

Independent auditor's report
on the consolidated financial statements of
Public joint stock company
"Interregional Distribution Grid Company of North-West"
and its subsidiaries
for 2018

March 2019

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Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of Public joint stock company “Interregional Distribution Grid Company of North-West” and its subsidiaries (the Group), which comprise the consolidated statement of profit or loss and other comprehensive income for 2018, consolidated statement of financial position as at 31 December 2018, and the consolidated statement of changes in equity and consolidated statement of cash flows for 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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



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

Key audit matter

How our audit addressed the matter

Recognition and measurement of revenue from electricity transmission services

Recognition and measurement of revenue from electricity transmission services was one of the most significant matters for our audit due to certain specifics of the electricity market mechanisms that give rise to the existence of disagreements among electricity supply, utilities, and other companies in relation to the volume and cost of the transmitted electricity. The amount of revenue challenged by counterparties is material to the Group's financial statements. Management's assessment of the probability of settling disputes in the Group's favor is highly subjective. Revenue is recognized when disagreements are resolved in favor of the Group with regard to assumptions.

Information on revenue from electricity transmission services is disclosed in Note 8 to the consolidated financial statements.

We considered the applied accounting policy with regard to the recognition of revenue from electricity transmission services; assessed internal controls over the recognition of this revenue; checked the correctness of the corresponding revenue amounts based on the existing electricity transmission contracts; received, on a selective basis, confirmations of balances of receivables from counterparties; analyzed the results of litigations concerning disputable amounts of services provided, if any; and assessed existing procedures to confirm the volume of electricity transmitted.

Allowance for expected credit losses on trade receivables

The matter of creating allowance for expected credit losses on trade receivables is one of the most significant matters for our audit due to the material balances of trade receivables as of 31 December 2018, as well as due to the fact that management's assessment of the possible recoverability of these receivables is based on assumptions, in particular, on the projected solvency of the Group's customers.

Information on allowance for expected credit losses on trade receivables is disclosed in Note 19 to the consolidated financial statements.

We analyzed the adequacy of the Group's accounting policy on the trade receivables with respect to the creation of allowance for expected credit losses on trade receivables, as well as procedures to confirm the appropriateness of measurements made by the Group's management, including the analysis of repayment of trade receivables, the analysis of maturity and delayed performance of obligations, and the analysis of customers' solvency.

We performed audit procedures in respect of the information used by the Group to determine the allowance for expected credit losses on trade receivables, the structure of receivables by age and maturity, and tested the correctness of the charged allowance amounts based on management's estimates.



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Key audit matter

How our audit addressed the matter

Recognition, measurement and disclosure of provisions and contingent liabilities

Recognition, measurement and disclosure of provisions and contingent liabilities in respect of litigations and claims from counterparties (including territorial electric grid and utilities companies) were among the most significant matters for our audit as they require significant judgments of management with respect to material amounts of balances of settlements with counterparties that are challenged in litigations or under the pretrial settlement.

Information on provisions and contingent liabilities is disclosed in Note 7 to the consolidated financial statements.

Impairment of non-current assets

Due to the existence of the impairment indicators of non-current assets as of 31 December 2018, the Group performed impairment testing. The value-in-use of fixed assets, forming a significant share of the Group's non-current assets, as of 31 December 2018, was determined by the projected cash flow method.

The matter of impairment testing of fixed assets was one of the most significant matters for our audit because the fixed assets balance forms a significant part of the Group's assets at the reporting date, and because management's assessment of the value-in-use is complex and largely subjective and is based on assumptions, in particular, on the projected electricity transmission volumes, transmission fees, as well as operating and capital expenditures that depend on the expected future market or economic conditions in the Russian Federation.

Information on the results of the impairment analysis of non-current assets is disclosed by the Group in Note 14 to the consolidated financial statements.

Audit procedures also involved analyzing decisions made by courts of different instances; considering the adequacy of management's judgments with regard to assessment of the possibility of an outflow of economic resources due to the dispute settlement; examining the compliance of the prepared documentation with provisions of existing contracts and legislation; and reviewing disclosures on provisions and contingent liabilities in notes to the consolidated financial statements.

As part of our audit procedures, we also assessed the assumptions and methodologies applied by the Group, in particular, those relating to projected total revenue from the electricity transmission, fee solutions, operating and capital expenditures, long-term rates of fee growth and discount rates. We tested the incoming data imported in the model and the arithmetic accuracy of the model used to determine the recoverable amount in the impairment test of fixed assets. We engaged valuation specialists to analyze the model used to determine the recoverable amount in the impairment test of fixed assets. We also analyzed the sensitivity of the model to changes in the main indicators of assessment and the Group's disclosures of assumptions on which the results of impairment testing largely depend.



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Key audit matter

How our audit addressed the matter

Assessment of retirement and other liabilities to employees

The Group has defined benefit pension plans.

Assessment of retirement and other liabilities to employees is a significant audit matter as management determines carrying values of defined benefit pension plans and the discounted value of respective liabilities on the basis of actuarial valuation that includes certain assumptions, and the amount of liabilities under defined benefit pension plans at the reporting date is highly sensitive to changes in those assumptions. Such assumptions include, but are not limited to, mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels as well as the expected return on plan asset.

Information on pension liabilities is disclosed in Note 25 to the consolidated financial statements.

In the course of our audit procedures we also analyzed the applied assumptions, made sample testing of the Group's employee data used for actuarial calculations, as well as performed analytical procedures in respect of the carrying value of liabilities under the defined benefit pension plans and their changes during the period. We engaged the professional actuaries to provide assistance with these audit procedures. We also reviewed the respective disclosures in the consolidated financial statements.

Other matters

The financial statements of the public joint-stock company "Interregional Distribution Grid Company of North-West" and its subsidiaries for 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 15 March 2018.

Other information included in the Company's annual report

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

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

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



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

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

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

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

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

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

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

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



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- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

A.Y. Grebeniuk
Partner
Ernst & Young LLC

18 March 2019

Details of the audited entity

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

Details of the auditor

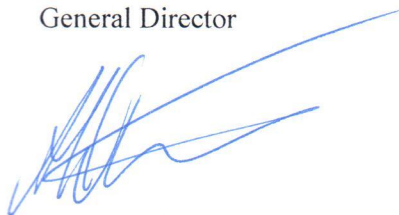
Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

PJSC IDGC of North-West
Consolidated financial statements for the year ended 31 December 2018
Consolidated Statement of Profit or Loss and Other Comprehensive Income
(in thousand of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Revenue	8	64,853,952	47,869,112
Operating expenses	10	(62,811,113)	(50,368,497)
Other income, net	9	716,684	1,332,812
Results from operating activities		2,759,523	(1,166,573)
Finance income	12	82,194	126,083
Finance costs	12	(1,269,130)	(1,571,883)
Net finance costs		(1,186,936)	(1,445,800)
Profit/(loss) before tax		1,572,587	(2,612,373)
Income tax (expense)/benefit	13	(426,684)	440,119
Profit/(loss) for the period		1,145,903	(2,172,254)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in fair value of available-for-sale financial assets		–	(3,484)
Income tax		–	697
Total items that may be reclassified subsequently to profit or loss		–	(2,787)
<i>Items that will never be reclassified subsequently to profit or loss</i>			
Change in the fair value of equity investments measured at fair value through other comprehensive income		(4,497)	–
Re-measurement of the defined benefit liability	25	(44,186)	(323,919)
Income tax		9,736	64,783
Total items that will not be reclassified subsequently to profit or loss		(38,947)	(259,136)
Other comprehensive loss for the period, net of income tax		(38,947)	(261,923)
Total comprehensive income/(loss) for the period		1,106,956	(2,434,177)
Profit/(loss) attributable to:			
Owners of the Company		1,145,972	(2,172,229)
Non-controlling interest		(69)	(25)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		1,107,025	(2,434,152)
Non-controlling interest		(69)	(25)
Earnings/(loss) per share			
Basic earnings/(loss) per share (in RUB)	22	0.0120	(0.0227)

These consolidated financial statements were approved by management on 18 March 2019 and were signed on its behalf by:

General Director



A.Y. Pidnik

Deputy General Director
for Economy and Finance



L.V. Shadrina

Chief Accountant – Head of
Department of accounting and tax
accounting and reporting



I.G. Zhdanova

PJSC IDGC of North-West
Consolidated financial statements for the year ended 31 December 2018
Consolidated Statement of Financial Position
(in thousand of Russian rubles, unless otherwise stated)

	<u>Notes</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
ASSETS			
Non-current assets			
Property, plant and equipment	14	40,447,544	37,267,819
Intangible assets	15	268,400	206,972
Trade and other receivables	19	160,391	146,169
Reimbursement right	25	370,051	414,244
Financial investments	16	505,219	472,667
Deferred tax assets	17	29,127	10,258
Total non-current assets		41,780,732	38,518,129
Current assets			
Inventories	18	858,074	785,535
Income tax prepayment		233,636	2,111
Trade and other receivables	19	8,139,965	8,990,103
Cash and cash equivalents	20	151,123	84,471
Total current assets		9,382,798	9,862,220
Total assets		51,163,530	48,380,349
EQUITY AND LIABILITIES			
Equity	21		
Share capital		9,578,592	9,578,592
Reserve related to business combination		10,457,284	10,457,284
Other reserves		(45,186)	(6,239)
Accumulated loss		(645,455)	(1,792,510)
Total equity attributable to owners of the Company		19,345,235	18,237,127
Non-controlling interest		253	322
Total equity		19,345,488	18,237,449
Non-current liabilities			
Loans and borrowings	23	8,517,335	8,522,335
Trade and other payables	26	1,141,617	1,049,082
Employee benefit liabilities	25	1,912,467	2,116,145
Deferred tax liabilities	17	949,701	884,362
Total non-current liabilities		12,521,120	12,571,924
Current liabilities			
Loans and borrowings	23	7,026,929	5,811,561
Trade and other payables	26	11,571,534	11,611,538
Provisions	7	698,268	27,363
Current income tax liability		191	120,514
Total current liabilities		19,296,922	17,570,976
Total liabilities		31,818,042	30,142,900
Total equity and liabilities		51,163,530	48,380,349

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

PJSC IDGC of North-West
Consolidated financial statements for the year ended 31 December 2018
Consolidated Statement of Cash Flows
(in thousand of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the period		1,145,903	(2,172,254)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment and amortization of intangible assets	10	4,305,535	4,108,596
Finance costs	12	1,269,130	1,571,883
Finance income	12	(82,194)	(126,083)
Loss on disposal of property, plant and equipment		116,830	54,902
Allowance for expected credit loss	10	1,237,102	5,368,409
Bad debt write-off		17,246	49,266
Accounts receivable write-off		(28,224)	(6,995)
Change in provisions		713,667	–
Gain from property, plant and equipment received free of charge		(4,856)	(6,038)
Other non-cash transactions		–	10,962
Income tax expense/(benefit)		426,684	(440,119)
Cash flows from operating activities before changes in working capital and provisions		9,116,823	8,412,529
Change in reimbursement rights		44,193	26,182
Change in employee benefit liabilities		(387,181)	353,704
Cash flows from operating activities before changes in working capital and provisions		8,773,835	8,792,415
<i>Changes in working capital</i>			
Change in trade and other receivables		(391,369)	503,272
Change in inventories		(73,415)	21,618
Change in trade and other payables		(63,957)	(745,645)
Change in provisions		–	(32,116)
Other		3,854	(102,756)
Cash flows from operating activities before income tax and interest paid		8,248,948	8,436,788
Income tax paid		(723,863)	(402,294)
Interest paid		(1,234,934)	(1,513,083)
Net cash from operating activities		6,290,151	6,521,411

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

PJSC IDGC of North-West
Consolidated financial statements for the year ended 31 December 2018
Consolidated Statement of Cash Flows
(in thousand of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(7,516,350)	(6,230,695)
Proceeds from the sale of property, plant and equipment and intangible assets		1,095	11,996
Disposal of financial investments and withdrawal of bank deposits		–	341
Interest received		42,602	10,742
Dividends received		574	421
Net cash used in investing activities		(7,472,079)	(6,207,195)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		39,095,697	47,967,575
Repayment of loans and borrowings		(37,842,144)	(48,446,581)
Dividends paid	20	–	(110,425)
Repayment of finance lease liabilities		(4,973)	(1,933)
Net cash from/ (used in) financing activities		1,248,580	(591,364)
Net increase/(decrease) in cash and cash equivalents		66,652	(277,148)
Cash and cash equivalents at the year beginning	19	84,471	361,619
Cash and cash equivalents at the year end	19	151,123	84,471

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

PJSC IDGC of North-West
Consolidated financial statements for the year ended 31 December 2018
Consolidated Statement of Changes in Equity
(in thousand of Russian rubles, unless otherwise stated)

Equity attributable to owners of the Company

	Share capital	Reserve related to business combination	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2017	9,578,592	10,457,284	255,684	490,891	20,782,451	347	20,782,798
Loss for the year	–	–	–	(2,172,229)	(2,172,229)	(25)	(2,172,254)
Other comprehensive loss	–	–	(327,403)	–	(327,403)	–	(327,403)
Income tax related to other comprehensive income	–	–	65,480	–	65,480	–	65,480
Total comprehensive loss for the year	–	–	(261,923)	(2,172,229)	(2,434,152)	(25)	(2,434,177)
Transactions with owners of the Company	–	–	–	(111,172)	(111,172)	–	(111,172)
Dividends to shareholders (Note 21)	–	–	–	–	–	–	–
Balance at 31 December 2017	9,578,592	10,457,284	(6,239)	(1,792,510)	18,237,127	322	18,237,449
Balance at 1 January 2018	9,578,592	10,457,284	(6,239)	(1,792,510)	18,237,127	322	18,237,449
Profit for the year	–	–	–	1,145,972	1,145,972	(69)	1,145,903
Other comprehensive loss	–	–	(48,683)	–	(48,683)	–	(48,683)
Income tax related to other comprehensive loss	–	–	9,736	–	9,736	–	9,736
Total comprehensive income for the year	–	–	(38,947)	1,145,972	1,107,025	(69)	1,106,956
Transactions with owners of the Company	–	–	–	1,083	1,083	–	1,083
Dividends to shareholders (Note 21)	–	–	–	–	–	–	–
Balance at 31 December 2018	9,578,592	10,457,284	(45,186)	(645,455)	19,345,235	253	19,345,488

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

1 Background

(a) The Group and its operations

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

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

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

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

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

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

(b) Russian business environment

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

Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, 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.

The continuing deterioration of the political situation caused by the growing tensions between the Russian Federation and the United States, the European Union and related events have led to an increase of the risk assessments of doing business in the Russian Federation.

The future economic development of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

(c) Relations with state

The Russian Government, through the Federal Agency for the Management of State Property, is the ultimate controlling party of the Company.

1 Background (continued)

(c) Relations with state (continued)

As at 31 December 2018, the Russian Government owned 88.04% in the share capital of the parent company PJSC “ROSSETI” including 88.89% of the voting ordinary shares and 7.01% of the preference shares (as at 31 December 2017: 88.04%, including 88.89% of the voting ordinary shares and 7.01% of the preference shares).

The Russian Government directly affects the Group’s operations through tariffs regulations. In accordance with the Russian legislation, the Group's tariffs are regulated by executive authorities of the constituent entities of the Russian Federation in the field of state regulation of tariffs. The consumers of the Group’s services include a large number of enterprises under state control.

As at 22 December 2017, the Ministry of Energy of the Russian Federation granted the Company with the status of guaranteeing electric power supplier function in Arkhangelsk region of the service area of PJSC “Arkhangelsk Energy Retail Company” effective from 1 January 2018. The status of guaranteeing electric power supplier was granted until announcing the winner of the tender in respect of specified service areas, but not more than for the period of 12 months (Branch Arkhenergo, the segment Arkhenergo).

In accordance with the Order of the Ministry of Energy on September 14, 2018, №763 the status of guaranteeing electric power supplier regarding the area of activity of PJSC “IDGC of the North-West” (of energy retail segment Arkhenergo) was granted to LLC "TGC-2 Energy" from October 01, 2018.

As at 23 March 2018, the Ministry of Energy of the Russian Federation granted the Company with the status of guaranteeing electric power supplier function in Vologda region of the service area of PJSC “Vologda Energy Retail Company” effective from 1 April 2018. The status of guaranteeing electric power supplier was granted until announcing the winner of the tender in respect of specified service areas, but not more than for the period of 12 months (Branch Vologdaenergo, the segment Vologdaenergo).

In accordance with the Order of the Ministry of Energy on November 29, 2018, №1110 the status of guaranteeing electric power supplier regarding the area of activity of PJSC “IDGC of the North-West” (of energy retail segment Vologdaenergo) was granted LLC "North sales company" from January 01, 2019.

2 Basis of preparation of consolidated financial statements

(a) Statement of compliance

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

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

(b) Going Concern

These consolidated financial statements have been prepared on the assumption that the Group operates continuously and will continue to operate for the foreseeable future. Despite the working capital deficit, which as at 31 December 2018 amounted to 9,914,124 thousand rubles (as at 31 December 2017: 7,708,756 thousand rubles), the Group has a positive cash flow from operating activities, which amounted to 6,290,151 thousand rubles for 2018 (for 2017: 6,521,411 thousand rubles), and unused credit lines, the amount of which as at 31 December 2018 amounted to 18,680,086 thousand rubles (as at 31 December 2017: 13,120,513 thousand rubles), which confirms the validity of the going concern assumption.

2 Basis of preparation of consolidated financial statements (continued)

(c) Basis of measurement

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

(d) Functional and presentation currency

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

(e) Use of professional judgments and estimates

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

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

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

Impairment of fixed assets

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

Impairment of accounts receivable

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

Pension obligations

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

Deferred tax assets recognition

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

2 Basis of preparation of consolidated financial statements (continued)

(e) Use of professional judgments and estimates (continued)

Recognition of revenue from technological connection

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

(f) Changes in accounting policies

The following new standards were adopted by the Group starting from the annual period beginning on 1 January 2018:

i. IFRS 15 Revenue from Contracts with Customers

The Group recognises revenue when (or as) it satisfies performance obligation by transferring promised good or service to a customer. Revenue is measured at the fair value of the consideration received or a portion thereof, to the extent that the Group expects to recover it in exchange for the transfer of the promised assets to the customer, excluding any amounts received from third parties (e.g., net of recoverable taxes).

Electricity distribution and sales of electricity

Revenue from distribution and sales of electricity is recognized during the period (settlement month) and is estimated by the output method (cost of transferred electricity volumes). The tariffs for the distribution of electricity (in respect to all regions of the Russian Federation) and sale of electricity on the regulated market (in respect of regions of the Russian Federation, not included in the price zones of the wholesale electricity market) are approved by the executive authorities of the regions of the Russian Federation (hereinafter - regional regulatory authority) in the sphere of the state energy tariff regulation within the range of cap and (or) floor tariffs approved by the Federal Antimonopoly Service of the Russian Federation.

Services for technological connection to electric grids

Recognition of revenue from this type of service is made at the time of the beginning of electricity supply and connection of the consumer to the power grid based on the act on the completion of technological connection. Price for technological connection is based on individual project, standard tariffs for connection to the grid and tariff for maximum power unit and price formula for technological connection are approved by the Regional Energy Commission (Department of prices and tariffs of the region) and do not depend on tariff for electricity transmission. Payment for technological connection to the unified national electric network is approved by the Federal Antimonopoly Service.

Other revenue

Revenue from installation, repair and maintenance services and other sales is recognized when the customer obtains control over the asset.

In accordance with the transition provisions in IFRS 15, the Group elected to apply IFRS 15 retrospectively with cumulative effect of initially applying a Standard recognized as an adjustment to retained earnings as at 1 January 2018. The application of the standard had no material impact on the Group's consolidated financial statements and therefore the retained earnings as at 1 January 2018 were not restated.

2 Basis of preparation of consolidated financial statements (continued)

(f) Changes in accounting policies (continued)

ii. IFRS 9 Financial instruments

Financial asset

The Group recognizes a financial asset only when it becomes a party to the contract in respect of the asset. From 1 January 2018, upon initial recognition, the Group classifies financial assets into one of the following categories:

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

Until 1 January 2018 the Group classified financial assets as loans and receivables (measured at amortized cost), at fair value through other comprehensive income, available-for-sale or held-to-maturity (measured at amortized cost).

The classification of financial assets as debt instruments at initial recognition is determined by the business models used by the Group to manage financial assets and cash flow characteristics. To manage debt instruments, the Group uses a business model, the purpose of which is to retain assets in order to receive contractual cash flows.

Financial assets measured at fair value through other comprehensive income and financial assets measured at profit or loss are carried at fair value.

Financial assets measured at amortized cost, other than receivables, are measured at initial recognition at fair value increased by the amount of transaction costs directly attributable to the acquisition or issue of the financial asset.

Subsequent measurement of financial assets depends on the category to which they were classified by the Group at the time of initial recognition.

As at each reporting date after initial recognition, the Group reflects:

- financial assets measured at amortized cost using the effective interest method;
- financial assets measured at fair value through other comprehensive income at fair value in a portion of the equity instruments at the fair value of other financial assets;
- financial assets measured at fair value through profit or loss at fair value.

The Group records changes for the reporting period in the fair value of financial assets measured after initial recognition at fair value as follows:

- charged to income or expenses of the period through profit or loss – for financial assets at fair value through profit or loss;
- charged to other comprehensive income for financial assets measured at fair value through other comprehensive income (except for the dividends in respect of equity instruments and except for impairment losses, foreign exchange differences, interest calculated using the effective interest rate and dividends in respect of the remaining financial assets,).

After each reporting period, the carrying amount of financial assets carried at amortized cost is increased by the accrual of interest income. Interest income is charged to the financial income of the period in profit or loss.

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

2 Basis of preparation of consolidated financial statements (continued)

(f) Changes in accounting policies (continued)

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when and only when the Group has a legal right to offset them and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial liability

The Group recognizes a financial liability when it becomes a party to the contract in respect of that financial liability. At initial recognition, financial liabilities are divided into the following categories:

- financial liabilities at fair value through profit or loss;
- financial liabilities at amortized cost.

The Group classifies a financial liability as at fair value through profit or loss, if:

- The Group accepts this obligation for the purpose of repurchase in the near future and profit from favorable fluctuations in market prices; or
- the liability is a derivative financial instrument.

Financial liabilities not classified as at fair value through profit or loss are other financial liabilities.

The Group designates as financial liabilities at amortized cost:

- loans and borrowings received;
- bonds and promissory notes;
- finance lease liabilities;
- trade and other payables.

At initial recognition, a financial liability classified as a financial liability at amortized cost is measured at fair value less transaction costs incurred in connection with the obligation.

Financial liabilities at fair value through profit or loss are measured at fair value at each reporting date. Changes in the fair value of these liabilities during the reporting period are recognized as income or expense in the statement of profit or loss and other comprehensive income.

Financial liabilities measured at amortized cost after initial recognition are measured at amortized cost using the effective interest method.

After each reporting period, the carrying amount of financial liabilities measured at amortized cost is increased by the accrual of interest expense. The amount of the interest expense is determined by multiplying the effective interest rate on the financial liability by its amortized cost at the end of the previous reporting period.

Interest expense is charged to the financial expenses of the reporting period in the statement of profit or loss and other comprehensive income, unless it is included in the cost of the qualifying asset (see section 10.6 of this Accounting policy under IFRS).

Derecognition of financial liabilities

The Group de-recognizes financial liabilities when the its obligations under respective contract are discharged or cancelled or expires.. The difference between the carrying amount of the financial liability at the time of derecognition and the amount of consideration paid by the Group in the settlement or transfer of the liability (including any non-monetary assets transferred or liabilities assumed) is recognized in profit or loss.

In accordance with the transition provisions in IFRS 9, the Group applied the new rules retrospectively, except for the items that have already been derecognized at the date of initial application, which is 1 January 2018. The Group also used an exemption in IFRS 9 allowing not to restate prior periods presented because of adoption of the new classification and measurement requirements, but rather recognize any differences in the opening retained earnings as at 1 January 2018. The initial application of the standard did not result in any material changes to the Group's financial instruments measurement.

2 Basis of preparation of consolidated financial statements (continued)

(f) Changes in accounting policies (continued)

On 1 January 2018, the Group has assessed which business models apply to the financial assets held at the date of initial application of IFRS 9 “Financial instruments” and has classified its financial instruments onto appropriate IFRS 9 categories. The main effects resulting from that reclassification are as follows:

	Balance as at 1 January 2018 under IAS 39	Reclassification of financial investments as at 1 January 2018			Balance as at 1 January 2018 under IFRS 9
		Carried at fair value through profit or loss	Carried at fair value through other comprehensive income	Carried at amortized cost	
Financial assets available-for-sale	14,898	–	(14,898)	–	–
Financial assets held to maturity	457,769	–	–	(457,769)	–
At fair value through profit or loss	–	–	–	–	–
At fair value through other comprehensive income	–	–	14,898	–	14,898
At amortised cost	–	–	–	457,769	457,769
Total:	472,667	–	–	–	472,667

The table below reflects the original measurement category according to IAS 39 and the new measurement category according to IFRS 9:

	Measurement category		Carrying amount		Difference
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Non-current financial assets					
<i>Financial investments, including:</i>					
Equity shares	<i>Available-for-sale financial assets</i>	<i>Measured at fair value through other comprehensive income</i>	14,898	14,898	–
Deposits with maturity of more than 12 months	<i>Held-to-maturity investments</i>	<i>Measured at amortized cost</i>	457,769	457,769	–
Trade and other receivables, loans given	<i>Loans and receivables</i>	<i>Measured at amortized cost</i>	146,169	146,169	–
Current financial assets					
Trade and other receivables, loans given	<i>Loans and receivables</i>	<i>Measured at amortized cost</i>	8,990,103	8,990,103	–
Cash and cash equivalents			84,471	84,471	–
Non-current and current financial liabilities					
Loans and borrowings, trade and other payables	<i>Other financial liabilities</i>	<i>Measured at amortized cost</i>	19,637,944	19,637,944	–

2 Basis of preparation of consolidated financial statements (continued)

(f) Changes in accounting policies (continued)

Except for the changes in accounting policies described in section 2 (f), the following amendments and clarifications, effective 1 January 2018, have no effect on these consolidated financial statements:

- Amendments to IFRS 2 “*Classification and measurement of share-based payment transactions*”
- Amendments to IAS 40 “*Transfers of investment property from category to category*”
- Clarification of IFRIC 22 “*Foreign currency Transactions and pre-payment*”
- Amendments to IFRS (IAS) 28 “*Investments in associates and joint ventures*”
- Amendments to IFRS (IFRS) 4 “*The Application of IFRS 9 Financial instruments, together with IAS (IFRS) 4 Insurance Contracts*”
- Amendments to IFRS 1 “*First-time adoption of International financial reporting standards*” – exclusion of a number of short-term exemptions for organizations adopting IFRS for the first time.

The following new standards and interpretations have been issued and are effective for annual periods beginning on or after 1 January 2019 and have not been early applied by the Group:

IFRS 16 “Leases”

IFRS 16 “*Leases*” was issued in January 2016 and supersedes IAS 17 “*Leases*”, the clarification of the IFRIC 4 “*Determination of the existence of lease features in the agreement*”, the clarification of the RCC (SIC) 15 “*Operating leases – incentives*” and The clarification of the RCC (SIC) 27 “*Determination of the nature of transactions having a legal form of leases*”. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires tenants to reflect all leases using a single accounting model in the balance sheet, similar to the accounting treatment in IAS 17 for financial leases. The standard provides for two exemptions from recognition for leaseholders – for leases of low-value assets and short-term leases. The group intends to apply both exemptions.

At the commencement date of the lease, the lessee will recognize the obligation to pay the lease (i.e. the lease obligation) as well as the asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The Group will be required to recognize the interest expense on the lease obligation separately from the depreciation expense of the asset in the form of a right of use.

According to the transitional provisions of IFRS 16, the Group has chosen to apply the new rules retrospectively with the cumulative effect of the initial application of the standard recognised as at 1 January 2019 with the recognition of the lease obligation in the valuation on the present value of remaining lease payments using the incremental borrowingrate on the date of initial application and recognition of right-of-use assets in the amount equal to the obligation under the lease, adjusted by the amount prepaid or accrued lease payments.

The main objects of the Group's lease are power grid facilities (power transmission networks, power transmission equipment, etc.) and land plots. Land lease agreements have been concluded in previous periods in respect of the plots on which the Group's own power lines, power transmission equipment and other assets are located. In addition, the Group leases non-residential real estate and vehicles.

The Group is in the process of recalculating the effects of IFRS 16 and expects that the effect of IFRS 16 may have the following effects on the Group's assets and liabilities:

2 Basis of preparation of consolidated financial statements (continued)

(f) Changes in accounting policies (continued)

	at 1 January 2019
Assets	
Right-of-use assets	764,036
Trade and other receivables	(7,911)
Liabilities	
Long-term lease liabilities	628,393
Short-term lease liabilities	147,547
Trade and other payables	(19,815)

The following standards, amendments and clarifications are not expected to have a significant impact on the group's consolidated financial statements:

- Clarification of the IFRIC 23 “*Uncertainty concerning the rules of calculating tax on the profit*”;
- “*Conditions for early repayment with potential negative compensation*” (Amendments to IFRS 9);
- Annual improvements to IFRS for the period 2015-2017 (issued in December 2017):
 - Amendments to IFRS 3 “*Business Combinations*”;
 - Amendments to IFRS 11 “*Joint venture*”;
 - Amendments to IAS 12 “*Income Taxes*” - Tax consequences of payments on financial instruments classified as equity;
 - Amendments to IAS 23 “*Borrowing Costs*”;
- Amendments to IAS 28 “*Long-term investments in associates and joint ventures*”;
- Amendments to IAS 19 “*Changes in the program, reducing the program or repayment program*”;
- “*Conceptual framework for the presentation of financial statements*”;
- IFRS 17 “*Insurance Contracts*”;
- Amendments to IFRS 10 and IAS 28 - “*Sale or contribution of assets in transactions between an investor and its associate or joint venture*”;
- Definition of materiality - Amendments to IAS 1 and IAS 8;
- Definition of the business - Amendments to IFRS 3.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities except for the change in accounting policy disclosed in note 2 (f) due to application from 1 January 2018 IFRS 15 “*Revenue from Contracts with Customers*” and IFRS 9 “*Financial instruments*”.

(a) Basis of consolidation

i. Subsidiaries

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

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

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

ii. Business combinations

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

The Group measures goodwill at the acquisition date as:

- 1) the fair value of the consideration transferred: plus
- 2) the recognized amount of any non-controlling interests in the acquiree; plus
- 3) the fair value of previous interest held in the acquiree if the business combination is achieved in stages; less
- 4) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

iii. Accounting for acquisitions of non-controlling interests

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

iv. Acquisitions from entities under common control

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

v. Investments in associates (equity accounted investees)

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

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment also includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and no further losses are recognised, except to the extent that the Group assumed obligations to reimburse losses or has made payments on behalf of the investee.

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

vi. Transactions eliminated on consolidation

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

(b) Foreign currency

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

(b) Share capital

Ordinary shares are classified as equity.

(c) Property, plant and equipment

i. Recognition and measurement

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

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

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net in the item "Net other income/(expenses)", within the profit or loss for the period.

ii. Subsequent costs

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

iii. Depreciation

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

3 Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

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

- Buildings 7-50 years
- Transmission networks 7-33 years
- Equipment for electricity transmission 5-29 years
- Other assets 1-50 years

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

(d) Intangible assets

i. Intangible assets

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

ii. Subsequent expenditure

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

iii. Amortization

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

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

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

(e) Leased assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as financial 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. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and respective leased assets are not recognized in the Group's consolidated statement of the financial position.

(f) Inventories

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

3 Significant accounting policies (continued)

(f) Inventories (continued)

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

(g) Advances given

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

(h) Value-added tax

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

(i) Impairment of assets

i. Financial assets

Prior to 1 January 2018, the Group assessed the existence of objective evidence of impairment of a financial asset at each reporting date. Impairment occurred if one or more events that occurred since the initial recognition of the asset (the occurrence of an "event leading to a loss") had an impact on the estimated future cash flows of the financial asset, the amount of which could be reliably estimated. The amount of the impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of estimated future cash flows was discounted at the financial asset's original effective interest rate.

The carrying amount of the asset was reduced by allowance account and the loss was recognised in the statement of profit or loss. The accrual of interest income (which was recorded as financial income in the statement of profit or loss) at reduced carrying amount continued by applying the interest rate used for discounting future cash flows for the purpose of assessing impairment losses. If, during the following year, the amount of the estimated impairment loss increased or decreased due to an event that occurred after the impairment was recognised, the amount of the previously recognised impairment loss increased or decreased by adjusting the allowance account. If previously recognised impairment of a financial instrument was subsequently reversed, the reversal was recognised as a reduction in finance costs in the statement of profit or loss.

From 1 January 2018, in respect of accounting for impairment IFRS 9, replaces the "incurred loss" is used in IAS 39 "*Financial instruments: recognition and measurement*", a new model of "expected credit loss" (hereinafter "ECL"), which seeks to ensure the timeliness of recognition of expected credit losses. A provision for expected credit losses is created for financial assets classified as at amortised cost.

The estimated provision for expected credit losses on a financial instrument is measured at each reporting date at the amount equal to the expected credit losses for the entire period if the credit risk on the financial instrument has increased significantly since initial recognition, taking into account all reasonable and corroborated information, including the forecast information. For receivables, the estimated provision for expected credit losses is always estimated at an amount equal to the expected credit losses for the entire period.

3 Significant accounting policies (continued)

(i) Impairment of assets (continued)

As indicators of a significant increase in credit risk, the Group considers the actual or expected difficulties of the issuer or the debtor of the asset, the actual or expected breach of contract, the expected revision of the terms of the contract due to the financial difficulties of the debtor on terms unfavorable to the Group, which it would not agree to under other circumstances. On the basis of the usual practice of credit risk management the Group defines default as the failure of a counterparty to perform its obligations (including repayment of funds under the contract) due to significant deterioration in the financial position.

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

If, in subsequent periods, the credit risk of a financial asset is reduced as a result of an event occurring after the recognition of the loss, the previously recognised impairment loss is reversed by reducing the corresponding valuation allowance. As a result of the reversal, the carrying amount of the asset should not exceed the amount at which it would have been recognised in the statement of financial position if no impairment loss had been recognised.

ii. Non-financial assets

The carrying amount of the Group's non-financial assets other than inventories and deferred tax assets is reviewed at each reporting date to determine whether they are impaired. If any such indication exists, the recoverable amount of the relevant asset is calculated. For goodwill and intangible assets that have an indefinite useful life, the recoverable amount is calculated at each reporting date. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its estimated (recoverable) value.

The recoverable amount of the asset or cash-generating unit, represents the higher of its value in use of the asset (the unit) and his (her) fair value less costs to sell. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the impact of changes in the value of money over time and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be individually tested are grouped into the smallest group that generates cash inflows as a result of the continued use of the assets in question, and the inflow is largely independent of cash inflows generated by other assets or groups of assets (the "cash-generating unit (CGU)"). Detailed information on the CGU is disclosed in note 14. For the purpose of impairment testing, goodwill acquired in a business combination transaction is allocated to the cash-generating units to which it relates.

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

Impairment losses on continuing operations (including impairment of inventories) are recognised in the income statement, except for previously revalued property, plant and equipment where the revaluation was recognised in other comprehensive income. In this case, an impairment loss is also recognised in other comprehensive income up to the amount of the previous revaluation.

Impairment losses on cash-generating units are first charged to decrease the carrying amount of goodwill allocated to those units and then proportionally to the decrease the carrying amount of other assets in the relevant unit (group of units).

Amounts written off for impairment losses on goodwill are not reversed. In respect of other assets at each reporting date, the analysis of the loss from impairment recognized in one of the previous periods to identify indications that the loss should be reduced or that it should not be longer recognized.

3 Significant accounting policies (continued)

(i) Impairment of assets (continued)

Amounts written off for impairment losses are reversed if the measurement factors used to calculate the corresponding recoverable amount change. An impairment loss is reversed only to the extent that it is possible to recover the value of the assets to the carrying amount at which they would have been carried (net of accumulated depreciation) if no impairment loss had been recognised.

(k) Employee benefits

i. Defined contribution plans

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

ii. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Employee benefit liabilities recognised in the Consolidated Statement of Financial Position in respect of defined benefit plans is discounted amount of liabilities at the reporting date.

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

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

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

iii. Other non-current employee benefits

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

iv. Short-term benefits

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

3 Significant accounting policies (continued)

(k) Employee benefits (continued)

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

(l) Provisions

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

(m) Government grants

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

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

(n) Other expenses

i. Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. The amount of lease incentives received reduces the total lease expenses over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a finance lease

At the inception of an arrangement, the Group determines whether such an arrangement is or contains indicators of a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other considerations required by such an arrangement into those for the lease and those for other elements proportionately to their fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset contract. Subsequently the liability is reduced as payments are made and an imputed finance expense is recognized.

ii. Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large without creating constructive obligations to provide such benefit in the future and are not restricted to the Group's employees, they are recognized in the income statements as incurred.

3 Significant accounting policies (continued)

(n) Other expenses (continued)

Group costs related to the financing of social programs, without making a commitment with respect to such financing in the future date are recognized in the consolidated statement of profit or loss and other comprehensive income as they arise.

(q) Finance income and costs

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

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

(r) Income tax expense

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

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

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

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

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

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

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

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

3 Significant accounting policies (continued)

(r) Income tax expense (continued)

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

(s) Earnings per share

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

4 Measurement of fair values

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

Fair value is the price that would have been received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that a transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, the most advantageous market for the asset or liability.

The Group must have access to the principal or most advantageous market.

The fair value of an asset or liability is measured using assumptions that would be used by market participants to determine the price of the asset or liability, if market participants are acting in their best economic interests.

The fair value measurement of a non-financial asset takes into account the ability of a market participant to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use..

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

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

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

For the purposes of fair value disclosure, the Group classified assets and liabilities based on their nature, characteristics and risks, and the applicable level in the fair value hierarchy, as set out above.

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

The fair value of financial instruments that are measured at fair value or the fair value of which is to be disclosed in the financial statements is disclosed in the Note 27.

5 Significant subsidiaries

	Country of incorporation	31 December 2018 Ownership/voting shares, %	31 December 2017 Ownership/voting shares, %
OJSC Pskovenergosbyt	Russian Federation	100	100
OJSC Pskovenergoagent	Russian Federation	100	100
OJSC Energoservice North-West	Russian Federation	100	100
OJSC Lesnaya Skazka	Russian Federation	98*	98*

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

6 Information about segments

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

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

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

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

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

- Electricity Transmission Segments – Arkhenergo, Vologdaenergo, Karelenergo, Kolenergo, Komienergo, Novgorodenergo and Pskovenergo;
- Energy Retail Segment – Pskovenergosbyt, Arkhenergo, Vologdaenergo;
- Other Segments – other Group companies.

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

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

6 Information about segments (continued)

(a) Information about reportable segments

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

	Electricity Transmission					Energy Retail				Other	Unallocated items	Total	
	Arkh- energo	Vologda- energo	Karel- energo	Kol- energo	Komi- energo	Novgorod -energo	Pskov- energo	Arkh- energo	Vologda- energo				Pskov- energosbyt
Revenue from external customers	4,317,133	6,154,931	7,126,682	7,490,029	7,834,647	6,069,819	1,087,465	8,515,475	9,025,354	7,210,642	21,775	–	64,853,952
Inter-segment revenue	–	–	52	–	–	6	3,501,528	–	–	650,257	332,418	–	4,484,261
Segment revenue	4,317,133	6,154,931	7,126,734	7,490,029	7,834,647	6,069,825	4,588,993	8,515,475	9,025,354	7,860,899	354,193	–	69,338,213
Including													
<i>Electricity transmission</i>	4,080,047	5,975,773	6,893,208	7,411,114	7,144,912	4,539,064	4,383,143	–	–	–	–	–	40,427,261
<i>Connection services</i>	98,902	30,315	45,092	16,887	633,888	1,433,931	164,261	–	–	–	–	–	2,423,276
<i>Resale of electricity</i>	–	–	–	–	–	–	–	8,515,475	9,025,354	7,859,594	–	–	25,400,423
<i>Other revenue</i>	138,184	148,843	188,434	62,028	55,847	96,830	41,589	–	–	1,305	354,193	–	1,087,253
Finance income	5,199	6,674	10,617	6,489	7,349	4,557	4,593	–	–	2,294	248	–	48,020
Finance costs	(487,213)	(5,382)	–	(191,843)	(178,524)	(122,849)	(110,621)	(8,469)	–	(21,481)	(5,418)	–	(1,131,800)
Depreciation and amortization	(480,278)	(1,133,245)	(467,615)	(382,604)	(1,112,990)	(546,143)	(478,093)	–	–	(25)	(1,590)	(9,831)	(4,612,414)
EBITDA	1,211,262	1,368,086	391,899	742,836	1,497,970	1,585,066	602,485	(570,104)	(56,985)	75,319	2,371	9,831	6,860,036
Segment assets	5,811,562	10,605,344	4,658,672	5,477,091	13,798,251	7,347,539	5,161,504	355,067	966,394	999,692	67,769	2,236,076	57,484,961
<i>Including property, plant and equipment and construction in progress</i>	4,374,908	9,031,519	3,710,568	4,312,094	12,545,450	6,408,287	4,598,487	–	–	45	16,240	38,739	45,036,337
Capital expenditure	694,665	990,756	706,067	871,858	1,843,335	1,682,924	498,576	–	–	–	3,841	2,782	7,294,804
Segment liabilities	1,124,159	2,536,340	1,030,998	1,665,860	3,016,811	909,884	483,144	41,674	56,584	899,880	158,165	19,848,095	31,771,594

6 Information about segments (continued)

(a) Information about reportable segments (continued)

As at 31 December 2017 and for the year ended 31 December 2017:

	Electricity Transmission										Energy Retail			Unallocated items	Total
	Arkh- ergo	Vologda- ergo	Karel- ergo	Kol- ergo	Komi- ergo	Novgorod- ergo	Pskov- ergo	Arkh- ergo	Vologda -ergo	Kol- ergo	Pskov- ergo	Other			
Revenue from external customers	5,566,193	7,060,545	7,763,777	7,468,903	7,475,680	4,606,187	1,220,710	-	-	-	6,685,363	15,734	-	47,863,092	
Inter-segment revenue	-	-	52	-	-	39	3,145,363	-	-	-	588,138	312,101	-	4,045,693	
Segment revenue	5,566,193	7,060,545	7,763,829	7,468,903	7,475,680	4,606,226	4,366,073	-	-	-	7,273,501	327,835	-	51,908,785	
Including															
<i>Electricity transmission</i>	5,047,314	6,926,781	7,556,743	7,395,689	7,007,995	4,527,362	4,248,607	-	-	-	-	-	-	42,710,491	
<i>Connection services</i>	185,881	44,382	37,928	46,859	401,676	42,213	51,229	-	-	-	-	-	-	810,168	
<i>Resale of electricity</i>	-	-	-	-	-	-	-	-	-	-	7,270,803	-	-	7,270,803	
<i>Other revenue</i>	332,998	89,382	169,158	26,355	66,009	36,651	66,237	-	-	-	2,698	327,835	-	1,117,323	
Finance income	4,654	5,422	10,848	4,861	5,393	4,352	4,420	-	-	-	1,515	473	-	41,938	
Finance costs	(608,839)	(157,747)	(17,674)	(189,912)	(161,529)	(99,441)	(172,372)	-	-	-	(26,783)	(6,011)	-	(1,440,308)	
Depreciation and amortization	(457,172)	(1,124,544)	(432,052)	(351,619)	(1,058,083)	(545,817)	(450,881)	-	-	-	(263)	(1,928)	(8,161)	(4,430,520)	
EBITDA	(2,207,996)	2,070,764	721,080	(91,429)	422,083	1,299,796	780,806	-	-	-	53,010	1,743	8,161	3,058,018	
Segment assets	5,881,081	11,123,167	4,595,851	4,965,217	13,070,203	7,060,220	5,143,816	-	-	215	1,007,457	75,809	2,111,337	55,034,373	
<i>Including property, plant and equipment and construction in progress</i>	4,167,836	9,176,591	3,484,616	3,825,902	11,819,062	5,265,790	4,573,633	-	-	-	71	13,989	28,628	42,356,118	
Capital expenditure	698,748	1,431,396	605,214	646,539	1,476,230	669,623	559,349	-	-	-	-	2,545	9,264	6,098,908	
Segment liabilities	1,160,510	831,284	1,010,550	1,421,491	3,499,749	2,028,817	498,877	-	-	-	947,839	159,087	18,396,316	29,954,520	

6 Information about segments (continued)

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

The reconciliation of segment revenue:

	Year ended 31 December 2018	Year ended 31 December 2017
Segment revenues	69,338,213	51,908,785
Intersegment revenue elimination	(4,484,261)	(4,045,693)
Reclassification from other income	–	6,020
Revenues per consolidated statement of profit or loss and other comprehensive income	64,853,952	47,869,112

Reconciliation of reportable segment's profit:

	Year ended 31 December 2018	Year ended 31 December 2017
EBITDA of reportable segments	6,860,036	3,058,018
Discounting of accounts receivable	1,003	16,741
Adjustment of allowance for expected credit losses and impairment allowance of advances given	(10,567)	33,207
Adjustment for finance lease	3,675	3,085
Recognition of post-employment and other long-term employee benefit obligation	247,864	(26,182)
Adjustment for assets related to employee benefits	(44,193)	(29,785)
Remeasurement of financial assets measured at fair value through other comprehensive income (transfer of remeasurement to equity)	5,767	8,586
Valuation adjustment for property, plant and equipment	78,042	(9,048)
Other adjustments	(134,690)	(122,951)
EBITDA	7,006,937	2,931,671
Depreciation and amortization	(4,305,535)	(4,108,596)
Interest expenses on financial liabilities	(1,126,384)	(1,434,297)
Interest expenses on finance lease liabilities	(2,431)	(1,151)
Income tax (expense)/benefit	(426,684)	440,119
Profit/(loss) for the year per consolidated statement of profit or loss and other comprehensive income	1,145,903	(2,172,254)

6 Information about segments (continued)

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

The reconciliation of reportable segment total assets:

	Year ended 31 December 2018	Year ended 31 December 2017
Total segment assets	57,484,961	55,034,373
Intersegment balances	(350,002)	(322,991)
Intersegment financial assets	(24,893)	(26,151)
Valuation adjustment for property, plant and equipment	(2,986,922)	(3,334,373)
Impairment of property, plant and equipment	(1,630,956)	(1,788,735)
Adjustment for inventories valuation	(284,978)	(243,859)
Recognition of assets related to employee benefits	370,051	414,244
Adjustment of allowance for expected credit losses and impairment allowance of advances given	22,640	33,207
Deferred tax assets adjustment	(1,440,007)	(1,477,809)
Discounting of accounts receivable	(784)	(1,787)
Recognition of assets related to finance lease	20,956	26,805
Other adjustments	(16,536)	67,425
Total assets per consolidated statement of financial position	51,163,530	48,380,349

The reconciliation of reportable segment total liabilities:

	Year ended 31 December 2018	Year ended 31 December 2017
Total segment liabilities	31,771,594	29,954,520
Intersegment balances	(350,002)	(322,991)
Deferred tax liabilities adjustment	(1,681,060)	(1,663,673)
Recognition of pension and other long-term employee benefit obligation	1,912,467	2,116,145
Adjustment of provisions for estimated liabilities	147,432	–
Recognition of finance lease liabilities	22,334	27,308
Other adjustments	(4,723)	31,591
Total liabilities per consolidated statement of financial position	31,818,042	30,142,900

(i) Major customer

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

For the years ended 31 December 2018 and 31 December 2017, the Group did not have customers contributing more than 10% of the Group's total revenue.

7 Provisions

	Year ended 31 December 2018	Year ended 31 December 2017
Balance at 1 January	27,363	59,479
Increase for the year	717,924	21,323
Decrease due to reversal	(5,133)	(1,846)
Provisions used	(41,886)	(51,593)
Balance at 31 December	698,268	27,363

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

- RUB 329,459 thousand for LLC "TNS Energo Veliky Novgorod" for disagreements on power transmission on the decisions of the court of first instance for the periods from November 2014 to December 2015, from January to August 2016, from September 2016 to November 2018, on the basis of available court decisions on similar grounds for the period from September 2016 to November 2018. In respect of the disputed debt on not registered consumption for November 2017 in accordance with the court decision on a similar dispute on not registered consumption of this legal entity for December 2017;
- RUB 111,043 thousand, in accordance with the claims received by the Company from PJSC "FGC UES" with the requirements to pay the penalty accrued for violation of the terms of payment for the period 1 January 2016 - 30 April 2017.
- RUB 147,432 thousand, the Company had assessed the risk on the property tax for the years 2016-2018. Refer to detailed description of tax risk in note 30.

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

8 Revenue

	Year ended 31 December 2018	Year ended 31 December 2017
Electricity transmission	36,932,840	39,574,758
Sales of electricity and capacity	24,750,165	6,665,467
Technological connection services	2,423,276	810,168
Rental income	231,161	232,723
Other revenue	516,510	579,975
Government grants	-	6,021
	64,853,952	47,869,112

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

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9 Other income, net

	Year ended 31 December 2018	Year ended 31 December 2017
Income from identified non-contracted electricity consumption	126,205	47,441
Income in the form of fines and penalties on commercial contracts	643,015	1,302,359
Loss on disposal of property, plant and equipment	(116,830)	(54,902)
Insurance reimbursement, net	23,236	9,560
Accounts payable write-off	28,224	6,995
Other income, net	12,834	21,359
	716,684	1,332,812

10 Operating expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Personnel costs	13,452,179	12,020,152
Depreciation and amortization	4,305,535	4,108,596
<i>Material expenses, including:</i>		
Electricity for compensation of losses	4,523,276	4,807,804
Electricity for sale	15,337,147	3,886,441
Purchased electricity and heat power for own needs	259,874	269,372
Other material costs	2,610,158	2,154,507
<i>Production work and services, including:</i>		
Electricity transmission services	15,215,045	14,077,018
Repair and maintenance services	908,076	749,936
Other production works and services	203,519	186,810
Taxes and charges other than income tax	691,423	519,798
Rent	323,525	175,601
Insurance	63,498	63,435
<i>Other third-party services, including:</i>		
Communication services	169,672	113,412
Security services	282,992	225,212
Consulting, legal and audit services	76,731	67,583
Software costs and servicing	70,427	51,848
Transportation services	173,463	147,357
Other services	592,916	456,128
Allowance for expected credit losses	1,237,102	5,368,409
Provisions	712,791	19,477
Other expenses	1,601,764	899,601
	62,811,113	50,368,497

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11 Personnel costs

	<u>Year ended 31 December 2018</u>	<u>Year ended 31 December 2017</u>
Wages and salaries	10,152,247	8,935,062
Social security contributions	3,428,525	3,013,880
(Income)/expense related to defined benefit plan	(128,593)	71,210
	<u>13,452,179</u>	<u>12,020,152</u>

The amount of contributions to the defined contribution plan was RUB 14,298 thousand for the year ended 31 December 2018 (for the year ended 31 December 2017: RUB 28,266 thousand).

Remuneration of key management personnel is disclosed in Note 31.

12 Finance income and costs

	<u>Year ended 31 December 2018</u>	<u>Year ended 31 December 2017</u>
<i>Finance income</i>		
Interest income on loans, bank deposits, promissory notes and balances in bank accounts	42,602	35,927
Gain from disposal of available-for-sale financial assets	–	3,015
Gain on recovery of provision for expected credit losses on financial assets at amortized cost	37,049	33,528
Dividends receivable	574	421
Interest income on assets related to employee benefits	–	35,028
Amortization of discount on financial assets	1,969	18,164
	<u>82,194</u>	<u>126,083</u>
<i>Finance costs</i>		
Interest expenses on financial liabilities measured at amortized cost	(1,126,384)	(1,434,297)
Interest expenses on finance lease liabilities	(2,431)	(1,151)
Impairment loss of financial investments at fair value	–	(115)
Interest expenses on long-term employee benefit obligation	(139,317)	(134,826)
Effect from initial discounting of financial assets	(998)	(1,494)
	<u>(1,269,130)</u>	<u>(1,571,883)</u>

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13 Income tax

	Year ended 31 December 2018	Year ended 31 December 2017
<i>Current income tax</i>		
Current tax	376,753	416,341
Adjustment of tax for previous periods	(6,276)	(1)
Total	370,477	416,340
<i>Deferred income tax</i>		
Accrual and reversal of temporary differences	56,207	(856,459)
Total	56,207	(856,459)
Income tax expense/ (benefit)	426,684	(440,119)

Income tax recognized in other comprehensive income:

	Year ended 31 December 2018			Year ended 31 December 2017		
	Before tax	Income tax	Net of tax	Before tax	Income tax	Net of tax
Available-for-sale financial assets	–	–	–	(3,484)	697	(2,787)
Financial assets measured at fair value through other comprehensive income	(4,496)	899	(3,597)	–	–	–
Remeasurements of the defined benefit liability	(44,186)	8,837	(35,349)	(323,919)	64,783	(259,136)
	(48,682)	9,736	(38,946)	(327,403)	65,480	(261,923)

In 2018 and 2017, PJSC IDGC of North-West and its subsidiaries applied the standard rate of Russian corporate income tax of 20%. This rate has been used in the calculation of deferred tax assets and liabilities.

Profit/(loss) before tax is reconciled to income tax expenses as follows:

	Year ended 31 December 2018	%	Year ended 31 December 2017	%
Profit/(loss) before tax	1,572,587		(2,612,373)	
Income tax at the applicable tax rate	314,517	20	(523,326)	20
Tax effect on not taxable or non-deductible for tax purposes items	118,443	7	83,208	(3)
Adjustments for prior years	(6,276)	0	(1)	0
	426,684	27	(440,119)	17

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14 Property, plant and equipment

	Land and buildings	Electricity transmis- sion networks	Equipment for electricity transmission	Other PPE	Construc- tion in progress	Total
<i>Cost/Deemed cost</i>						
At 1 January 2017	7,581,813	32,299,046	17,702,840	7,821,378	1,812,633	67,217,710
Reclassification between groups	21,580	2,929	(11,002)	(13,507)	–	–
Additions	108,454	805,651	272,375	794,539	4,489,892	6,470,911
Transfer	387,307	1,219,581	1,469,187	313,113	(3,389,188)	–
Disposals	(5,603)	(5,714)	(6,535)	(17,708)	(410,211)	(445,771)
At 31 December 2017	8,093,551	34,321,493	19,426,865	8,897,815	2,503,126	73,242,850
<i>Accumulated depreciation and impairment</i>						
At 1 January 2017	(2,837,232)	(17,184,799)	(7,119,344)	(4,759,794)	(98,036)	(31,999,205)
Reclassification between groups	(6,536)	(299)	6,835	–	–	–
Transfer of impairment losses upon commissioning assets into operation	(1,053)	(20,983)	(6,094)	(4,132)	32,262	–
Depreciation charge	(328,065)	(1,855,320)	(1,073,469)	(754,677)	–	(4,011,531)
Disposals	3,500	3,841	4,460	16,955	6,949	35,705
At 31 December 2017	(3,169,386)	(19,057,560)	(8,187,612)	(5,501,648)	(58,825)	(35,975,031)
<i>Net book value</i>						
At 1 January 2017	4 744 581	15 114 247	10 583 496	3 061 584	1 714 597	35 218 505
At 31 December 2017	4 924 165	15 263 933	11 239 253	3 396 167	2 444 301	37 267 819
<i>Cost/Deemed cost</i>						
At 1 January 2018	8,093,551	34,321,494	19,426,865	8,897,815	2,503,125	73,242,850
Reclassification between groups	22,178	(3,421)	1,053	(19,810)	–	–
Additions	–	–	–	–	7,508,263	7,508,263
Transfer	345,814	2,911,368	1,339,064	1,510,524	(6,106,770)	–
Disposals	(5,238)	(18,611)	(12,951)	(39,526)	(134,055)	(210,381)
At 31 December 2018	8,456,305	37,210,830	20,754,031	10,349,003	3,770,563	80,540,732
<i>Accumulated depreciation and impairment</i>						
At 1 January 2018	(3,169,387)	(19,057,560)	(8,187,611)	(5,501,647)	(58,826)	(35,975,031)
Reclassification between groups	(7,493)	3,582	(712)	4,623	–	–
Transfer of impairment losses upon commissioning assets into operation	(291)	(3,777)	(969)	(229)	5,266	–
Depreciation charge	(339,986)	(1,869,124)	(1,145,385)	(832,783)	–	(4,187,278)
Disposals	2,958	16,839	8,410	35,504	5,410	69,121
At 31 December 2018	(3,514,199)	(20,910,040)	(9,326,267)	(6,294,532)	(48,150)	(40,093,188)
<i>Net book value</i>						
At 1 January 2018	4,924,164	15,263,934	11,239,254	3,396,168	2,444,299	37,267,819
At 31 December 2018	4,942,106	16,300,790	11,427,764	4,054,471	3,722,413	40,447,544

As at 31 December 2018, construction in progress includes advance payments for property, plant and equipment of RUB 29,946 thousand (31 December 2017: RUB 24,272 thousand) and materials for the fixed assets construction of RUB 1,443,549 thousand (31 December 2017: RUB 377,801 thousand).

14 Property, plant and equipment (continued)

Capitalized interest for the year ended 31 December 2018 amounted to RUB 67,907 thousand (for the year ended 31 December 2017: RUB 69,927 thousand), with capitalization rate used to calculate borrowing costs to be capitalized during the period of 6.00%-6.80% (for 2017: 6.80%-8.30%).

As at 31 December 2018 and 31 December 2017 there are no fixed assets pledged as collateral for loans and borrowings.

Leased fixed assets

The cost of fixed assets includes a number of objects received under financial lease agreements (leasing). As at 31 December 2018, the residual value of leased property, plant and equipment amounted to RUB 20,956 thousand (as at 31 December 2017: RUB 26,805 thousand). The leased equipment is pledged as collateral to secure the lease obligations.

Impairment of property, plant and equipment

Due to indicators of impairment of non-current assets, the Group conducted an impairment test as at 31 December 2018. Cash flows were analyzed and the estimated recoverable amount was compared with the carrying amount of non-current assets.

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

As a result, the value in use of property, plant and equipment as at 31 December 2018 was determined using the discounted cash flow method. This method takes into account future net cash flows that will generate these property, plant and equipment in the course of operating activities, as well as on disposal, in order to determine the recoverable amount of these assets.

Cash-generating units ("CGU") are determined by the Group based on the geographical location of its branches and subsidiaries and are the smallest identifiable groups of assets that generate cash inflows regardless of other assets of the Group. CGU Groups defined by Arkhenergo, Vologdaenergo, Karelenergo, Kolenergo, Komienenergo, Novgorodenergo, Pskovenergo.

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

Projected cash flows were determined for the period 2019-2023 based on management's best estimate of electricity transmission volumes, operating and capital costs, and tariffs approved by regulatory authorities for 2019.

The source for the forecast of electricity transmission tariffs for the forecast period is the business plans prepared taking into account the average annual growth of the tariff for electricity transmission services in accordance with the medium-term forecast of social and economic development of the Russian Federation until 2024 (basic version) dated 1 October 2018. At the same time, the revenue part of the business plan significantly exceeds the parameters approved in the tariff models, with the exception of the CGU Komienenergo.

Projected electricity transmission volumes for all generating units were determined on the basis of annual business plans for 2019-2023.

Projected cash flows were discounted to their present value using a nominal weighted average cost of capital of 10.0%.

The growth rate of net cash flows in the post-forecast period was 4.0%.

14 Property, plant and equipment (continued)

As at 31 December 2018 and 31 December 2017, no impairment of property, plant and equipment was identified as a result of testing.

Key assumptions used in the calculation of the value in use of property, plant and equipment for impairment as at 31 December 2018 and sensitivity analysis of changes in assumptions

When calculating the value in use of fixed assets, the greatest impact on the test result is made by the assumptions made in relation to the following indicators: the rate of increase in revenue from electricity transmission to the previous year, the ratio of the level of capital investments to the amount of depreciation, the change in the level of operating expenses.

The following tables show the values of key management assumptions used in the impairment test for property, plant and equipment:

%	2019	2020	2021	2022	2023	2024	Post-forecast (terminal) period
<i>Archenergo</i>							
Growth rate of revenue from electricity transmission to the previous year	9.83	4.16	4.68	4.43	4.40	4.00	4.00
The ratio of the level of capital investment to the amount of depreciation	56.13	39.64	36.48	36.87	25.63	100.00	100.00
Changes in the level of operating expenses	50.61	3.67	4.28	2.57	3.01	0.89	0.89
<i>Vologdaenergo</i>							
Growth rate of revenue from electricity transmission to the previous year	-0.07	0.35	5.33	3.32	3.33	4.00	4.00
The ratio of the level of capital investment to the amount of depreciation	62.57	48.36	59.28	61.03	84.01	100.00	100.00
Changes in the level of operating expenses	22.19	2.91	2.50	2.74	1.50	0.39	0.39
<i>Karelenenergo</i>							
Growth rate of revenue from electricity transmission to the previous year	-0.61	2.21	4.18	4.11	4.07	4.00	4.00
The ratio of the level of capital investment to the amount of depreciation	88.19	54.26	120.10	115.38	47.94	100.00	100.00
Changes in the level of operating expenses	-18.29	2.93	4.51	6.08	1.12	0.35	0.35
<i>Kolenergo</i>							
Growth rate of revenue from electricity transmission to the previous year	3.88	4.38	4.39	4.55	4.58	4.00	4.00
The ratio of the level of capital investment to the amount of depreciation	15.98	58.31	72.66	63.93	110.80	100.00	100.00
Changes in the level of operating expenses	2.94	3.56	2.79	2.98	1.67	1.57	1.57
<i>Komienergo</i>							
Growth rate of revenue from electricity transmission to the previous year	-1.14	5.33	4.06	4.06	4.07	11.70	11.70
The ratio of the level of capital investment to the amount of depreciation	54.67	42.91	22.05	65.70	76.54	100.00	100.00
Changes in the level of operating expenses	-3.14	0.80	6.75	5.64	3.83	0.94	0.94
<i>Novgorodenergo</i>							
Growth rate of revenue from electricity transmission to the previous year	-0.15	4.79	5.10	5.08	5.08	4.00	4.00
The ratio of the level of capital investment to the amount of depreciation	43.48	27.27	67.04	72.51	72.11	100.00	100.00
Changes in the level of operating expenses	4.73	3.01	1.00	4.82	3.45	-0.85	-0.85
<i>Pskovenergo</i>							
Growth rate of revenue from electricity transmission to the previous year	3.87	3.77	4.44	4.62	3.97	4.00	4.00
The ratio of the level of capital investment to the amount of depreciation	58.74	48.27	58.39	59.17	57.20	100.00	100.00
Changes in the level of operating expenses	2.62	4.98	4.21	2.51	2.70	1.11	1.11

14 Property, plant and equipment (continued)

Currently, the draft resolution of the Government of the Russian Federation on the introduction of cost benchmarks for network organizations is being discussed, which is planned to be adopted in the 1st half of 2019. This legislative initiative provides for the possibility of any network company to switch to the method of cost benchmarks at the end of the long-term regulation period according to the network organization request since 2021. Management expects the transition of Komienergo on the benchmark in 2024, thus the cost in terminal period in the model of Komienergo was projected accordingly. If the transition to the referred above method does not occur, the impairment in Komienergo for 2018 would comprise RUB 1,214,950 thousand.

The models of all CGUs are not sensitive to a decrease in the long-term growth rate to 3%, except for Vologdaenergy, the impairment of which, if the long-term growth rate decreased to 3%, would be RUB 127,946 thousand.

The change in the revenue growth rate: for Vologdaenergy, an annual decrease in revenue in each period by 0.9% would result in an impairment of RUB 58,124 thousand; for Komienergo, an annual decrease in revenue in each period by 1.6% would result in an impairment of RUB 26,723 thousand; for Novgorodenergo, an annual decrease in revenue in each period by 1.5% would result in an impairment of RUB 95,052 thousand; for Pskovenergo, an annual decrease in revenue in each period 1.2% would lead to impairment of RUB 84,298 thousand.

The change in the discount rate: for Vologdaenergy the change in the discount rate to 11.2% would lead to an impairment of RUB 104,102 thousand; for Komienergo the change in the discount rate to 11.7% would lead to an impairment of RUB 53,682 thousand; for Novgorodenergo the change in the discount rate to 11.8% would lead to an impairment of RUB 63,214 thousand; for Pskovenergo the change in the discount rate to 11.8% would lead to an impairment of RUB 42,242 thousand.

15 Intangible assets

	Software	Certificates, licenses and patents	Other intangible assets	Total intangible assets
Initial cost				
At 1 January 2017	298,790	28,686	13,797	341,273
Additions	97,556	3,350	40,571	141,477
Disposals	(67,432)	(3,692)	(61)	(71,185)
At 31 December 2017	328,914	28,344	54,307	411,565
Accumulated amortization and impairment				
At 1 January 2017	(161,075)	(15,427)	(1,789)	(178,291)
Amortization charge	(90,584)	(6,283)	(198)	(97,065)
Disposals	67,179	3,690	(106)	70,763
At 31 December 2017	(184,480)	(18,020)	(2,093)	(204,593)
Initial cost				
At 1 January 2018	328,914	28,344	54,307	411,565
Additions	132,370	5,056	45,016	182,442
Disposals	(55,621)	(1,798)	–	(57,419)
At 31 December 2018	405,663	31,602	99,323	536,588
Accumulated amortization and impairment				
At 1 January 2018	(184,480)	(18,020)	(2,093)	(204,593)
Amortization charge	(110,613)	(7,403)	(241)	(118,257)
Disposals	52,871	1,791	-	54,662
At 31 December 2018	(242,222)	(23,632)	(2,334)	(268,188)
Net book value				
At 1 January 2018	144,434	10,324	52,214	206,972
At 31 December 2018	163,441	7,970	96,989	268,400

The amount of amortization of intangible assets included in operating expenses in the consolidated statement of profit or loss and other comprehensive income is RUB 118,257 thousand (for the year ended 31 December 2017: RUB 97,065 thousand).

Intangible assets are amortized on a straight-line basis.

The amount of research and development costs recognized as part of operating expenses for 2018 is 258 thousand rubles (for 2017: 258 thousand rubles).

16 Financial investments

	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Non-current</i>		
Financial assets at fair value through other comprehensive income	10,401	–
Financial assets at amortized cost	494,818	–
Available-for-sale financial assets	–	14,898
Financial assets held to maturity	–	457,769
	<u>505,219</u>	<u>472,667</u>

Financial assets at fair value through other comprehensive income include shares of PJSC "TGC-1" and JSC "FGC UES", as well as other securities the fair value of which amounted to RUB 10,401 thousand as at 31 December 2018 (RUB 14,898 thousand as at 31 December 2017). At the end of each reporting period, the fair value of the shares of PJSC "TGC-1" and JSC "FGC UES" was determined using market quotes (level 1 inputs), fair value of other securities was estimated without the use of observable market data (unobservable inputs – level 3).

For the year ended 31 December 2018 the decrease in the fair value of investments at fair value through other comprehensive income of RUB 4,497 thousand was recognized in other comprehensive income (for the year ended 31 December 2017: RUB 3,484 thousand).

As at 31 December 2018 financial assets at amortized cost represented deposits at the OJSC "Bank Tavrichesky" ("The Bank") of RUB 2,080,000 thousand at the rate of 0.51% per annum maturing on 12 April 2035 (as at 31 December 2017: RUB 2,080,000 thousand).

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

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

In the consolidated financial statements the Group accrued an allowance for expected credit loss of financial investments (the Bank deposit) equalling the difference between their historical cost and fair value. The fair value of financial investments was determined using the method of discounting of long-term deposit taking into consideration industry, market, financial and other risks, including investment risk. As at 31 December 2018, the allowance amounted to RUB 1,585,182 thousand (at 31 December 2017: RUB 1,622,231 thousand).

The Group recognized the deferred tax asset on provision for expected credit loss of financial investments in accordance with IAS 12 "Income Taxes". As at 31 December 2018 the amount of this deferred tax asset was RUB 317,036 thousand (as at 31 December 2017: RUB 337,580 thousand).

Financial assets measured at amortised cost at 31 December 2018 and financial assets held to maturity at 31 December 2017 mainly represent bank deposits with an original maturity of more than three months:

	<u>Interest rate</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Bank	0.51%	494,818	457,769

17 Deferred tax assets and liabilities

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

(a) Recognized deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Property, plant and equipment	–	–	(2,266,751)	(2,079,222)	(2,266,751)	(2,079,222)
Intangible assets	–	55	(844)	–	(844)	55
Available-for-sale financial investments	–	–	–	(1,570)	–	(1,570)
Financial assets at fair value through other comprehensive income	–	–	(671)	–	(671)	–
Inventories	–	55	(125)	–	(125)	55
Trade and other receivables and prepayments	534,045	549,568	–	–	534,045	549,568
Finance lease liabilities	4,467	5,461	–	–	4,467	5,461
Provisions	268,087	112,349	–	–	268,087	112,349
Employee benefit liabilities	132,974	180,592	–	–	132,974	180,592
Trade and other payables	–	791	(3,337)	–	(3,337)	791
Other	412,000	357,818	(419)	–	411,581	357,818
Tax assets/(liabilities)	1,351,573	1,206,689	(2,272,147)	(2,080,792)	(920,574)	(874,103)
Offset of tax	(1,322,446)	(1,196,431)	1,322,446	1,196,431	–	–
Net tax assets/(liabilities)	29,127	10,258	(949,701)	(884,362)	(920,574)	(874,103)

The aggregate amount of temporary differences related to investments in subsidiaries in respect of which deferred tax assets were not recognized was RUB 85,742 thousand as at 31 December 2018 (as at 31 December 2017: RUB 51,190 thousand).

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17 Deferred tax assets and liabilities (continued)

(b) Movement in temporary differences during the year

	1 January 2018	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2018
Property, plant and equipment	(2,079,222)	(187,529)	–	(2,266,751)
Intangible assets	55	(899)	–	(844)
Financial assets at fair value through other comprehensive income	(1,570)	–	899	(671)
Inventories	55	(180)	–	(125)
Trade and other receivables and prepayments	549,568	(15,523)	–	534,045
Finance lease liabilities	5,461	(994)	–	4,467
Provisions	112,349	155,738	–	268,087
Employee benefit liabilities	180,592	(56,455)	8,837	132,974
Trade and other payables	791	(4,128)	–	(3,337)
Other	357,818	53,763	–	411,581
	(874,103)	(56,207)	9,736	(920,574)

	1 January 2017	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2017
Property, plant and equipment	(1,940,554)	(138,668)	–	(2,079,222)
Intangible assets	69	(14)	–	55
Available-for-sale financial investments	(2,267)	–	697	(1,570)
Inventories	73	(18)	–	55
Trade and other receivables and prepayments	(428,893)	978,461	–	549,568
Finance lease liabilities	–	5,461	–	5,461
Provisions	113,449	(1,100)	–	112,349
Employee benefit liabilities	113,011	2,797	64 783	180,592
Trade and other payables	775	16	–	791
Other	348,294	9,524	–	357,818
	(1,796,043)	856,459	65 480	(874,103)

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18 Inventories

	<u>31 December 2018</u>	<u>31 December 2017</u>
Raw materials and supplies	453,072	415,829
Provision for impairment of raw materials and supplies	(214)	(7)
Other inventories	410,755	374,583
Provision for impairment of other inventories	(5,539)	(4,870)
	<u>858,074</u>	<u>785,535</u>

As at 31 December 2018 and 31 December 2017 the Group did not pledge inventories as collateral under loan or other agreements.

During the year ended 31 December 2018, RUB 2,610,158 thousand were recognized as expenses (during the year ended 31 December 2017: RUB 2,154,507 thousand) within operating expenses as “Other material expenses”.

19 Trade and other receivables

	<u>31 December 2018</u>	<u>31 December 2017</u>
Non-current trade and other accounts receivable		
Trade receivables	6,858	5,026
Other receivables	3,410	8,474
Total financial assets	<u>10,268</u>	<u>13,500</u>
Advances given	7,972	12,340
VAT on advances from customers and clients	142,151	120,329
	<u>160,391</u>	<u>146,169</u>
Current trade and other accounts receivable		
Trade receivables	14,525,061	13,831,446
Allowance for expected credit loss on trade receivables	(7,772,528)	(6,854,567)
Other receivables	1,133,268	1,356,721
Allowance for expected credit loss on other receivables	(695,723)	(564,840)
Total financial assets	<u>7,190,078</u>	<u>7,768,760</u>
Advances given	144,172	218,253
Advances given impairment provision	(12,525)	(14,410)
VAT recoverable	218,743	987,495
VAT on advances from customers and clients and VAT on advances given for the purchase of property, plant and equipment	582,725	4,757
Prepaid taxes, other than income tax and VAT	16,772	25,248
	<u>8,139,965</u>	<u>8,990,103</u>

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 27.

Balances with related parties are disclosed in Note 31.

20 Cash and cash equivalents

	<u>31 December 2018</u>	<u>31 December 2017</u>
Cash at bank and in hand	151,123	82,471
Cash equivalents	–	2,000
	<u>151,123</u>	<u>84,471</u>

	Rating	Rating agency	31 December 2018	31 December 2017
Bank 1	ruAA	Expert RA	107,697	731
Bank 2	ruAA	Expert RA	8,883	35
Bank 3	ruAA	Expert RA	7	–
Bank 4*	–	–	3,882	3,654
Bank 5*	ruAA+ ruAA+	Expert RA	7,031	39,705
Bank 6*	ruAAA	Expert RA	6,083	5,565
Bank 7*	Ba1	Moody's Investors Service	15,728	31,679
Cash in hand			1,812	1,102
			<u>151,123</u>	<u>82,471</u>

*Government-related banks

Cash equivalents consist of short-term bank deposits:

	<u>Interest rate</u>	<u>Rating</u>	<u>Rating agency</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Bank 1*	5.42	Ba1	Moody's Investors Service	–	2,000

*Government-related banks

As at 31 December 2018 and 31 December 2017, all cash and cash equivalents balances are denominated in roubles.

21 Share capital

(a) Share capital

	Ordinary shares	
	31 December 2018	31 December 2017
Par value (RUB)	0.1	0.1
On issue at 1 January (shares)	95,785,923,138	95,785,923,138
On issue at end of year, fully paid (shares)	<u>95,785,923,138</u>	<u>95,785,923,138</u>

21 Share capital (continued)

(b) Reserve related to business combination

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

(c) Dividends

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

For 2017, dividends were not declared (for 2016: the amount of declared dividends amounted to RUB 111,188 thousand).

Unclaimed dividends as at 31 December 2018 amounted to RUB 1,083 (as at 31 December 2017: RUB 16 thousand).

22 Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2018 was based on the profit attributable to ordinary shareholders for 2018 in the amount of RUB 1,145,972 thousand (for 2017: loss of RUB 2,172,229 thousand), and a weighted average number of ordinary shares outstanding of 95,785,923,138 in 2018 (for 2017: 95,785,923,138).

The Company has no dilutive financial instruments.

	<u>2018</u>	<u>2017</u>
Ordinary shares at 1 January (shares)	95,785,923,138	95,785,923,138
Weighted average number of shares for the year ended 31 December (shares)	<u>95,785,923,138</u>	<u>95,785,923,138</u>
	<u>Year ended</u>	<u>Year ended</u>
	<u>31 December 2018</u>	<u>31 December 2017</u>
Weighted average number of ordinary shares outstanding, for the year ended 31 December (shares)	95,785,923,138	95,785,923,138
Profit/(loss) for the year attributable to holders of ordinary shares	1,145,972	(2,172,229)
(Loss)/earnings per ordinary share (in RUB) – basic	<u>0.0120</u>	<u>(0.0227)</u>

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23 Loans and borrowings

	Year ended 31 December 2018	Year ended 31 December 2017
<i>Non-current liabilities</i>		
Unsecured loans and borrowings	12,000,000	13,500,000
Finance lease liabilities	22,335	27,308
Less: current portion of long-term finance lease liabilities	(5,000)	(4,973)
Less: current portion of long-term loans and borrowings	(3,500,000)	(5,000,000)
	8,517,335	8,522,335
<i>Current liabilities</i>		
Unsecured loans and borrowings	3,521,929	806,588
Current portion of long-term finance lease liabilities	5,000	4,973
Current portion of long-term loans and borrowings	3,500,000	5,000,000
	7,026,929	5,811,561
<i>Including:</i>		
Interests payable on loans and borrowings	28,890	16,052
	28,890	16,052

As at 31 December 2018 and 31 December 2017 all balances of loans and borrowings are denominated in rubles.

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23 Loans and borrowings (continued)

	Year of maturity	Effective interest rate			Carrying value
		31 December 2018	31 December 2017	31 December 2017	
Unsecured loans and borrowings					
Unsecured bank loans *	–	–	10.65%	–	187
Unsecured bank loans	–	–	9.05%-11.9%	–	126
Unsecured bank loans *	2019-2021	7.49% - 9.15%	7.9%-8.04%	10,938,993	5,252,144
Unsecured bank loans *	2019	7.5% - 8%	8.8%-12.42%	2,582,936	7,054,131
Unsecured bank loans	2019-2021	7.75%	7.75%	2,000,000	2,000,000
				15,521,929	14,306,588
Finance lease liabilities	2019-2022	10.14 %	10.14 %	22,335	27,308
Total liabilities				15,544,264	14,333,896

*Loans and borrowings received from state-related companies

The Group does not use hedging instruments to manage interest rate risk. The Group's exposure to interest rate risk is disclosed in note 28.

A breakdown of the minimum lease payments under finance leases and their discounted value are presented below:

	31 December 2018			31 December 2017		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	7,403	2,403	5,000	7,403	2,430	4,973
Between one and five years	19,127	1,792	17,335	26,529	4,194	22,335
	26,530	4,195	22,335	33,932	6,624	27,308

The financial lease liabilities are secured by leased assets.

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24 Changes in liabilities from financing activities

	Principal amount of finance liabilities except finance lease and dividends payable		Interest on finance liabilities except finance lease and dividends payable	Finance lease	Dividends payable	Total
	Non-current	Current				
At 1 January 2018	8,500,000	5,739,487	67,101	27,308	7,833	14,341,729
Borrowing	20,150,000	18,945,697	x	x	x	39,095,697
Early repayment of long-term borrowings	(16,650,000)	x	x	x	x	(16,650,000)
Repayment of short-term borrowings	x	(21,192,144)	x	x	x	(21,192,144)
Finance lease cash flow	x	x	x	(4,973)	x	(4,973)
Cash flow by interest paid (operating activities, reference)	x	x	(1,232,503)	(2,431)	x	(1,234,934)
Interests and dividends payable accruals	x	x	1,126,384	2,431	x	1,128,815
Interests capitalized	x	x	67,907	x	x	67,907
Transfer non-current finance liabilities to current	(3,500,000)	3,500,000	x	x	x	—
Other changes, net	—	—	—	—	(1,234)	(1,234)
At 31 December 2018	8,500,000	6,993,040	28,889	22,335	6,599	15,550,863

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24 Changes in liabilities from financing activities (continued)

	Principal amount of finance liabilities except finance lease and dividends payable				Interest on finance liabilities except finance lease and dividends payable	Dividends payable	Total
	Total	Non-current	Current				
At 1 January 2017	14,718,493	14,319,493	399,000	74,809	–	5,673	14,798,975
Cash flow from financing activities, net	(479,006)	(819,493)	340,487	x	(1,933)	(110,425)	(591,364)
Cash flow by interest paid (operating activities, reference)	x	x	x	(1,511,932)	(1,151)	x	(1,513,083)
Income from finance leases	x	x	x	x	29,241	x	29,241
Interests and dividends payable accruals	x	x	x	1,434,297	1,151	111,188	1,546,636
Interests capitalized	x	x	x	69,927	x	x	69,927
Transfer non-current finance liabilities to current	x	(5,000,000)	5,000,000	x	x	x	–
Other non-cash movements	–	–	–	–	–	1,397	1,397
At 31 December 2017	14,239,487	8,500,000	5,739,487	67,101	27,308	7,833	14,341,729

25 Employee benefits

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

On October 3, 2018, the President of the Russian Federation signed the Federal Law "On amendments to certain legislative acts of the Russian Federation on payment and assignment of pensions". The law comes into force on January 1, 2019 and provides for a gradual increase in the retirement age. The net value of pension liabilities as at 31 December 2018 is recognized taking into account the impact of changes in pension legislation.

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

	<u>31 December 2018</u>	<u>31 December 2017</u>
Net post-employment benefits obligation	1,775,254	1,986,261
Net other long-term employee benefit obligation	137,213	129,884
Total net obligation	<u>1,912,467</u>	<u>2,116,145</u>

Change in assets related to employee benefit obligations:

	<u>Year ended 31 December 2018</u>	<u>Year ended 31 December 2017</u>
assets at 1 January	414,244	440,426
Return on plan assets	–	35,028
Employer contributions	132,870	68,179
Other movements in the accounts	6,309	6,651
Payment of benefits	(183,372)	(136,040)
assets at 31 December	<u>370,051</u>	<u>414,244</u>

Assets related to pension plans and defined benefit plans are administered by the non-state pension Fund "OTKRITIE", non-State pension Fund "Professional".

These assets are not the defined benefit plans' assets, because under the terms of agreements between the Group and the funds the Group has the right to use the contributions paid under defined benefit plans to fund its defined contribution pension plans or transfer to another fund on the Group's own initiative.

25 Employee benefits (continued)

Movements in the present value of defined benefit liabilities:

	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
Defined benefit plan obligations as at 1 January	1,986,261	129,884	1,640,352	122,089
Current service cost	52,040	4,170	63,564	10,424
The past service cost and curtailment	(195,214)	22,931	–	–
Interest expense on obligations	130,761	8,556	125,250	9,576
Remeasurement arising from:				
– loss/(gain)/ from change in demographic actuarial assumptions	–	–	(16,093)	1,691
– loss/(gain) from change in financial actuarial assumptions	(145,081)	(35,457)	98,890	15,372
– loss/(gain) from experience adjustment	189,267	22,937	241,122	(19,841)
Contributions to the plan	(242,780)	(15,808)	(166,824)	(9,427)
Defined benefit plan obligations as at 31 December	1,775,254	137,213	1,986,261	129,884

Expenses recognized in profit or loss for the period:

	Year ended 31 December 2018	Year ended 31 December 2017
Employees service cost	(116,073)	73,988
Remeasurement of other long-term employee benefit obligation	(12,520)	(2,778)
Interest expenses	139,317	134,826
Total expenses recognized in profit or loss	10,724	206,036

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

	Year ended 31 December 2018	Year ended 31 December 2017
Loss/(gain) from change in demographic actuarial assumptions	–	(16,093)
(Gain)/loss from change in financial actuarial assumptions	(145,081)	98,890
(Gain)/loss from experience adjustment	189,267	241,122
Total (income)/loss recognized in other comprehensive income	44,186	323,919

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

	Year ended 31 December 2018	Year ended 31 December 2017
Remeasurements at 1 January	17,436	(306,483)
Change in re-measurements	44,186	323,919
Remeasurements at 31 December	61,622	17,436

25 Employee benefits (continued)

The key actuarial assumptions are as follows:

	31 December 2018	31 December 2017
Financial assumptions		
Discount rate	8.7%	7.5%
Future salary increase	4.6%	4.5%
Inflation rate	4.1%	4.0%
Demographic assumptions		
Expected age of retirement:		
Men	65	60
Women	60	55

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

	Change in the assumption	Impact on obligation, %
Discount rate	Increase by 0.5%	-3.8%
Future salary growth	Increase by 0.5%	3.3%
Future growth of benefits (inflation)	Increase by 0.5%	0.9%
Level of staff movement	Increase by 10%	-1.2%
Mortality level	Increase by 10%	-0.9%

Expected payments under the long-term employee benefit plans in 2019 are RUB 144,565 thousand, including:

- RUB 127,670 thousand under the defined benefit plans, including non-state pension schemes;
- RUB 16,895 thousand under the other long-term employee benefit schemes.

26 Trade and other payables

	<u>31 December 2018</u>	<u>31 December 2017</u>
Non-current accounts payable		
Other payables	246,687	260,532
Total financial liabilities	246,687	260,532
Advances from customers	894,930	788,550
	1,141,617	1,049,082
Current accounts payable		
Trade payables	5,019,265	4,321,776
Other payables and accrued expenses	583,716	713,907
Dividends payable	6,599	7,833
Total financial liabilities	5,609,580	5,043,516
Advances from customers	3,805,283	4,712,383
Payables to employees	1,089,938	939,256
	10,504,801	10,695,155
Taxes payable		
Value-added tax	588,920	514,362
Property tax	157,555	109,531
Social security contributions	216,863	197,942
Other taxes payable	103,395	94,548
	1,066,733	916,383
	11,571,534	11,611,538

The Group's exposure to liquidity risk related to payables is disclosed in Note 27.

Non-current advances from customers include advances for technological connection services in the amount of RUB 757,928 thousand as at 31 December 2018 (as at 31 December 2017: RUB 754,769 thousand).

27 Financial risk and capital management

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

This note provides information on the Group's exposure to each of these risks, examines the goals, policies and procedures for assessing and managing risks and the Group's capital management system. More detailed quantitative information is disclosed in the relevant sections of these consolidated financial statements.

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

27 Financial risk and capital management (continued)

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Trade and other receivables

To manage credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is stipulated by a contract and depends on the amount of capacity to be connected. The Group does not require collateral with respect to receivables.

The Group's exposure to credit risk mainly depends on the individual characteristics of each customer. The Group takes appropriate measures to recover receivables in a timely manner. In order to implement measures to reduce and prevent the growth of accounts receivable, the debt is divided mainly into current, overdue, doubtful and irrecoverable. When monitoring credit risk, buyers are grouped by type of accounts receivable and maturity. The Group creates an allowance for expected credit losses on trade and other receivables, the estimated amount of which is determined on the basis of a model of expected credit losses, weighted by the probability of default, and can be adjusted both upwards and downwards. To do this, the Group analyzes the creditworthiness of customers, the dynamics of debt repayment, takes into account changes in the terms of payment, the availability of letters of guarantee for debt repayment, the current general economic conditions.

Exposure to credit risk

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

	Carrying amount	
	31 December 2018	31 December 2017
Available-for-sale financial assets	–	14,898
Financial assets at fair value through other comprehensive income	10,401	–
Trade and other receivables (less allowance for expected credit losses/ impairment provision)	7,200,346	9,136,272
Cash and cash equivalents	151,123	84,471
Financial assets at amortized cost	494,818	457,769
	<u>7,856,688</u>	<u>9,693,410</u>

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

	Gross	Allowance for expected credit loss	Gross	Impairment loss
	31 December 2018	31 December 2018	31 December 2017	31 December 2017
Buyers of electricity sales services	4,184,547	(1,862,977)	2,568,808	(1,657,590)
Buyers of electricity transmission services	10,047,257	(5,877,938)	11,061,262	(5,164,178)
Buyers of services for sale of heat energy	5,535	(4,403)	6,088	(4,000)
Buyers of technological connection services	117,983	(20,643)	87,647	(18,823)
Other buyers	176,597	(6,567)	112,667	(9,976)
	<u>14,531,919</u>	<u>(7,772,528)</u>	<u>13,836,472</u>	<u>(6,854,567)</u>

27 Financial risk and capital management (continued)

(a) Credit risk (continued)

The Group's ten most significant debtors account for RUB 3,400,629 thousand of the trade receivables carrying amount at 31 December 2018 (at 31 December 2017: RUB 3,647,495 thousand).

Expected credit loss on trade and other receivables

The aging of trade and other receivables is provided below:

	31 December 2018		31 December 2017	
	Gross	Allowance for expected credit loss	Gross	Impairment loss
Not past due	4,403,364	(20)	3,833,111	(356,117)
Past due less than 3 months	2,149,216	(90,877)	2,509,173	(341,022)
Past due more than 3 months and less than 6 months	527,157	(217,835)	1,479,329	(721,196)
Past due more than 6 months and less than 1 year	1,332,548	(953,873)	1,810,793	(1,200,700)
Past due more than 1 year	7,256,312	(7,205,646)	5,545,087	(4,800,372)
	15,668,597	(8,468,251)	15,177,493	(7,419,407)

The Group concluded that as at reporting date not impaired past due accounts receivable are recoverable with the high level of probability.

The movement of the allowance for expected credit losses on trade and other receivables (provision for impairment of receivables under IAS 39) is as follows:

	For the year ended 31 December 2018 and as at that date	For the year ended 31 December 2017 and as at that date
At 1 January 2017 according IAS 39	–	(2,553,566)
Allowance for expected credit losses at 1 January 2018 for IFRS 9	(7,419,407)	
Increase in provision for the period	(1,691,980)	(5,439,375)
Amounts of trade and other receivables written off against provision	188,217	500,643
Reversal of provision for the period	454,919	72,891
Balance at 31 December 2018 for IFRS 9	(8,468,251)	
At 31 December 2017 according IAS 39	–	(7,419,407)

As at 31 December 2018 and 31 December 2017, the Group has no contractual basis for the offsetting of financial assets and financial liabilities, and the Group's management does not envisage any future offsetting on the basis of additional agreements.

27 Financial risk and capital management (continued)

(b) Liquidity risk

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

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

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

As of 31 December 2018, the amount of free limit on open but unused credit lines of the Group was RUB 18,680,086 thousand (31 December 2017: RUB 13,120,513 thousand). The Group has opportunity to attract additional financing within the corresponding limits, including the purpose of execution of the short-term obligations.

27 Financial risk and capital management (continued)

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

31 December 2018	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years
Non-derivative financial liabilities							
Loans and borrowings	15,521,929	16,057,528	6,861,401	3,023,712	6,172,415	–	–
Finance lease liabilities	22,335	26,530	7,403	7,403	7,403	4,321	–
Trade and other payables	6,946,205	6,946,205	6,699,518	246,687	–	–	–
	22,490,469	23,030,263	13,568,322	3,277,802	6,179,818	4,321	–
31 December 2017							
Non-derivative financial liabilities							
Loans and borrowings	14,306,588	16,563,648	7,298,907	7,097,290	1,135,602	1,031,849	–
Finance lease liabilities	27,308	33,933	7,403	7,403	7,403	7,403	4,321
Trade and other payables	6,243,262	6,243,262	5,982,730	260,532	–	–	–
	20,577,158	22,840,843	13,289,040	7,365,225	1,143,005	1,039,252	4,321

27 Financial risk and capital management (continued)

(c) Market risk

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

i. Currency risk

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

ii. Interest rate risk

Changes in interest rates affect primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, making a decision about new loans and borrowings, the Group management gives priority to loans and borrowings with fixed interest rates, and as a result, the Group is exposed to interest rate risk to a limited extent.

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

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

	Change in interest rates	Impact on profit before tax
Impact on 2018	+1.25	165,849
	-1.40	(185,751)
Impact on 2017	+0.75	77,707
	-1.75	(181,317)

Fair value sensitivity analysis for financial instruments with fixed interest rate

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

27 Financial risk and capital management (continued)

(d) Industry risk

Industry risk is caused by changes in the economic condition of the industry and their degree both within the industry and in comparison with other industries. Industry risk is associated with credit risk and has a direct impact on it.

The legislation of the Russian Federation on electric power industry is subject to frequent changes and allows ambiguous interpretation. Due to these reasons, the participants of the electricity market quite often fix differences in the interpretation of the legislation and, on their basis, the terms of contracts, which leads to disagreements in the assessment of mutual obligations, the risk of a significant increase in overdue receivables, the growth of unrecoverable receivables for electricity transmission services related to disagreements with consumers, in particular with sales companies on the application of industry legislation in terms of payments for electricity transmission services.

The consequence of this is the occurrence of disputable and overdue receivables for electricity transmission services, which leads to a decrease in the liquidity and financial stability of the Group.

In order to reduce the cost of production of major energy-intensive industrial enterprises are taking action to optimize circuits of the external power supply by connecting to the unified national electric network, to construct their own facilities for the production of electrical energy. There are cases where newly designed industrial facilities provide for their own generation as the main power source. In the areas of gas and oil production, consumers are developing the technology of using associated gas to generate electricity for production needs. These circumstances, against the background of the state policy to restrain the growth of tariffs of natural monopolies, create conditions under which full reimbursement of fixed costs due to tariffs for electricity transmission at the level of previous years becomes impossible. In 2018, in the regions of PJSC IDGC of the North-West, the volume of electricity consumption from the Company's network decreased by 1% compared to the same period in 2017 under comparable conditions. The company takes the following measures to minimize the above-mentioned risks:

- ongoing monitoring of compliance with contractual terms with contractors, as well as timely initiation of a contractual campaign to resolve disputes;
- interaction with regional tariff regulation bodies is carried out to establish economically justified tariffs that compensate all costs of the Company and ensure the implementation of the investment program in the required amount;
- systematic analysis of the causes of conflicts with consumers, including the causes of disagreements in the coordination of the amount of electricity transferred, and the development of action plans to address the causes of conflicts with consumers;
- development of court practice and creation of positive precedents in cases when the consumer unlawfully disputes the ownership of his points of delivery (for example, the refusal of utility providers to fix the amount of electricity consumed for General household needs or determined by the General household metering device);
- restriction of the mode of consumption of electric energy concerning debtors concerning which restriction is possible and admissible;
- development of strict cost management programs, introduction of indicators reflecting the decrease in the level of operating costs, reduction in the cost of procurement into the system of evaluating the company's management efficiency;

27 Financial risk and capital management (continued)

(d) Industry risk (continued)

- interaction with regional administrations in order to review and approve investment programs that take into account the required amount of work to maintain the reliability of the system, as well as the reconstruction of facilities for the accession of new applicants
- implementation of the energy efficiency and energy saving program.

(e) Fair values and carrying amounts

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

	Note.	31 December 2018		Level of fair value hierarchy		
		Carrying amount	Fair value	1	2	3
Financial assets at fair value through other comprehensive income	15	10,401	10,401	9,101	–	1,300
Financial assets at amortized cost	15	494,818	786,323	–	–	786,323
Current and non-current loans and borrowings	22	(15,544,264)	(15,033,562)	–	–	(15,033,562)
		(15,039,045)	(14,236,838)	9,101	–	(14,245,939)

	Note.	31 December 2017		Level of fair value hierarchy		
		Carrying amount	Fair value	1	2	3
Available-for-sale financial assets	15	14,898	14,896	13,365	–	1,531
Financial assets held to maturity	15	457,771	457,771	–	–	457,771
Current and non-current loans and borrowings	22	(14,333,896)	(14,015,571)	–	–	(14,015,571)
		(13,861,227)	(13,542,904)	13,365	–	(13,556,269)

The interest rate used to discount the expected future cash flows for long-term and short-term loans and borrowings for the purpose of determining the fair value disclosed as at 31 December 2018 was 9.27% (as at 31 December 2017: 9.65%).

During 2018, there were no transfers between the levels of the fair value hierarchy.

(g) Capital management

The primary objectives of the Group's capital management policy are to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain investor, market and creditor confidence to support its business activities.

The Group monitors equity structure dynamics (own and borrowed capital), including gearing ratio, calculated on the data presented in its statutory financial statements prepared in accordance with the Regulations on Accounting and Reporting of the Russian Federation. According to the Group's credit policy, the Group should ensure that its gearing ratio, being the total debt divided by the total equity, does not exceed 1.

27 Financial risk and capital management (continued)

(g) Capital management (continued)

The company and its subsidiaries are required to comply with the statutory requirements for the adequacy of own capital, according to which the value of its net assets, determined in accordance with the Regulations on Accounting and Reporting of the Russian Federation, must exceed the amount of the share capital.

As at 31 December 2018 and 2017, these requirements were met.

28 Operating leases

Operating lease expenses for the year ended 31 December 2018 are included in operating expenses in the amount of RUB 323,525 thousand (for the year ended 31 December 2017 in the amount of RUB 175,601 thousand).

Payments under operating leases are payable in the following order:

	31 December 2018	31 December 2017
Less than one year	172,981	57,336
Between one and five years	326,959	188,216
More than five years	1,046,483	1,278,671
	1,546,423	1,524,223

29 Capital commitments

As at 31 December 2018, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment items for RUB 4,638,874 thousand, including VAT (as at 31 December 2017: RUB 3,540,697 thousand including VAT).

30 Contingencies

(a) Insurance

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

(b) Taxation contingencies

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. The Group's management's interpretation of the legal provisions relating to the Group's operations and activities may be challenged by the relevant regional or Federal authorities.

In 2018, there was a further introduction of mechanisms against tax evasion using low-tax jurisdictions and aggressive tax planning structures, as well as a general adjustment of certain parameters of the tax system of the Russian Federation.

30 Contingencies (continued)

(b) Taxation contingencies (continued)

In particular, these changes included further development of the concept of beneficial ownership, tax residency of legal entities at the place of actual activity, as well as the approach to taxation of controlled foreign companies in the Russian Federation. In addition, since 2019, the total VAT rate is increased to 20%, as well as foreign suppliers of electronic services are required to register with the Russian tax authorities for VAT.

The Russian tax authorities continue to actively cooperate with the tax authorities of foreign countries in the international exchange of tax information, which makes the activities of companies on an international scale more transparent and requires detailed study in terms of confirming the economic purpose of the organization of the international structure in the framework of tax control procedures.

These changes, as well as recent trends in the application and interpretation of certain provisions of the Russian tax legislation, indicate that the tax authorities may take a tougher position in the interpretation of legislation and verification of tax calculations. As a result, the tax authorities may file claims for transactions and accounting methods for which they have not previously filed claims. As a result, significant taxes, penalties and fines may be charged. It is not possible to determine the amounts of claims for possible but not filed claims, as well as to assess the probability of an adverse outcome. Tax audits may cover three calendar years of activity immediately preceding the year of revision. Under certain conditions, earlier tax periods may also be subject to verification.

In management's opinion, as at 31 December 2018, the relevant provisions of the legislation have been interpreted correctly and the probability of maintaining the position of the Group in relation to tax, currency and customs legislation is high.

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

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

(c) Legal proceedings

The Group is party to a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

(d) Environmental matters

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

31 Related party transactions

(a) Control relationships

Related parties are shareholders, affiliates and entities under common ownership and control of the Group, members of the Board of Directors and key management personnel of the Company. The Company's parent as at 31 December 2018 and 31 December 2017 was PJSC "ROSSETI". The ultimate controlling party is the state represented by the Federal Property Management Agency, which held the majority of the voting rights of PJSC "ROSSETI".

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

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

	Amount of transaction for the year ended 31 December		Carrying amount	
	2018	2017	2018	2017
Revenue, Net other income, Finance income				
The parent company				
Other revenue	1,230	1,230	–	–
Dividends receivable	–	61,576	–	–
Entities under common control of the parent company				
Technological connection services	–	85	–	–
Sales of electricity	703	24	–	–
Other revenue	55,346	6,879	55,031	22,720
Other operating income	2,582	18,940	–	–
Dividends receivable	38	39	–	–
	59,899	88,773	55,031	22,720

	Amount of transaction for the year ended 31 December		Carrying amount	
	2018	2017	2018	2017
Operating expenses, Finance costs				
The parent company				
Consulting, legal and audit services	126,607	201,902	23,079	11,381
Other production works and services	28,413	–	–	–
Interest expenses on financial liabilities measured at amortized cost	241,601	621,009	–	–
Entities under common control of the parent company				
Sales of electricity	47,280	12,619	–	243
Electricity transmission services	7,279,030	8,242,815	635,715	685,238
Technological connection services	1,460	59	10	–
Repair and maintenance services	–	46	–	–
Rent	573	4,647	257	227
Provisions	170,314	–	–	974
Other expenses	55,015	54,245	31,177	28,134
	7,950,293	9,137,342	690,238	726,197

31 Related party transactions (continued)

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

	Carrying amount	
	2018	2017
The parent company		
Loans and borrowings	–	5,051,049
Entities under common control of the parent company		
Advances given	14,232	14,496
Advances received	2,436	2,535
	16,668	5,068,080

As at 31 December 2018, there is no dividends payable to the parent company (as at 31 December 2017, there was no dividends payable to the parent company).

(c) Transactions with key management personnel

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

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

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

	Year ended 31 December 2018	Year ended 31 December 2017
Short-term remuneration for employees	220,308	248,337
Post employment benefits and other long-term benefits	2,477	3,831
	222,785	252,168

As at 31 December 2018, the present value of liabilities for defined benefit programs recorded in the Consolidated Statement of Financial Position includes liabilities to key management personnel in the amount of RUB 18,074 thousand (31 December 2017: RUB 21,457 thousand).

(d) Transactions with government-related entities

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

Revenues from government-related entities for the year ended 31 December 2018 constitute 14.08% (for the year ended 31 December 2017: 10.72%) of total Group revenues, including 11.82% (for the year ended 31 December 2017: 8.47%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for government-related entities for the year ended 31 December 2018 constitute 54.91% (for the year ended 31 December 2017: 58.12%) of total electricity transmission costs.

Interest accrued on loans and borrowings from state-related banks for the year ended 31 December 2018 amounted to 83% (2017: 98%) of total interest accrued.

As at 31 December 2018 cash and cash equivalents held in government-related banks amounted to RUB 32,724 thousand (as at 31 December 2017: RUB 80,601 thousand).

Loans and borrowings received from government-related banks are disclosed in Note 22.