1
Financial assets available for sale (Note 7)	-	72	-	72
Loans issued	92	-	-	92
Accounts receivable (Note 8)	467	-	-	467
Cash and cash equivalents	4,810	-	-	4,810
Total financial assets	5,370	72	-	5,442
Non-current debt				
Accounts payable (Note 11)	-	-	70	70
Total financial liabilities	-	-	2,199	2,199

Credit risk

Financial assets which potentially subject the Group to concentrations of credit risk consist of cash and cash equivalents and trade receivables principally.

At the reporting date the maximum exposure to credit risk was:

	Book value	
	At 31 December 2018	At 31 December 2017
Accounts receivable (Note 8)	653	467
Loans issued	23	92
Cash and cash equivalents	3,547	4,810
Total financial assets	4,223	5,369

a) Cash

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The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening.

Cash in bank	Rate	Rating agency	31 December 2018	31 December 2017
<i>Current and other accounts</i>				
JSC The All-Russia Bank of Development of Regions	ruAA	Expert RA	2,606	3,975
PJSC VTB	ruAA	Expert RA	201	738
JSC Raiffeisenbank	ruAAA	Expert RA	11	12
JSC Eurofinance Mosnarbank	ruBBB	Expert RA	11	5
PJSC Sberbank	AAA(RU)	AKRA	1	2
Other	-	-	-	3
<i>Deposits for less than 3 months</i>				
PJSC Sberbank	AAA(RU)	AKRA	504	-
PJSC VTB	ruAA	Expert RA	212	75
Total cash in bank			3,547	4,810

b) Accounts receivable

Credit risk related to accounts receivable is managed at the Group level. In most cases the Group does not calculate their customers' credit status but rates their creditworthiness on the basis of the financial position, prior experience and other factors.

The Group's customers are mainly represented by electricity utilities entities. The table below shows the receivables from major customers at the reporting dates:

	At 31 December 2018	At 31 December 2017
PJSC TGK-2	151	62
OJSC Yuzhno-Kuzbasskaya GRES	30	15
LLC Tveskaya generatsiya	9	8
LLC Rusenergosbyt	6	7
JSC Mondi SLPK	6	4
JSC Saint Petersburg Power Supply Company	5	7
PJSC Inter RAO	4	7
LLC Irkutskenergosbyt	3	4
PJSC Mosenergosbyt	-	15
OJSC Orenburgenergosbyt	-	6
Others	439	332
Total	653	467

Credit risks related to accounts receivable are systematically considered when the provision for doubtful debts is made. The present amount of accounts receivable, net of the provision for doubtful debts, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for doubtful debts already recorded.

The movement in the allowance for impairment in respect of trade receivables (see Note 8) during the year is provided below:

	2018	2017
Balance at 1 January	567	588
Increase during the year	78	159
Decrease due to reversal of amounts written off	(44)	(162)
Amounts written off to decrease in trade receivables	(64)	(18)
Balance at 31 December	538	567

The Group uses the provision for impairment of receivables to record receivables impairment

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losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

As at 31 December 2018 the receivables past due for which no allowance was recorded amounted to RUB 88 million (at 31 December 2017: RUB 42 million). Management believes that due to established long-lasting nature of business relations with counterparties, the delays in settlement of obligations will not impact the inflow of economic benefits.

The table below shows the aging of the receivables:

	At 31 December 2018		At 31 December 2017	
	Book value	Impairment	Book value	Impairment
Not past due	565	-	425	24
Past due 0 to 1 months	43	-	47	2
Past due 1 to 3 months	81	44	92	65
Past due 3 to 6 months	125	119	133	126
Past due 6 months to 1 year	184	184	95	91
Past due more than 1 year	193	191	243	259
Total	1,191	538	1,035	567

Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company applies procedures with the objective of minimising such losses, such as maintaining sufficient cash and other highly liquid assets.

Information about the financial liability contractual maturity dates, including the estimated amounts of interest payments as at 31 December, is provided below:

	Book value	Contractual value	0 to 12 months	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	Over 5 years
At 31 December 2018								
Accounts payable	2,627	2,627	2,627	-	-	-	-	-
Total	2,627	2,627	2,627	-	-	-	-	-
	Book value	Contractual value	0 to 12 Months	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	Over 5 years
At 31 December 2017								
Accounts payable	2,199	2,199	2,199	-	-	-	-	-
Total	2,199	2,199	2,199	-	-	-	-	-

Market risk from changes in prices

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

The Group is exposed to market risk from changes in prices. The risk of price changes are subject to (a) assets and liabilities in foreign currencies, and (b) interest bearing assets and liabilities, all of which are exposed to general and specific market changes. Management sets limits on the boundaries of the market price changes, which are monitored daily. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market changes.

a) *Foreign exchange risk. The Group operates within the Russian Federation. The majority of*

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purchases and sales are denominated in RUB. The Group does not have arrangements to hedge foreign exchange risks associated with committed transactions.

b) Interest rate change risk. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long term borrowings. The Group has no significant interest bearing asset.

Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimize potential adverse effect on the financial performance of the Group.

Fair value

Management believes that the fair value of financial assets and liabilities approximates their carrying amounts. The carrying amount of accounts receivable of buyers and customers, net of allowance for impairment expected to approximate fair assessment in connection with the short-term nature of the receivables. The fair value of financial liabilities for disclosure purposes in the financial statements was determined by discounting the future cash flows arising from contracts using current market interest rates for financial instruments that are similar to the Group's financial instruments.

The maximum exposure to each type of risk is limited by fair value of each class of financial instruments.

	31 December 2018		31 December 2017	
	Book value	Fair value	Book value	Fair value
Other non-current assets (Note 7)	1	1	1	1
Financial assets available-for-sale (Note 7)	67	67	72	72
Deposits	23	23	92	92
Accounts receivable (Note 8)	653	653	467	467
Cash and cash equivalents	3,547	3,547	4,810	4,810
Non-current debt	-	-	70	70
Current debt and current portion of non-current debt	11	11	-	-
Accounts payable (Note 11)	2,627	2,627	2,199	2,199

