Management Report of PJSC ROSSETI

Company Overview

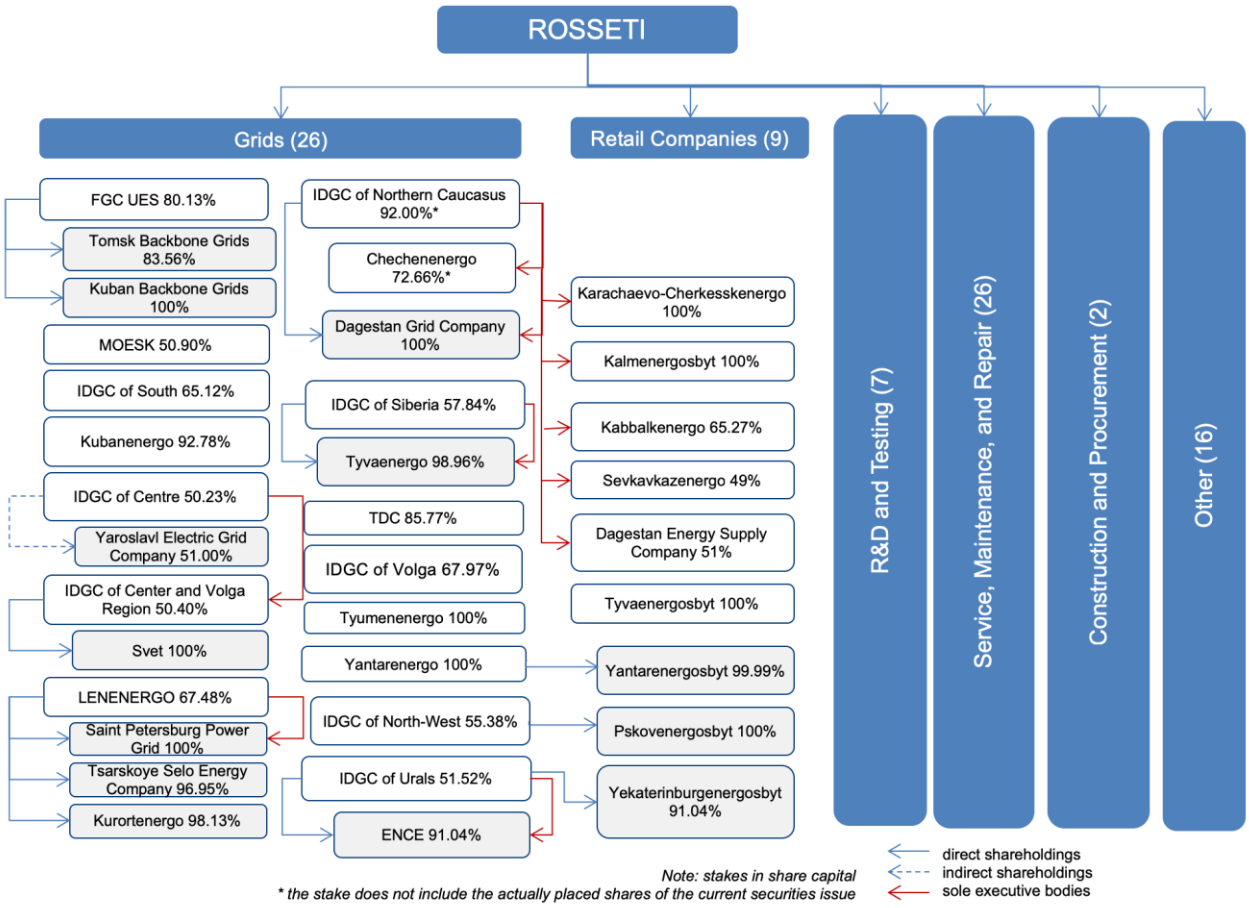
In accordance with Decree of the President of the Russian Federation No. 1567 of November 22, 2012, “On Joint Stock Company ROSSETI” and pursuant to the Strategy for Development of the Electric Grid Sector approved by Ordinance of the Government of the Russian Federation No. 511-r of April 3, 2013, ROSSETI:

- Performs strategic functions
- Performs coordinating functions
- Performs controlling functions
- Accomplishes institutional goals faced by the entire industry
- Participates in the consolidation of territorial grid organizations in order to ensure the necessary level of power supply reliability and quality

Historical background

Reform of the Russian electricity industry	Establishment of Interregional Distribution Grid Companies Holding (MRSK Holding) through a spin-off from RAO UES of Russia	Consolidation of electricity transmission and distribution grids	Completed corporate formation of ROSSETI as an open joint-stock company	Renaming of the legal form of ROSSETI as a public joint-stock company	Five years of Public Joint Stock Company ROSSETI’s operation
early 2000s	2008	2012	2013	2015	2018

ROSSETI Group Structure



Events after the reporting period:

- In the 1st quarter of 2019, the stake in Tomsk Backbone Grids increased to 100%.
- The number of the Group's R&D and testing companies decreased to 6 due to completing receivership proceedings in relation to SKB VTI and striking the company off the Uniform State Register of Juridical Persons.

ROSSETI Group

Industry: electric power
Status: natural monopoly
Geographic presence: 80 Russian regions
Services:
- electricity transmission and distribution
- network connection

Controlling shareholder (> 50% of share capital)
ROSSETI

Largest electric utility and mainstay of the electric grid sector

Structure:
- 26 grid companies
- 9 retail companies
- 7 R&D and testing companies
- 26 service, maintenance, and repair companies
- 2 construction and procurement companies
- 16 other companies

Assets of the Group:
- 2.35 million kilometers of power lines
- 507,000 substations
- 217,000 employees

ROSSETI is an operator of Russian electric grids and one of the world’s largest electric utilities. The ROSSETI Group has an absolute monopoly on electricity transmission and distribution. The Group has a presence in 73.8% of Russia’s regions.

2018

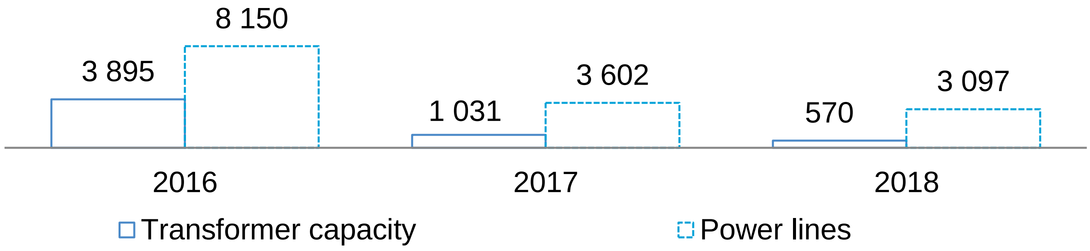
About 1,700 territorial grid organizations operate in Russia.

About 1,300 outside territorial grid organizations operate in the regions where ROSSETI’s distribution grid subsidiaries have a presence.

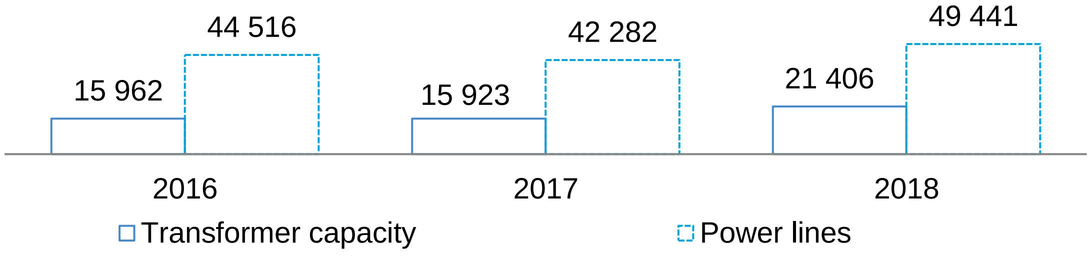
To gain control of electric grid assets that are not part of or controlled by the ROSSETI Group, the Company works toward asset consolidation.

Consolidation of Electric Gird Assets[1]

Acquired electric grid facilities, MVA, km[2]



Leased electric grid facilities, MVA, km



Operating Indicators

Indicator	2016	2017	2018
Length of power lines, mn km	2.31	2.34	2.35
Number of substations, thsd units[3].	496	502	507
Transformer capacity of substations, GVA	773	781	792
Connected capacity of customers' power-receiving equipment, MW	12,751	15,201	13,905
Electric grid SDCs' staff on the payroll, thsd people	216	215	217

[1] In the corresponding period.
[2] Data for 2016 include the acquired assets of Saint Petersburg Power Grid and Petrodvorets Electric Company (3,200 MVA, 4,400 km).
[3] Initial level of grid digitalization: 41 substations rated 35 kV and above with elements of digitalization as at the end of 2018

Key Events in 2018

February 12, 2018	The Board of Directors approves the Program of the Implementation of the Environmental Policy of the Electric Grid Sector for 2018–2019.
February 15, 2018	During the Russian Investment Forum, ROSSETI's Director General presents a draft of the strategy for developing a digitalized electric grid sector in Russia for the period until 2030.
February 28, 2018	The Board of Directors takes special note of the successful implementation of the Action Plan (Road Map) "Enhancing the Affordability of the Power Infrastructure" as related to reaching Russia's target position among the top 20 economies in the "Getting Electricity" ranking of the World Bank's annual Doing Business 2018 rankings.
February 28, 2018	The Board of Directors approves a restated version of the Regulations for the Nomination and Remuneration Committee.
March 15, 2018	The Board of Directors approves a restated version of the Information Policy of ROSSETI.
May 11, 2018	The Board of Directors approves the updated Modernization (Renewal) Program for Electric Grid Facilities of ROSSETI's Subsidiaries and Dependent Companies for 2018–2026.
May 25, 2018	ROSSETI signs the trust management agreements for the Novosibirsk Region's key grid companies, namely RES and Elektromagistral.
June 4, 2018	The Moscow Region's first digital substation begins operation.
June 29, 2018	The shareholders of ROSSETI resolve to pay 2.5 billion rubles as dividends for 1Q2018.
July 19, 2018	The Svetlaya Strana customer relations website is officially launched.
October 5, 2018	The Board of Directors appoints the head of the internal audit division of ROSSETI.
October 22, 2018	The Board of Directors approves a restated version of the Regulations for the Quality Management System of ROSSETI.
October 23, 2018	Russia's first wind park is put into operation in the Kaliningrad Region.
December 14, 2018	The Board of Directors approves the Uniform Procurement Standard of ROSSETI.
December 21, 2018	The Board of Directors approves the Digital Transformation 2030 Concept.

Results in 2018

Operating Activities
Electricity Transportation and Losses

ROSSETI SDCs account for 75% of transmission and distribution for electricity generated in Russia.

- Electricity delivery to the ROSSETI Group's networks in 2018 was 1.48% greater than in 2017.
- Electricity losses were reduced by 0.27 pp to 8.95%.

Subsidiary/Dependent Company	**Electricity Delivery to Networks, mn kWh**				**Electricity Losses, mn kWh**				**Electricity Losses, %**			
	2016	**2017**	**2018 (plan)**	**2018 (actual)**	**2016**	**2017**	**2018 (plan)**	**2018 (actual)**	**2016**	**2017**	**2018 (plan)**	**2018 (actual)**
MOESK	90,637.2	90,231	90,928.0	91,881.2	7,549.6	7,432	7,405.2	7,439.5	8.33	8.24	8.14	8.10
LENENERGO	41,116.9	38,717	38,338.8	38,263.8	4,485.3	4,440	4,411.6	4,337.5	10.91	11.47	11.51	11.34
Tyumenenergo	71,373.5	65,022	62,799.8	57,853.8	1,813.4	1,700	1,851.1	1,640.2	2.54	2.61	2.95	2.84
IDGC of Centre	64,057.8	59,235	54,554.0	54,235.7	5,994.5	5,842	6,011.2	5,751.5	9.36	9.86	11.02	10.60
IDGC of Center and Volga Region	54,012.8	54,798	53,594.0	54,055.5	4,845.6	4,373	4,709.5	4,236.4	8.97	7.98	8.79	7.84
IDGC of Volga	53,042.1	53,051	52,067.7	53,491.2	3,590.9	3,502	3,571.6	3,466.6	6.77	6.60	6.86	6.48
IDGC of North-West	39,921.1	37,621	34,112.4	34,297.4	2,484.8	2,284	2,339.3	2,258.6	6.22	6.07	6.86	6.59
IDGC of Siberia	70,447.9	65,507	60,823.2	62,021.3	5,410.7	4,998	4,904.4	4,844.2	7.68	7.63	8.06	7.81
TDC	5,711.9	5,442	5,047.1	5,288.9	464.8	450	458.9	475.8	8.14	8.27	9.09	9.00
IDGC of Urals	74,445.7	73,897	72,182.1	73,135.7	5,942.9	5,715	5,755.0	5,427.5	7.98	7.73	7.97	7.42
IDGC of South	28,971.6	27,995	26,406.1	27,326.0	2,915.4	2,654	2,649.4	2,679.0	10.06	9.48	10.03	9.80
IDGC of Northern Caucasus	18,302.0	18,477	18,711.5	18,531.1	4,224.0	4,025	3,835.4	3,703.2	23.08	21.78	20.50	19.98
Chechenenergo	2,627.5	2,682	2,668.9	2,754.4	893.4	925	830.0	988.1	34.00	34.49	31.10	35.87
Kubanenergo	22,732.3	22,633	22,945.2	23,032.5	2,945.7	2,729	2,815.2	2,590.1	12.96	12.06	12.27	11.25
Yantarenergo	4,229.8	4,179	4,268.1	4,142.5	718.8	647	642.9	520.6	16.99	15.47	15.06	12.57
Total for distribution grids	641,630.1	619,488	599,446.8	600,311.0	53,279.9	51,714	52,190.9	50,358.9	8.46	8.35	8.71	8.39
FGC UES	565,572.5	571,659	571,781.1	582,268.9	25,032.9	24,307	25,414.7	24,539.2	4.63	4.44	4.65	4.40
TOTAL for ROSSETI SDCs[4]	**822,045.0**	**824,184**	**824,394.3**	**836,393.1**	**79,312.8**	**76,022**	**77,605.6**	**74,898.2**	**9.65**	**9.22**	**9.41**	**8.95**

[4] The calculation of ROSSETI SDCs' total result takes account of the net electricity flow between electricity networks of FGC UES and electricity networks of ROSSETI's subsidiaries engaged in distribution.

Intelligent Electricity Metering Systems

An intelligent electricity (capacity) metering system is designed for the remote collection, processing, and transmission of electricity meter readings in real time.

The key anticipated effect of grid digitalization is a **30%** reduction in electricity network losses.

Technology contributes to enhancing the economic and energy efficiency of electricity networks, reducing electricity non-network losses, and enforcing payment discipline. Intelligent metering systems enable automatic data collection intended for the timely detection of noncontractual and unbilled electricity consumption and allow timely corrective measures.

Intelligent metering systems provided for ROSSETI SDCs

The year 2018 saw:

- the modernization of more than 657,000 electricity meters, with associated expenses totaling 6.8 billion rubles
- the organization of remote data collection at over 582,000 electricity meters

Modern electricity meters provided for ROSSETI SDCs:

Item	Subsidiary/Dependent Company	Proportion of Modern Electricity Meters, %
1	MOESK	14.9
2	LENENERGO	13.9
3	Tyumenenergo	67.4
4	IDGC of Centre	7.9
5	IDGC of Center and Volga Region	7.3
6	IDGC of Volga	17.2
7	IDGC of North-West	7.4
8	IDGC of Siberia	26.5
9	TDC	23.4
10	IDGC of Urals	16.2
11	IDGC of South	14.7
12	IDGC of Northern Caucasus	12.5
13	Kubanenergo	17.1
14	Yantarenergo	99.6
15	Dagestan Grid Company	51.3
16	Chechenenergo	67.5
17	ENCE	19.3
TOTAL		**16.8**

Network Connection

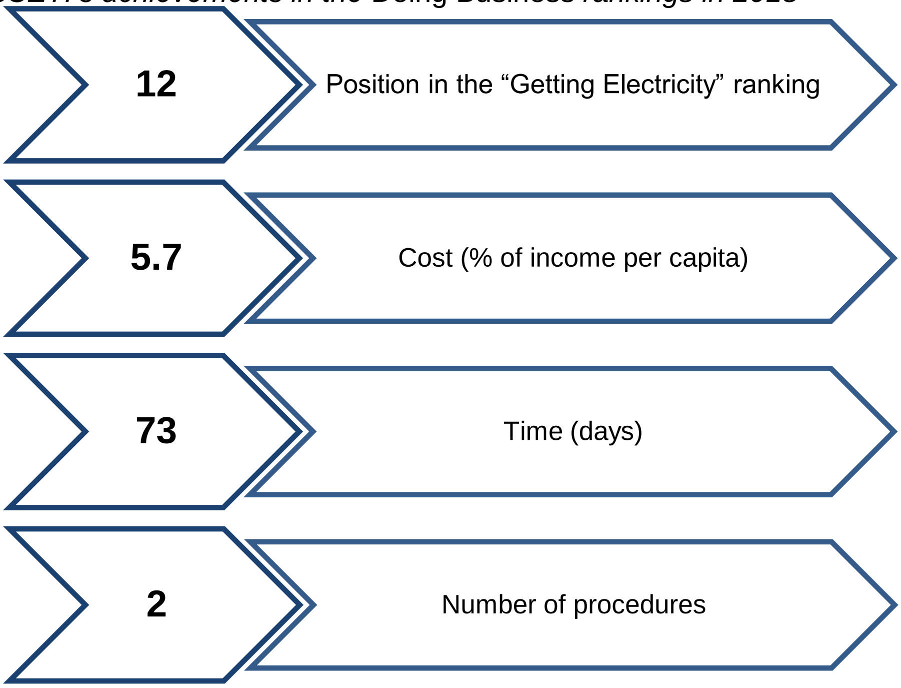
Doing Business 2019 Rankings

Russia maintained its position among the top 20 economies and earned a score of 94 on a scale of 0 to 100 in the “Getting Electricity” ranking of *Doing Business 2019*.

The World Bank reaffirmed the success and effectiveness of all of the country’s reforms aimed at simplifying the network connection process.

The Russian Federation rose from 35th to 31st in the “Ease of Doing Business” ranking in 2018.

ROSSETI’s achievements in the Doing Business *rankings in 2018*



The actual getting electricity indicators measured by the World Bank in 2018 are as follows:

- number of procedures required to obtain an electricity connection: 2[5]
- cost of obtaining an electricity connection: 5.7% of income per capita
- time required to obtain an electricity connection: 73 days

Changes in network connections provided for individual customers and power generation facilities in 2018 against 2017:

Received network connection requests	
486,230 requests (+2%)	49,353 MW (+4%)
Signed network connection contracts	
380,090 contracts (+5%)	16,747 MW (-6%)
Completed network connection contracts	
365,962 contracts (-2%)	18,964 MW (-27%)

The number of completed contracts decreased in 2017 and 2018 due to the implementation of the program to perform the obligations previously assumed in 2015 and 2016.

[5] The ranking is determined by measuring the indicators of two federal cities, namely Moscow and Saint Petersburg.

*“The cost of obtaining an electricity connection was decreased from 41.5% of income per capita in 2017 to 5.7% in 2018. The time required to obtain an electricity connection was reduced from 83 days in 2017 to 73 days in the reporting year. The number of procedures to obtain an electricity connection was reduced to two. Only two countries in the world currently demonstrate such results, namely Russia and the United Arab Emirates. This year, we have set ourselves even more ambitious goals to enhance the ease of getting electricity.” **Pavel Livinsky, Chairman of the Management Board and Director General, ROSSETI***

Electricity connections provided for customers’ power-receiving equipment in 2018:

Subsidiary/Dependent Company	**Network Connection Requests**		**Signed Network Connection Contracts**		**Signed Network Connection Certificates**	
	requests	**MW**	**contracts**	**MW**	**certificates**	**MW**
MOESK	101,073	7,259	64,906	2,581	70,742	2,543
LENENERGO	39,816	2,793	31,673	991	30,108	943
Tyumenenergo	6,014	833	5,118	504	4,412	359
IDGC of Centre	52,522	2,666	43,961	1,045	39,983	866
IDGC of Center and Volga Region	57,613	2,146	47,436	1,000	45,894	946
IDGC of Volga	20,079	1,260	16,985	553	17,515	529
IDGC of North-West	25,452	1,144	21,074	434	21,952	435
IDGC of Siberia	39,769	2,331	32,858	912	29,623	840
TDC	3,315	103	2,830	73	2,901	54
IDGC of Urals	39,517	2,201	31,672	861	26,309	619
IDGC of South	19,355	1,569	15,046	342	13,619	406
IDGC of Northern Caucasus	8,900	617	7,849	290	6,359	148
Kubanenergo	33,307	2,666	27,998	1,054	26,948	710
Yantarenergo	6,624	340	5,243	130	6,485	149
Other	32,270	1,285	25,176	509	22,830	442
Total for distribution grids	485,626	29,213	379,825	11,279	365,680	9,990
FGC UES	422	9,140	213	3,657	231	3,916
TOTAL for ROSSETI SDCs	**486,048**	**38,353**	**380,038**	**14,936**	**365,911**	**13,905**

Electricity connections provided for power generation facilities in 2018:

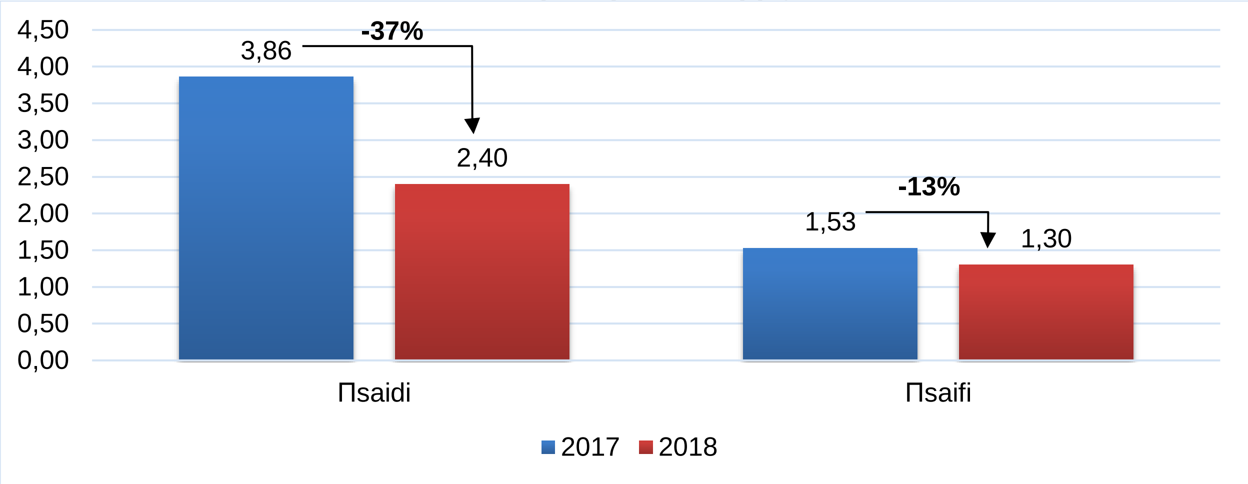
Subsidiary/Dependent Company	**Number of Network Connection Requests**					
	Network Connection Requests		**Signed Network Connection Contracts**		**Signed Network Connection Certificates**	
	requests	**MW**	**contracts**	**MW**	**certificates**	**MW**
MOESK	12	147	2	32	2	34
LENENERGO	14	261	3	196	4	90
Tyumenenergo	1	40	1	40	0	0
IDGC of Centre	4	230	2	3	1	1
IDGC of Center and Volga Region	4	11	2	7	2	5
IDGC of Volga	37	222	11	87	4	90
IDGC of North-West	4	55	2	28	0	0
IDGC of Siberia	14	182	4	52	1	5
TDC	0	0	0	0	0	0

IDGC of Urals	10	80	0	0	3	75
IDGC of South	16	740	4	103	9	169
IDGC of Northern Caucasus	11	99	4	38	3	7
Kubanenergo	8	124	3	36	3	12
Yantarenergo	1	5	1	5	2	517
Other	2	367	1	364	0	0
Total for distribution grids	138	2,562	40	992	34	1,006
FGC UES	44	8,438	12	819	17	4,053
TOTAL for ROSSETI SDCs	**182**	**11,000**	**52**	**1,811**	**51**	**5,059**

Changes in the cost of obtaining an electricity connection in 2016–2018, RUB/kW

Indicator	2016	2017	2018
Cost	2,638	2,722	2,851

Indices of reliable and uninterrupted power supply

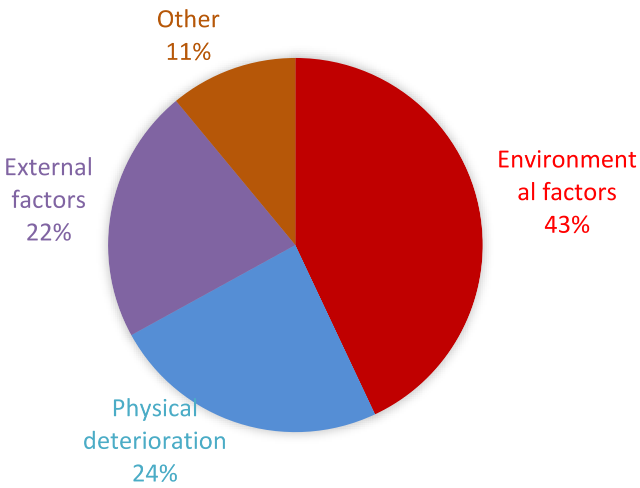


*Пsaidi - System Average Interruption Duration Index (hours)
**Пsaifi - System Average Interruption Frequency Index (outages)

EFFECTIVE MANAGEMENT OF REMEDYING PROCESS FAILURES

A total of 10,871 process failures in networks rated 110 kV and above were recorded and investigated in 2018 (or 7% lower than in 2017).

Causes of operation failures in electric grids in 2018



Development of the Transparent and Long-Term Tariff Policy

In 2018, Russian President Vladimir Putin tasked the Russian Government with making decisions aimed at improving tariff regulation in the electric grid sector in order to introduce benchmark-based tariffs, set long-term tariffs, and switch over to regulatory agreements.

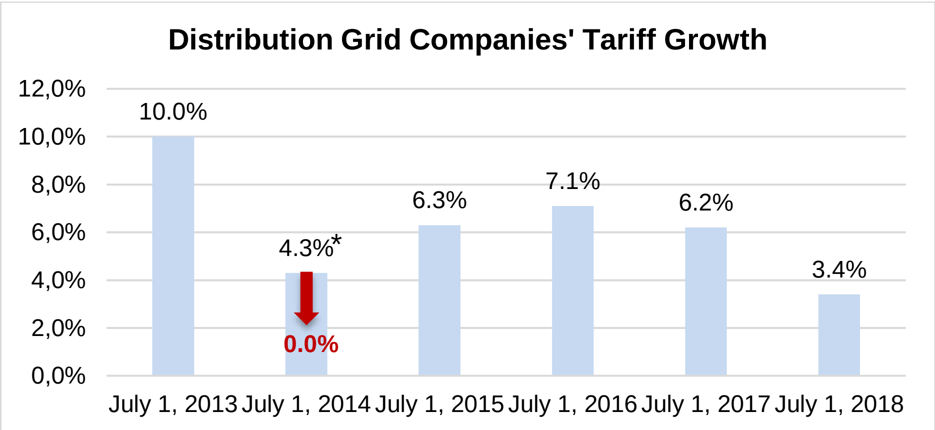
“In the future, long-term regulation under a regulatory agreement should become a priority method of regulation for infrastructure companies. If there is no regulatory agreement, then the regulated organization’s tariffs should be determined by cost benchmarking.” **Igor Artemyev**, Head of the Federal Antimonopoly Service of the Russian Federation

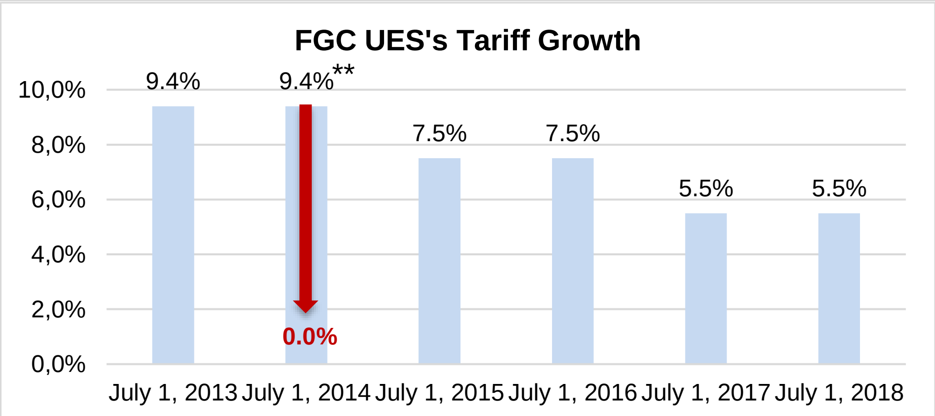
The ROSSETI Group has two regulated activity types:
- electricity distribution services
- network connection services

In accordance with the Forecast of the Socioeconomic Development of the Russian Federation:

- The Federal Antimonopoly Service approves the lower and/or upper limits on tariffs for electricity distribution services
- Regional regulators set uniform pool tariffs for electricity distribution services

In this connection, the Forecast places restrictions on the maximum total household payments for utility services and specifies the outstripping growth in electricity prices in the wholesale market.





** The Russian Government’s Resolution 542 abolished territorial grid organizations’ tariff growth, effective from July 1, 2014.*
*** The Russian Government’s Resolution 1307 abolished FGC UES’s tariff growth, effective from July 1, 2014.*

Distribution of Costs in the Electricity Distribution Pool Tariff, bn RUB

Indicators	2017	2018	Change, %
Costs related to payment for electricity network losses of distribution grid companies	111	121	9.0
Costs related to payment for services of allied territorial grid organizations at individual tariffs	152	157	3.3
Costs related to payment for services of FGC UES	146	144	(1.4)
Minimum regulated revenue for maintenance of electric grid facilities	368	404	9.7

All of ROSSETI's subsidiaries are subject to long-term tariff regulation:

- return on invested capital method (RAB regulation) applied to 12 SDCs (including FGC UES)
- long-term minimum regulated revenue indexation method applied to 53 SDCs
- FGC UES is regulated withreturn on invested capital method

Beginning in 2018, the new long-term regulation period is used for 41 branches (regulation methods: RAB and long-term minimum regulated revenue indexation).

Consolidated Financial Results

The ROSSETI Group demonstrated positive financial and economic performance in 2018 while working to ensure power supply reliability and accessibility amid severe restrictions on tariff growth.

Key Indicators[6]

Indicator	2017,[7] mn RUB	2018, mn RUB	Change, %
Revenue	948,344	1,021,602	7.7
Operating expenses	(797,625)	(869,263)	9.0
Other income, net	21,677	23,355	7.7
EBITDA	292,813	306,252	4.6
Net profit	121,159	124,678	2.9
Net cash flows from operating activities	212,386	238,571	12.3

Revenue

Indicator	Revenue Structure, mn RUB		Revenue Structure, %	
	2017	2018	2017	2018
Electricity transmission and distribution	784,216	826,241	83	81
Electricity and capacity sales	75,740	119,915	8	12
Network connection	52,379	52,563	5	5
Other revenue	36,009	22,883	4	2

Key factors contributing to changes in the indicators:

Revenue from electricity transmission and distribution grew due to tariff indexation, higher net electricity delivery, and the changed mechanism for paying for network losses under the Russian Government's Resolution No. 810 of July 7, 2017, amending the Rules of Nondiscriminatory Access to Electricity Transmission and Distribution Services.

Revenue from electricity and capacity sales increased due to higher sales resulting from certain ROSSETI SDCs' taking on the supplier of last resort functions.

Other revenue decreased largely due to a change in the proportion of completed work at different stages of FGC UES's construction projects.

Operating Expenses

Indicator	2017,[8] mn RUB	2018, mn RUB	Change, %
Electricity transmission and distribution services	143,859	153,261	6.5
Electricity purchased for compensation for electricity network losses	128,217	148,070	15.5
Electricity purchased for resale	42,216	67,069	58.9
Depreciation and amortization	107,300	116,124	8.2
Taxes and levies except profit tax	24,832	31,762	27.9
Impairment of fixed assets	21,244	7,688	(63.8)
Provision for expected credit losses (impairment of receivables)	16,159	25,820	59.8
Employee benefits	181,530	187,386	3.2
Other	132,268	132,083	(0.1)

[6] According to the IFRS audited consolidated financial results of the ROSSETI Group for 2018.
[7] The indicators are retroactively adjusted under the current accounting policy.
[8] The indicators are retroactively adjusted under the current accounting policy.

Key factors contributing to changes in the indicators:

- Expenses associated with electricity distribution services grew due to tariff indexation for other territorial grid organizations.
- Expenses associated with electricity purchased for compensation for electricity network losses increased due to higher unregulated prices of purchased electricity and because of changes under the Russian Government's Resolution No. 810 of July 7, 2017, amending the Rules of Nondiscriminatory Access to Electricity Transmission and Distribution Services. *As of August 1, 2017, actual electricity and capacity losses are purchased in full in the Wholesale Electricity (Capacity) Market (including the value of losses included in electricity prices (tariffs) in the wholesale market ("network losses")).* The increase in expenses is offset by the corresponding increase in revenue in relation to compensation for electricity network losses.
- Expenses associated with electricity purchased for resale increased due to higher electricity sales as a result of taking on the supplier of last resort functions.
- Depreciation and amortization grew due to putting into operation new facilities under the capex program.
- Tax payments increased due to gradually abolished property tax benefits in relation to power lines.
- The provision for expected credit losses grew because of provisioning for doubtful debts due to the supplier of last resort status lost by retail companies.
- Employee benefits increased due to wage indexation for production personnel in accordance with the Sectoral Wage Rate Agreement and an increase in personnel due to taking on the supplier of last resort functions.

Balance Sheet Indicators

Structure of noncurrent assets, mn RUB

Indicator	2017	2018	% vs. 2017
Property, plant and equipment	1,877,078	1,983,874	5.7
Intangible assets	16,758	19,145	14.2
Investments in associates and joint ventures	883	1,401	58.7
Trade and other receivables	74,483	82,521	10.8
Assets related to employee benefits plans	6,709	6,216	(7.3)
Financial investments	69,914	41,562	(40.6)
Deferred tax assets	7,186	10,090	40.4
TOTAL NONCURRENT ASSETS	**2,053,011**	**2,144,809**	**4.5**

Structure of current assets, mn RUB

Indicator	2017	2018	% vs. 2017
Inventories	35,050	37,109	5.9
Financial investments	149	47,192	-
Income tax prepayments	4,528	3,380	(25.4)
Trade and other receivables	151,644	180,619	19.1
Cash and cash equivalents	102,054	84,056	(17.6)
TOTAL CURRENT ASSETS	**293,425**	**352,356**	**20.1**

Key factors contributing to changes in the indicators:

- Fixed assets increased due to the commissioning of new facilities under the capex program.

Structure of equity, mn RUB

Indicator	2017	2018	% vs. 2017
Share capital	200,903	200,903	-
Share premium	213,098	213,098	-
Treasury shares	(2,702)	(109)	(96.0)
Other reserves	25,960	15,322	(41.0)
Retained earnings	583,216	687,786	17.9
Total equity attributable to owners of the Company	**1,020,475**	**1,117,000**	**9.5**
Noncontrolling interest	349,318	377,962	8.2
TOTAL EQUITY	**1,369,793**	**1,494,962**	**9.1**

Structure of liabilities, mn RUB

Indicator	2017	2018	% vs. 2017
Loans and borrowings	506,990	480,989	(5.1)
Trade and other payables	39,840	44,046	10.6
Employee benefits	32,717	23,592	(27.9)
Deferred tax liabilities	65,843	76,640	16.4
TOTAL NONCURRENT LIABILITIES	**645,390**	**625,267**	**(3.1)**
Loans and borrowings	51,244	87,268	70.3
Trade and other payables	263,090	295,124	12.2
Provisions	10,561	10,901	3.2
Current tax liabilities	6,358	5,110	(19.6)
TOTAL CURRENT LIABILITIES	**331,253**	**398,403**	**20.3**
TOTAL LIABILITIES	**976,643**	**1,023,670**	**4.8**

Key factors contributing to changes in the indicators:

- Equity increased due to the net profit received in 2018.
- Short-term loans and borrowings increased due to classifying some long-term loans as short-term loans.

Key Financial Ratios

Indicator	2017[9]	2018
EBITDA margin, %	30.9	30.0
Net debt/EBITDA	1.5	1.4
Liquid ratio	0.31	0.33
Current ratio	0.89	0.88
Financial leverage	0.71	0.68
Long-term loans/gross debt, %	91	85

Debt Capital

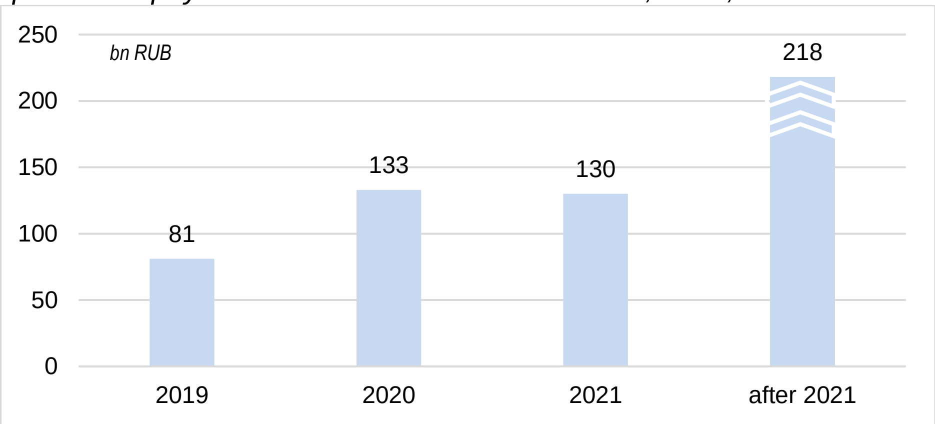
Information on Obtained Loans and Borrowings

The Group's debt portfolio consists mostly of bonds and loans issued by Russian banks. 100% of loans and borrowings are denominated in Russian rubles. The average maturity of the Group's debt portfolio as at December 31, 2018, was 8.8 years.

[9] The indicators are retroactively adjusted under the current accounting policy.

Type of Borrowing	December 31, 2017, bn RUB			December 31, 2018, bn RUB		
	Total	Principal Debt	Accrued Interest	Total	Principal Debt	Accrued Interest
Bond loans	333	328	5	327	323	**4**
Bank loans and other lenders (other lenders include liabilities associated with finance leases, promissory notes, and other loans)	225	225	0.2	241	241	**0.3**
TOTAL	**558**	**553**	**5**	**568**	**564**	**5**

Principal debt repayment schedule as at December 31, 2018, bn RUB



Interest rates and interest expense of the ROSSETI Group

Type of Interest Expense	2017, bn RUB	2018, bn RUB	Change, bn RUB
Interest accrued	**44.5**	**39.2**	**(5.4)**
including interest on financial liabilities included in expenses	26.7	23.7	(2.9)
including capitalized interest	17.9	15.4	(2.4)
Interest paid	**45.2**	**39.7**	**(5.5)**

Measures to optimize its debt portfolio, along with positive market trends in the 1st half of 2018, allowed the Group to reduce its interest expense by a total of over 5 billion rubles (12%). The weighted average interest rate for the Group's debt portfolio decreased by 1.15 pp to 6.98% p.a. in 2018 compared with 2017, remaining below the market average.

Bonds

ROSSETI

ROSSETI did not place bonds in 2018. The Company did not redeem bonds in the reporting period.

Subsidiaries

Two subsidiaries of ROSSETI placed bonds in 2018 with a total value of 15 billion rubles.

Subsidiary/Dependent Company	Series	Value of Outstanding Bonds, mn RUB	Placement Date	Interest Rate at Placement, %
IDGC of Centre	BO-06	5,000	April 10, 2018	6.95
FGC UES	001P-01R	10,000	October 25, 2018	8.70

IDGC of North-West and IDGC of Centre repaid early their bond loans totaling 10 billion rubles in 2018.

Credit Ratings (as at March 26, 2019)

RATING AGENCY	MOODY'S	S&P	FITCH	ACRA	Expert RA
Rating Scale	**International**			**National**	
ROSSETI	Baa3	BBB-	-	AAA(RU)	-
FGC UES	Baa3	BBB-	BBB-	AAA(RU)	-
MOESK	Ba1	BB	BB+	AAA(RU)	-
IDGC of Centre	-	BB	-		ruAA
IDGC of Volga	Ba1	-	-	AA+(RU)	-
IDGC of Center and Volga Region	Ba1	-	-	-	ruAA
IDGC of Urals	Ba1	-	-	-	ruAA
LENENERGO	Ba1	-	-	AAA(RU)	-
IDGC of North-West	-	-	-	AA+(RU)	-
Tyumenenergo	-	-	-	-	ruAA

January

MOODY'S
ROSSETI and FGC UES: Ba1, positive outlook

February

S&P
MOESK and IDGC of Centre: BB, stable outlook

ROSSETI and February: investment grade of BBB-

Expert RA
IDGC of Centre: ruAA, stable outlook

March

ACRA
ROSSETI: AAA(RU), stable outlook

April

ACRA
LENENERGO: AA+(RU), stable outlook

Expert RA
IDGC of Urals: ruAA, stable outlook

June

Fitch
MOESK: BB+, stable outlook

ACRA
MOESK: AA+(RU), stable outlook

August

Fitch
FGC UES: BBB-, stable outlook

ACRA
IDGC of North-West: AA+(RU), stable outlook

Expert RA
Tyumenenergo: ruAA, stable outlook

October

ACRA
IDGC of Volga: AA+(RU), stable outlook

November

ACRA
ROSSETI and FGC UES: Baa3, stable outlook

December

Expert RA
IDGC of Center and Volga Region: ruAA, stable outlook

February

ACRA
LENENERGO: AAA(RU), stable outlook

MOODY'S
ROSSETI and FGC UES: Baa3, stable outlook

March

Fitch
MOESK: BB+, stable outlook

FGC UES: BBB-, stable outlook

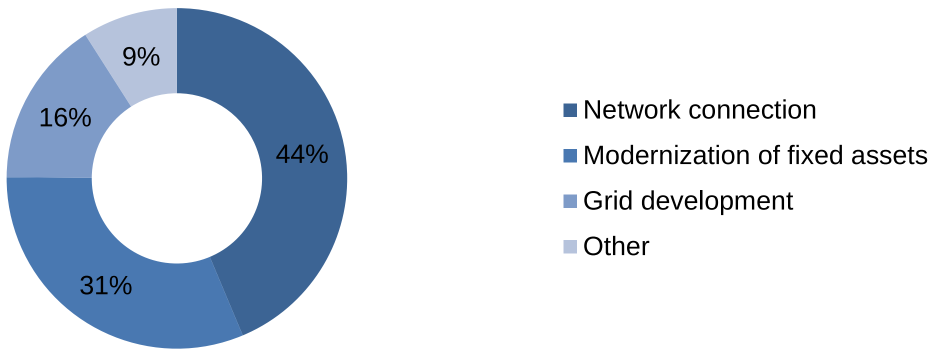
AKPA
LENENERGO: AAA(RU), stable outlook

Expert RA
IDGC of Urals and IDGC of Center and Volga : ruAA, stable outlook

Capital Investment

- Financing for the capex program for 2016–2020 – 1,244 billion rubles, inclusive of VAT
- Commissioning of fixed assets – 1,239 billion rubles, exclusive of VAT
- Commissioning of transformer capacity and power lines – 74,000 MVA and 123,600 km

Expenses under the capex program in 2016-2020



Information about the consolidated capex program of ROSSETI SDCs for 2018–2020

Financing, mn RUB, inclusive of VAT			
	2018 (actual)	**2019**	**2020**
Distribution grids	153,815	157,876	143,715
Transmission grids	103,334	94,400	90,426
ROSSETI subsidiary SDCs	1,240	5,630	1,479
Total for ROSSETI with subsidiary SDCs	**258,389**	**257,906**	**235,620**
Commissioning of fixed assets, mn RUB			
Distribution grids	139,078	178,481	128,170
Transmission grids	138,144	132,000	104,484
ROSSETI subsidiary SDCs	1,428	3,990	1,661
Total for ROSSETI with subsidiary SDCs	**278,650**	**314,471**	**234,315**
Commissioning of fixed assets, km			
Distribution grids	26,295	20,338	18,872
Transmission grids	1,825	3,123	2,384
ROSSETI subsidiary SDCs	177	87	0
Total for ROSSETI with subsidiary SDCs	**28,297**	**23,548**	**21,256**
Commissioning of fixed assets, MVA			
Distribution grids	6,315	9,773	6,538
Transmission grids	5,679	11,542	6,219
ROSSETI subsidiary SDCs	82	253	308
Total for ROSSETI with subsidiary SDCs	**12,076**	**21,568**	**13,065**

Overview of the implementation of the consolidated capex program of the ROSSETI Group in 2018

SDCs	Financing, mn RUB (inclusive of VAT)	Commissioning, mn RUB (exclusive of VAT)	Commissioning, MVA	Commissioning, km
IDGC of Siberia	12,969	13,152	996	4,094
TDC	824	653	39	410
Tyumenenergo	11,952	9,443	195	720
IDGC of Urals	8,226	7,504	457	2,896
IDGC of Volga	7,571	6,494	386	1,093
IDGC of South	2,112	2,219	52	545
Kubanenergo	8,076	3,911	355	582
IDGC of Northern Caucasus	1,401	879	47	147
Chechenenergo	852	604	11	18
IDGC of Center and Volga Region	12,230	10,184	664	3,512
IDGC of North-West	9,034	6,136	267	1,642
LENENERGO	25,949	23,265	1,031	1,900
Yantarenergo	5,616	10,377	280	583
IDGC of Centre	14,493	12,702	376	3,598
MOESK	30,537	29,690	1,028	4,268
Tyvaenergo	226	636	47	115
ENCE	1,747	1,230	85	174
FGC UES	103,334	138,144	5,679	1,825
Tsarskoye Selo Energy Company	231	229	10	41
Kurortenergo	298	300	9	35
Svet	8	7	0	3
Saint Petersburg Power Grid	678	840	62	90
Petrodvorets Electric Company	25	53	2	8
Total for ROSSETI with subsidiary SDCs	**258,389**	**278,650**	**12,076**	**28,297**

Changes in financing in 2016–2018, mn RUB (inclusive of VAT)

2016	2017	2018
230,575	261,871	258,389

Changes in commissioning in 2015–2017

	2016	2017	2018
Power lines, km	25,645	24,897	28,297
Substations, MVA	14,997	12,335	12,076

Main sources of financing for the capex program in 2018

Source	Share, %
Internal funds (depreciation and profit)	68
Borrowed funds	5
Connection fee	15
Other	12

Areas and structure of financing for the consolidated capex program of the ROSSETI Group

Areas of Financing	**2018**	
	mn RUB (inclusive of VAT)	**%**
Network connection	118,920	46
Modernization of fixed assets	74,271	29
Grid development	41,924	16
Other	23,274	9
Total	**258,389**	**100**

Federally financed capex projects

Program	**Implementation Period**
Program of Preparations for the 2018 FIFA World Cup in Russia	2014–2018
Comprehensive Program to Reduce Above-standard Electricity Losses	2011–2021

R&D and Innovation

Key Results in 2018

- 46 titles of protection for R&D deliverables
- 11 license agreements
- 10 million rubles of license fees
- 14 R&D deliverables in test operation
- 11 R&D deliverables in operation at the ROSSETI Group's facilities

The Company carries out the Innovative Development Program of ROSSETI for 2016–2020 with Long-Term Plans Until 2025.[10]

The goal of the program is to switch over to a technologically new electricity supply with qualitatively new characteristics of reliability, efficiency, accessibility, manageability, and customer orientation in the Russian electric grid sector as a whole.

The Research and Development (R&D) Plan is an integral part of the Innovative Development Program of ROSSETI.

As part of measures to formulate the R&D Plan, the ROSSETI Group organized the expert evaluation of 53 proposals submitted by ROSSETI SDCs and outside organizations in 2018.

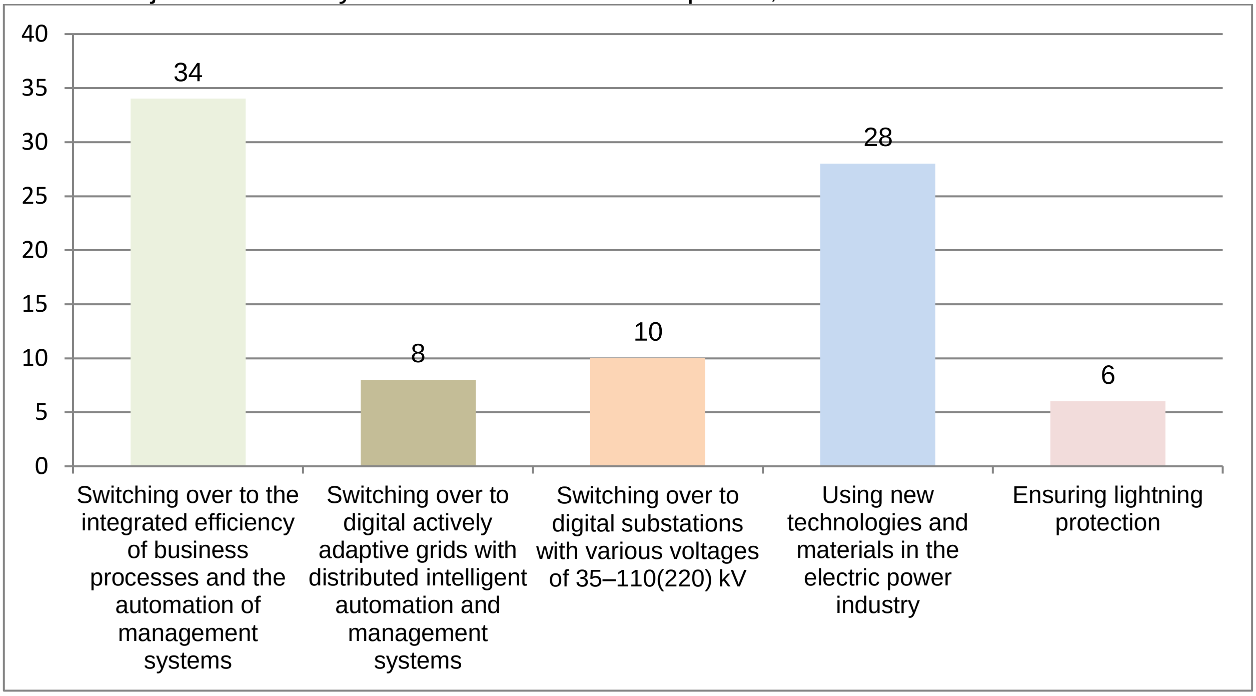
Based on the results of the evaluation, the list of subjects recommended for implementation under the R&D Program was updated and refreshed on the corporate website in the Section "Investment and Innovation" – "R&D Program."

Main areas of R&D in 2018

- switching over to digital substations with various voltages of 35–110(220) kV
- switching over to digital actively adaptive grids with distributed intelligent automation and management systems
- switching over to the integrated efficiency of business processes and the automation of management systems
- using new technologies and materials in the electric power industry
- improving systems and devices for lightning protection, increasing lightning-surge proofness and reliability for external insulation of overhead lines and substations rated 6–750 kV

[10] Approved by the Board of Directors of ROSSETI (Minutes of the Meeting No. 250 of December 30, 2016).

Subjects of R&D by area of innovative development, units:



Predictive Analytics
Forecast

Development of the Digital Economy in the Russian Federation

Beginning in 2017, Russia is active in formulating and pursuing a policy on the transition to the digital economy. The Digital Economy of the Russian Federation program was drawn up and approved; work started on developing industry-specific programs of digital transition. In May 2018, Russian President Vladimir Putin signed the Decree “On the National Goals and Strategic Objectives of Development of the Russian Federation for the Period Until 2024.”

The mission of fostering the digital economy in Russia is to improve the quality of life and ensure the country’s competitiveness and national security. Russia’s goal for the next 15–20 years is to become one of the top economies in the world through the digital transformation of traditional industries and the development of a self-sustaining and competitive digital industry.

Digitalization in the Energy Industry

> **Digitalization in the energy industry** is the creation of new business models, services, and markets driven by the digital economy.[11]

A large number of countries have already introduced measures to transform the electric power industry. The energy transition is oriented to making extensive use of distributed renewable generation, promoting private investment, creating decentralized markets, developing an intelligent infrastructure, and switching over to active consumer behavior (prosumption).

The Russian energy sector is on the threshold of the energy transition. The challenges faced by the Russian electricity industry have unique features associated with the country’s legacy. Digital transformation will not only enable the electric utility sector to reach the goals of its renewal, but also open up opportunities to resolve current problems.

Key Reasons in the Russian Electricity Industry

- Low base effect as the potential for growth
- Increasing physical deterioration of capital assets
- Stagnation of domestic power engineering
- Risk of Russia’s lost competitiveness in the emerging global markets of new electric power

Role of the ROSSETI Group in Implementing the Digitalization Concept

The ROSSETI Group is a pioneer in the digital transformation of the energy industry.

[11] “Digital Transition in Russian Power Engineering: In Search of Meaning”

Digital transformation of electric grids

1. Common information model (CIM) for the grid	2. Reliable real-time information on electricity consumption, grid operation modes, and grid elements	3. Actively adaptive grid
• Ensure the integration of all data from different monitoring and control systems • Provide automated long-term planning for grid development	• Build and update a dynamic model for the grid, its elements, and customers • Ensure effective forecasting	• Enable energy market entities to actively participate in electricity transmission and distribution processes • Provide nonhuman intelligent control for grid operation modes

4. Changes and improvements to the logic of grid management processes	5. Realization of the digital grid's potential
• Switch over from three-level system (branch–production unit–electric grid district) to one-level system of grid management • Optimize operational process control and produce capacity and electricity consumption balances in real time	• Use in-depth data analysis to identify unapparent regular patterns • Sell fundamentally new services and energy performance services to customers

Mission and Values

ROSSETI's mission is to secure a reliable, high-quality, and affordable power supply by building a maximally efficient infrastructure and introducing modern innovative and digital technology.

In the long run, the Company strives to equalize the pace of achieving the targets of the key priorities for development:

Shareholder value
Reliable and accessible power supply
Efficiency
Customer focus

ROSSETI's goals and objectives meet the requirements set for the Company by key stakeholders.

Shareholders	Customers	Government
• The Company is an effective instrument for investment, ensuring the payback, reliability, return, and liquidity of invested capital	• The Company strives to ensure: • a reliable and high-quality power supply • technically accessible and economically affordable transmission, distribution, and connection services • the efficient management of the electric grid sector • a more comfortable living environment • the use of energy-conserving technologies • improved grid observability and controllability	• The Company acts as: • the Government's agent for the implementation of the most significant nationwide investment projects and programs • a bona fide taxpayer and employer

Development Strategy of ROSSETI

Strategy for Development of the Electric Grid Sector
The priorities of the Russian electric grid sector's development, including with respect to ROSSETI, are established by the Strategy for Development of the Electric Grid Sector of the Russian Federation.[12] In accordance with the Strategy, ROSSETI aims to become a single management company of the country's electric grid sector and ensure the coordination of operations of all grid organizations in Russia.

The Strategy for Development of the Electric Grid Sector sets several quantitative targets at sectoral and corporate level for 2017 and, in the long term, until 2030. The latter relate to electric utilities and include, inter alia, indicators of operating reliability, accident rates, utilization rates, electricity losses, workforce productivity, and network connection time.

The key indicators are achieved through the issuance of directives of the Russian Government and the attainment of functional KPIs approved by the Board of Directors for ROSSETI's senior managers, lead managers, and managers. The KPIs additionally include other, mainly financial, indicators, such as EBITDA, cash flow, receivables, and debt/EBITDA.

In recent years, the Russian Government specifically introduced the following mandatory KPIs for government-linked companies, including ROSSETI: total shareholder return, return on invested capital, and innovation effectiveness.

Grid Digitalization as the Main Part of the Company's Future Development

ROSSETI is working toward digital transformation because it is necessary to integrate the Company into the digital economy and begin constructing networks based on optimal, more efficient solutions.

On December 21, 2018, the Board of Directors of ROSSETI approved the Digital Transformation 2030 Concept.

The goal of digital transformation is to streamline and/or change the logic of production processes by introducing digital technology based on big data analytics.

[12] Approved by Ordinance of the Government of the Russian Federation No. 511-r of April 3, 2013.

Data-Based Governance

Governance System

"The ROSSETI Group aims to increase its market capitalization and appeal among investors and maximize shareholder value, which is why management gives paramount attention to the quality of corporate governance."

Corporate Governance

As the electric grid sector's management company[13], ROSSETI works not only to reach its goals related to tariffs, technical policy, investment planning, and financial and economic performance, but also to enhance the ROSSETI Group's corporate governance.

The quality of corporate governance determines the Company's reputation and appeal among investors.

The corporate governance system of ROSSETI:

- complies with Russian legal requirements and the Listing Rules of the Moscow Exchange and the London Stock Exchange,
- follows the recommendations of the Corporate Governance Code (CGC)[14],
- is based on the recommendations of international standards and global best practices in corporate governance.

ROSSETI's corporate governance system provides guaranteed protection for the rights of shareholders and investors.

The basic principles of the Company's corporate governance are as follows:

- Fair and equitable treatment of shareholders
- Efficiency and responsibility of the Board of Directors
- Executive bodies supervised by and accountable to the Board of Directors
- Social responsibility and stakeholder engagement
- Timely and complete disclosure of corporate information
- Effective, transparent, and fair remuneration system
- Effective internal control and risk management

Based on the results of independent monitoring, ROSSETI's corporate governance rating was reaffirmed at 7++ "Developed practice of corporate governance" in 2018, which proves the soundness and usefulness of measures implemented by the Company.

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[13] ROSSETI was established pursuant to Decree of the President of the Russian Federation No. 1567 of November 22, 2012, "On Joint Stock Company ROSSETI" and the Strategy for Development of the Electric Grid Sector of the Russian Federation approved by Ordinance of the Government of the Russian Federation No. 511-r of April 3, 2013. ROSSETI's principal goal is to ensure the operating reliability of the Russian electric grid sector, secure an uninterrupted electricity supply, and coordinate grid companies' activities, including those related to tariffs, technical policy, investment planning, and financial and economic performance.

[14] Corporate Governance Code recommended by the Bank of Russia's letter No. 06-52/2463 of April 10, 2014, for use by joint-stock companies whose securities are admitted to regulated trading.

Advances in Corporate Governance in 2018

National Corporate Governance Rating

The effectiveness of the Company’s corporate governance was reaffirmed was by an independent expert, the Russian Institute of Directors.

7++ “Developed practice of corporate governance”

- - We comply with legal requirements
- - We follow the recommendations of the CGC
- - We are exposed to low risks that we may lose owners in connection with the quality of corporate governance

The Company continued in 2018 to work on improving corporate governance. Approval was given to several internal documents to meet the recommendations of the Corporate Governance Code, comply with changes made to Russian legislation in 2017–2018, and make it possible to use modern means of communication.

Measures to Improve Corporate Governance

1. Updating of ROSSETI’s constitutive documents and bylaws
Approval of a restated version of the Articles of Association Ballots may be sent by electronic mail transmission, posted on the website, and delivered by regular and registered mail. **Effects:** · Substantially reduced expenses for the preparation of the Annual General Meeting of Shareholders · Shareholders provided with unhindered access to documents and voting on the agenda items of the General Meeting of Shareholders
Amendments to the Regulations for the Board of Directors and the Regulations for the Management Board · Meetings of the Board of Directors and the Management Board may use an automated information system. · The competence of the Board of Directors includes a wider range of issues with respect to supervision over strategy implementation, business plan implementation, and SDCs’ priority development programs and in relation to the status and effectiveness of the risk management, internal control, and corporate governance systems. · The most important issues are listed as recommended by the CGC for consideration by in-person meetings of the Board of Directors. **Effects:** · Members of the Board of Directors and the Management Board provided with timely, remote, and unhindered access to documents and voting on the agenda items of meetings · Supervision tightened by the Board of Directors over the key issues: strategic development, business plan implementation, risk management status
Amendments to the Regulations for the Nomination and Remuneration Committee of the Board of Directors Beginning in 2018, nominees for election to the Board of Directors are preliminarily evaluated by the Nomination and Remuneration Committee for independence. **Effects:** · Compliance with the recommendations and principles of the CGC · Increased quantity and quality of information for shareholders about nominees for election to the Board of Directors and current members of the Board of Directors

Additionally, restated versions of the following documents were approved: · Information Policy of ROSSETI (Regulations for Disclosing Material Information Under Shareholder Laws and Securities Market Laws)[15] · Regulations for Insider Information of ROSSETI[16] · Uniform Procurement Standard (Procurement Regulations) of ROSSETI[17] · Regulations for the Quality Management System of ROSSETI[18] **Effects:** · Internal documents brought into line with changes to legislation and updated · Reduced labor intensity of internal procedures
2. Updating of the ROSSETI Group's SDCs' constitutive documents and bylaws
The articles of association and internal documents of 42 entities of the ROSSETI Group were restated in 2018. **Effects:** · Constitutive documents and bylaws brought into line with changes to legislation and updated · Uniform corporate policy pursued by the ROSSETI Group, corporate oversight
3. Digitalization of relations
Online participation in the Annual General Meeting of Shareholders and electronic voting are now available to shareholders. Shareholders can send communications to a special electronic mail address and visit the forum on the General Meeting of Shareholders on the Company's website. **Effects:** · Undelayed communication with shareholders · Shareholders provided with unhindered access to documents and voting on the agenda items of the General Meeting of Shareholders
4. Quality evaluation of corporate governance
The Company made the first-ever self-assessment of the Board of Directors, committees of the Board of Directors, and members of the Board of Directors, using the Technique[19] prepared in consultation with the Russian Institute of Directors.[20] **Effects:** · Compliance with the recommendations and principles of the CGC · Enhanced performance of the Board of Directors

[15] Approved by the Board of Directors on March 15, 2018 (Minutes of the Meeting No. 296 of March 16, 2018).
[16] Approved by the Board of Directors on September 17, 2018 (Minutes of the Meeting No. 323 of September 20, 2018).
[17] Approved by the Board of Directors on December 14, 2018 (Minutes of the Meeting No. 334 of December 17, 2018).
[18] Approved by the Board of Directors on October 22, 2018 (Minutes of the Meeting No. 327 of October 25, 2018).
[19] Approved by the Board of Directors on October 30, 2017 (Minutes of the Meeting No. 281 of November 2, 2017).
[20] The self-assessment was reviewed by the Nomination and Remuneration Committee of the Board of Directors (Minutes of the Meeting No. 68 of October 9, 2018; Minutes of the Meeting No. 329 November 9, 2018).

Achievements of ROSSETI in corporate governance in 2018

The 2017 Annual Report of ROSSETI was recognized as the best in the electric utility sector.

ROSSETI was recognized as the best socially effective company in the energy sector in terms of sustainability indicators disclosed by Russian companies in annual and social reports for 2017.»

ROSSETI was rated 7++ by the Russian Institute of Directors in the rating "Developed practice of corporate governance."

General Meeting of Shareholders

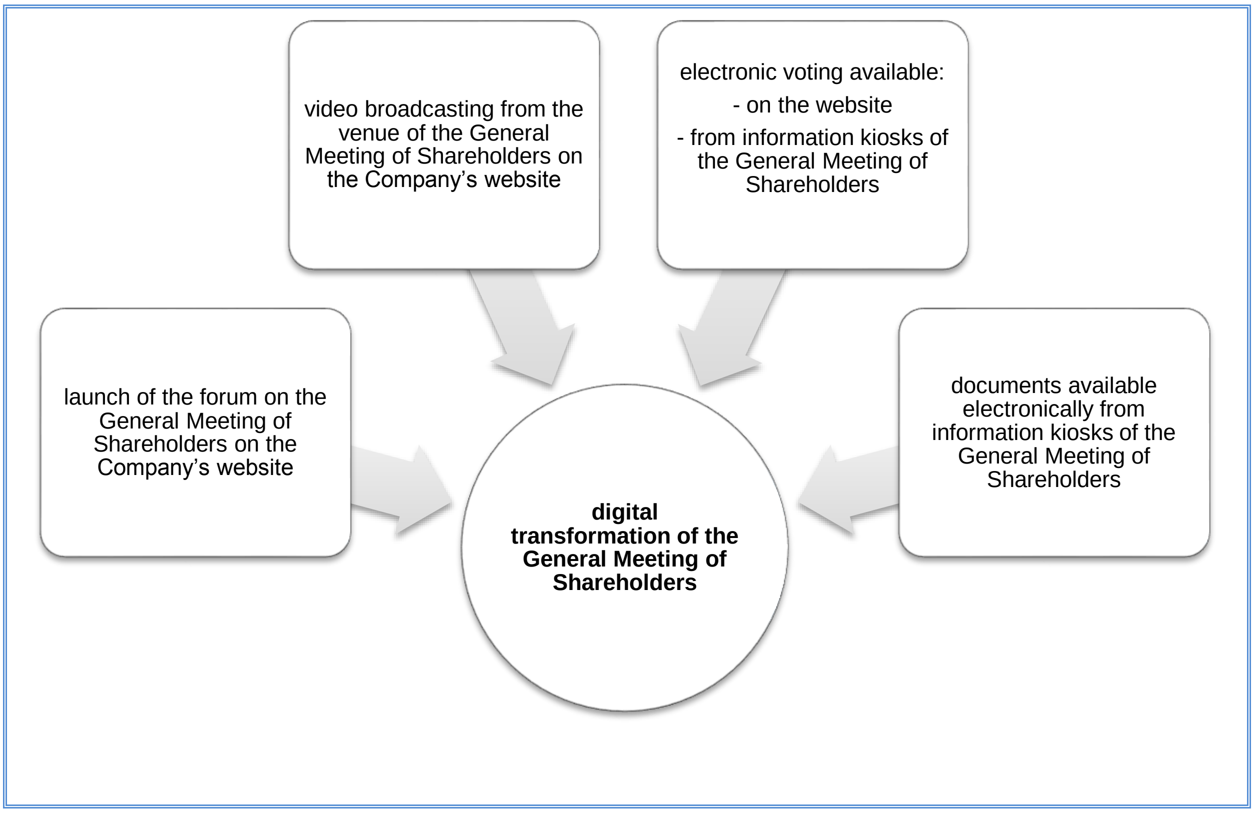
- Highest management body of ROSSETI.
- The procedure for preparing and holding the General Meeting of Shareholders is governed by the Articles of Association[21] and the Regulations for the General Meeting of Shareholders of ROSSETI.[22]

Digitalization of the General Meeting of Shareholders

In order to enable its shareholders to remotely participate in the General Meeting of Shareholders in real time, ROSSETI offered the following options:

[21] Approved by the Annual General Meeting of Shareholders on June 29, 2018; available on the Company's website at http://www.rosseti.ru/about/documents/.

[22] Approved by the Annual General Meeting of Shareholders on June 30, 2017; available on the Company's website at http://www.rosseti.ru/about/documents/.



The Annual General Meeting of Shareholders discussing the Company's performance in 2017 was held on June 29, 2018.[23] The Company did not hold any extraordinary general meetings in the reporting period.

Agenda items and decisions of the General Meeting of Shareholders

Agenda Items	Decisions of the General Meeting of Shareholders
Approval of the Annual Report of the Company for 2017.	The Annual Report of the Company for 2017 was approved.
Approval of the annual accounting (financial) statements of the Company for 2017.	The annual accounting (financial) statements of the Company for 2017 were approved.
Approval of the Company's profit distribution based on performance results in 2017.	The Company's profit distribution based on performance results in 2017 was approved as follows: Undistributed loss (thousand rubles) of the reporting period (13,242,593) To be distributed as follows: - reserve fund - investments and development - dividends - covering of losses of previous years
Amount, period, and form of dividend payment based on performance results in 2017 and the date set for determining the persons entitled to dividends.	Dividends on the Company's preference and ordinary shares were not paid for 2017 due to a loss according to the accounting (financial) statements for 2017.
Amount, period, and form of dividend payment based on performance results in the 1st quarter of 2018 and the date set for determining the persons entitled to dividends.	As of December 31, 2018, dividends were paid for the 1st quarter of 2018 in the amount of: - 0.04287 ruble per preference share, totaling 85,076,712.61 rubles

[23] The Minutes of the General Meeting of Shareholders held on June 29, 2018, can be found on the Company's website at http://www.rosseti.ru/investors/common/results/doc/pr_2018_0.pdf.

	- 0.011965 ruble per ordinary share, totaling 2,375,868,781.42 rubles.
Payment of remuneration for serving on the Board of Directors to members of the Board of Directors other than those who hold public office in the amount specified in the Company's internal documents.	Remuneration was not paid to members of the Board of Directors.
Payment of remuneration for serving on the Internal Audit Commission to members of the Internal Audit Commission other than those who hold public office in the amount specified in the Company's internal documents.	Remuneration was paid to members of the Internal Audit Commission other than those who hold public office on July 26, 2018.
Election of members of the Board of Directors of the Company.	The Board of Directors was elected.
Election of members of the Internal Audit Commission of the Company.	The Internal Audit Commission was elected.
Approval of the Auditor of the Company.	RSM RUS was approved as the Auditor.
Approval of a restated version of the Articles of Association of the Company.	A restated version of the Articles of Association of ROSSETI was registered on July 24, 2018.
Approval of a restated version of the Regulations for the Board of Directors of the Company.	A restated version of the Regulations for the Board of Directors of the Company was approved.
Approval of a restated version of the Regulations for the Management Board of the Company.	A restated version of the Regulations for the Management Board of the Company was approved.
Amendments to the Regulations for Remuneration and Compensation for Members of the Board of Directors of the Company.	Amendments to the Regulations for Remuneration and Compensation for Members of the Board of Directors of the Company were approved.
Approval of a restated version of the Regulations for Remuneration and Compensation for Members of the Internal Audit Commission of the Company.	A restated version of the Regulations for Remuneration and Compensation for Members of the Internal Audit Commission of the Company was approved.

Board of Directors

- Collegial management body of ROSSETI.
- Governed by the laws of the Russian Federation, the Articles of Association, the Corporate Governance Code, and the Regulations for the Board of Directors of ROSSETI.[24]

Beginning in 2018, nominees for election to the Board of Directors are preliminarily evaluated by the Nomination and Remuneration Committee[25] for compliance with the independence criteria.

The Board of Directors elected by the Annual General Meeting of Shareholders in 2018 complies fully with the Level 1 listing requirements of the Moscow Exchange and the recommendations of the Corporate Governance Code:

5 of the 15 members of the Board of Directors are independent directors.

[24] Approved by the Annual General Meeting of Shareholders on June 29, 2018; available on the Company's website at http://www.rosseti.ru/investors/info/charter_and_internal_documents/.

[25] In accordance with the restated version of the Regulations for the Nomination and Remuneration Committee of the Board of Directors approved by the Board of Directors on February 28, 2018 (Minutes of the Meeting No. 295).

Principal objectives and tasks of the activities of the Company’s Board of Directors:

Define the Company’s development strategy aiming to enhance its market capitalization and appeal to investors, achieve the maximum profit, and increase its assets	Ensure the exercise and protection of the rights and legitimate interests of shareholders and contribute to resolving corporate conflicts
Ensure that the information about the Company disclosed to shareholders and other stakeholders is complete, reliable, and unbiased	Create effective internal control mechanisms
Evaluate the performance of the Company’s executive bodies on a regular basis	

In 2018, there was one change of the composition of the Board of Directors of ROSSETI.

Members of the Board of Directors of ROSSETI elected by the Annual General Meeting of Shareholders on June 29, 2018

1. Alexander Valentinovich Novak	**Chairman of the Board of Directors**
Year of birth	1971
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	Russian Federation represented by the Federal Agency for State Property Management
Date of the first election to the Board of Directors of ROSSETI	June 30, 2015
Position as of the time of election	Minister of Energy of the Russian Federation
Education	Higher education 1993: Norilsk Industrial Institute, Economics and Management (in Metallurgic Engineering) 2009: Lomonosov Moscow State University, Management
Positions held over the past 5 years:	
From 2012: Minister of Energy of the Russian Federation **Service on the boards of directors (supervisory boards) of other entities:** From 2015: Chairman of the Board of Directors, Transneft; Member of the Board of Directors, Rosneft; Member of the Board of Directors, GAZPROM From 2016: Chairman, Russian National Committee of the World Energy Council (RNC WEC) From 2012: Member of the Supervisory Board, ROSATOM Chairman of the Board of Trustees, Moscow Power Engineering Institute (from 2014); Member of the Board of Trustees, Siberian Federal University (from 2012); Member of the Board of Trustees, Gubkin Russian State University of Oil and Gas (from 2015); Member of the Board of Trustees, Motorcycle Federation of Russia (from 2016); head of the Board of Trustees, Russian Athletics Federation (from 2017)	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

<table>
<tr><td>2. Pavel Anatolievich Livinsky</td><td>Member of the Board of Directors</td></tr>
<tr><td>Year of birth</td><td>1980</td></tr>
<tr><td>Nationality</td><td>Russian Federation</td></tr>
<tr><td>Nominating shareholder (group of shareholders)</td><td>Russian Federation represented by the Federal Agency for State Property Management</td></tr>
<tr><td>Date of the first election to the Board of Directors of ROSSETI</td><td>June 29, 2018</td></tr>
<tr><td>Position as of the time of election</td><td>Director General and Chairman of the Management Board, ROSSETI</td></tr>
<tr><td>Education</td><td>Higher education
2001: Lomonosov Moscow State University, Economics
2003: Lomonosov Moscow State University, Management master’s degree</td></tr>
<tr><td>Positions held over the past 5 years:</td><td></td></tr>
<tr><td colspan="2">From 2017: Director General and Chairman of the Management Board, ROSSETI
2013–2017: Head, Fuel and Energy Department of Moscow
2017: Head, Housing and Utilities Department of Moscow

Service on the boards of directors (supervisory boards) of other entities:
From 2018: Chairman of the Board of Directors, FGC UES; Chairman of the Board of Directors, LENENERGO
From 2018: Member of the Board of Directors, RusHydro; Member of the Board of Directors, SO UPS
From 2013: Member of the Board of Directors, MOESK; from 2017: Chairman of the Board of Directors, MOESK
From 2018: Member of the Board, Russian Union of Industrialists and Entrepreneurs; Member of the Supervisory Board, Scientific and Technical Council of Unified Energy System
From 2017: Member of the Presidium, Russian National Committee of the World Energy Council (RNC WEC); from 2018: Member of the Presidium, Russian National Committee of the Council on Large Electric Systems (CIGRE)

Member of the Board of Trustees, Moscow Power Engineering Institute (from 2014); Member of the Board of Trustees, Cathedral of Christ the Saviour Foundation (from 2017); Member of the Board of Trustees, Russian Modern Pentathlon Federation (from 2018); President and Member of the Presidium, Sport Federation of Firefighters and Rescuers (from 2015)

Member of the Board of Directors, Mosenergo (2013–2018); Member of the Board of Directors, Mosenergosbyt (2013–2018); Member of the Board of Directors, MOSGAZ (2013–2017); Chairman of the Board of Directors, MOSGAZ (2014–2017); Member of the Board of Directors, Mosgorsvet (2013–2016); Member of the Board of Directors, BPGC (2013–2015); Member of the Board of Directors, Mosvodokanal (2017 – 2017); Chairman of the Board of Directors, UNECO (2013–2017)</td></tr>
<tr><td colspan="2">Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.</td></tr>
</table>

3. Stanislav Olegovich Ashirov	**Independent** member of the Board of Directors Member of the Strategy Committee Member of the Audit Committee Member of the Nomination and Remuneration Committee
Year of birth	1973
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	Group of shareholders of ROSSETI, namely Gazprom Energoholding jointly with Gazprom Finance B.V. and VELES Active

Date of the first election to the Board of Directors of ROSSETI	June 30, 2015[26]
Position as of the time of election	Director General, Mezhregionenergosbyt
Education	Higher education, Candidate of Science (Economics) 1996: Sergo Ordzhonikidze State Academy of Management, Management 2000: State University of Management, postgraduate program
Positions held over the past 5 years:	
From 2008: Director General, Gazprom Energosbyt From 2008: Member of the Board of Directors and Deputy Director General for Strategic Development (part-time), Gazprom Energosbyt Tyumen From 2017: Director General, Power Solutions for Electric Utilities (part-time) 2011–2017: Member of the Board of Directors, Teplosbyt; 2017: Director General, Teplosbyt (part-time) 2013–2014: Member of the Board of Directors, Siburenergomanagement	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

4. Boris Ilyich Ayuyev	Member of the Board of Directors
Year of birth	1957
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	Russian Federation represented by the Federal Agency for State Property Management
Date of the first election to the Board of Directors of ROSSETI	June 28, 2013
Position as of the time of election	Chairman of the Management Board, SO UPS
Education	Higher education, Doctor of Science (Engineering) 1979: Ural Polytechnic Institute, Power Plants 2009: Novosibirsk State Technical University, doctoral program
Positions held over the past 5 years:	
From 2004: Chairman of the Management Board and Member of the Board of Directors, SO UPS **Service on the boards of directors (supervisory boards) of other entities:** 2009–2015: Chairman, Russian National Committee of the Council on Large Electric Systems (CIGRE); from 2015: Member of the Presidium, Russian National Committee of the Council on Large Electric Systems (CIGRE) 2012–2015: Member of the Board of Directors, RusHydro From 2016: Member of the Board of Directors, Inter RAO	
Stakes held as of December 31, 2018: 0.004467% of share capital of ROSSETI (0.004514% of ordinary shares) and 0.007115% of share capital of FGC UES (0.007115% of ordinary shares). No transactions involving the acquisition or transfer of shares.	

5. Oleg Gennadyevich Barkin	**Independent** member of the Board of Directors Member of the Strategy Committee Member of the Investment, Technical Policy, Reliability, Energy Efficiency, and Innovation Committee
Year of birth	1975
Nationality	Russian Federation

[26] Member of the Board of Directors from June 28, 2013, to June 30, 2014.

Nominating shareholder (group of shareholders)	Russian Federation represented by the Federal Agency for State Property Management
Date of the first election to the Board of Directors of ROSSETI	June 30, 2014
Position as of the time of election	Deputy Chairman of the Board, Association NP Market Council
Education	Higher education 1998: Moscow Power Engineering Institute, Applied Mechanics 1999: Moscow Power Engineering Institute, Financial Management
Positions held over the past 5 years:	
From 2014: Member of the Board and Deputy Chairman of the Board, Association NP Market Council 2012–2014: Member of the Board and Deputy Chairman of the Board, NP Market Council	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

6. Vasily Mikhailovich Belov	**Independent** member of the Board of Directors Chairman of the Audit Committee Member of the Nomination and Remuneration Committee Member of the Investment, Technical Policy, Reliability, Energy Efficiency, and Innovation Committee
Year of birth	1981
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	Russian Federation represented by the Federal Agency for State Property Management
Date of the first election to the Board of Directors of ROSSETI	June 30, 2015
Position as of the time of election	Senior Vice-President for Innovations, Skolkovo Foundation
Education	Higher education, MBA 2003: Faculty of Computational Mathematics and Cybernetics, Lomonosov Moscow State University 2004: American Institute of Business and Economics (AIBEc), MBA
Positions held over the past 5 years:	
From 2017: Chief Executive Officer, Skolkovo – Venture Investments 2013–2017: Senior Vice-President for Innovations and Member of the Board, Skolkovo Foundation **Service on the boards of directors (supervisory boards) of other entities:** Member of the Board of Directors, Russian Venture Company (2016–2017); Member of the Board of Directors, FTC (2014–2017)	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

7. Oleg Markovich Dubnov	**Independent** member of the Board of Directors Chairman of the Investment, Technical Policy, Reliability, Energy Efficiency, and Innovation Committee Member of the Strategy Committee Member of the Nomination and Remuneration Committee Member of the Audit Committee
Year of birth	1971
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	Russian Federation represented by the Federal Agency for State Property Management

Date of the first election to the Board of Directors of ROSSETI	June 30, 2016
Position as of the time of election	Vice-President and Executive Director of the Energy-Efficient Technology Cluster, Skolkovo Foundation
Education	Higher education 2000: A. S. Griboedov Institute of International Law and Economics, Law 2004: Moscow State Institute of International Relations, Global Economics
Positions held over the past 5 years:	
From 2017: Vice-President and Executive Director of the Energy-Efficient Technology Cluster, Skolkovo Foundation 2015–2017: Advisor to the Director General, Institute of Professional Directors 2011–2015: Member of the Management Board and Director for Energy, Polyus	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

8. Alexander Sergeyevich Kalinin	**Independent** member of the Board of Directors Chairman of the Nomination and Remuneration Committee Member of the Audit Committee
Year of birth	1966
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	Russian Federation represented by the Federal Agency for State Property Management
Date of the first election to the Board of Directors of ROSSETI	June 30, 2014
Position as of the time of election	President, OPORA RUSSIA
Education	Higher education 1989: Chelyabinsk Polytechnic Institute, Robotics 1991: Chelyabinsk Polytechnic Institute, postgraduate program 1998: Ural Academy of Public Civil Service, Law
Positions held over the past 5 years:	
From 2014: President, OPORA RUSSIA; President, Association of Entrepreneurial Organizations of Russia (OPORA) 2012–2014: First Vice President for Energy and Infrastructure, OPORA RUSSIA 2003–2015: Director, Granitny Bereg; 2014–2015: Director, Granitny Bereg (part-time) **Service on the boards of directors (supervisory boards) of other entities:** Member of the Board of Directors, Orient Express Bank (from 2018); Member of the Board of Directors, Russian Small and Medium Business Corporation (from 2015); Member of the Board of Directors, SO UPS (from 2014) 2015–2016: Member of the Board of Directors, LENENERGO	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

9. Vyacheslav Mikhailovich Kravchenko	Member of the Board of Directors Chairman of the Strategy Committee
Year of birth	1967
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	Russian Federation represented by the Federal Agency for State Property Management

Date of the first election to the Board of Directors of ROSSETI	June 30, 2016[27]
Position as of the time of election	Deputy Minister of Energy of the Russian Federation
Education	1995: Lomonosov Moscow State University, Law
Positions held over the past 5 years:	
2013–2018: Deputy Minister of Energy of the Russian Federation **Service on the boards of directors (supervisory boards) of other entities:** From 2008: Member of the Supervisory Board, Association NP Market Council From 2012: Chairman of the Board of Directors, SO UPS From 2014: Member of the Board of Directors, RusHydro From 2014: Member of the Board of Trustees, Moscow Power Engineering Institute Member of the Board of Directors, TSA (2007–2014); Member of the Board of Directors, Inter RAO (2008 – 2015); Member of the Board of Directors, Financial Settling Center (2008–2015); Member of the Board of Directors, FGC UES (2012–2016); Member of the Board of Directors, MOESK (2014–2018); Member of the Board of Directors, IDGC of Siberia (2015–2017) 2013–2014 – Member of the Supervisory Board, Russian Regional Development Bank	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

10. Andrey Yevgenyevich Murov	Member of the Board of Directors
Year of birth	1970
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	Russian Federation represented by the Federal Agency for State Property Management
Date of the first election to the Board of Directors of ROSSETI	June 28, 2013
Position as of the time of election	Chairman of the Management Board, FGC UES
Education	Higher education, Doctor of Science (Economics) 1993: Saint Petersburg State University, Law 1998: Interbranch Institute of Advanced Training and Retraining of Executive Personnel, professional retraining, Financial Management 2009: Saint Petersburg State University of Civil Aviation, Transportation Organization and Management (Air Transportation)
Positions held over the past 5 years:	
From 2013 – Chairman of the Management Board, FGC UES **Service on the boards of directors (supervisory boards) of other entities:** Member of the Board of Directors, FGC UES (from 2013); Member of the Board of Directors, Inter RAO (from 2014); Member of the Board of Directors, SO UPS (from 2015); Member of the Supervisory Board, Global Energy Association (from 2015); Member of the Supervisory Board, Scientific and Technical Council of Unified Energy System (from 2018) From 2015: Chairman and Member of the Presidium, Russian National Committee of the Council on Large Electric Systems (CIGRE) From 2014: Member of the Board of Trustees, Moscow Power Engineering Institute; Member of the Board of Trustees, St. Petersburg State University; Member of the Board of Trustees, St. Petersburg State University of Economics From 2017: Member of the High Council, Rugby Union of Russia	

[27] Member of the Board of Directors from June 29, 2009, to June 30, 2015.

2012–2014: Chairman of the Board of Directors, IDGC of North-West
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.

11. Mikhail Alekseyevich Rasstrigin	Member of the Board of Directors
Year of birth	1983
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	Russian Federation represented by the Federal Agency for State Property Management
Date of the first election to the Board of Directors of ROSSETI	June 29, 2018
Position as of the time of election	Deputy Minister of Economic Development of the Russian Federation
Education	Higher education 2005: Ivanovo State Power Engineering University, Thermal Power Plants 2005: Ivanovo State Power Engineering University, Economics
Positions held over the past 5 years:	
2011–2017: Head of Power, Analytical Department, VTB Capital 2017: Assistant Minister of Economic Development of the Russian Federation From 2017: Deputy Minister of Economic Development of the Russian Federation From 2017: Member of the Board, Federal Antimonopoly Service of the Russian Federation **Service on the boards of directors (supervisory boards) of other entities:** From 2018: Member of the Board of Directors, RusHydro; Member of the Board of Directors, SO UPS; Member of the Board of Directors, Russian Railways; Member of the Board of Directors, Rosgeo; Member of the Board of Directors, United Aircraft Corporation; Member of the Supervisory Board, Association NP Market Council	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

12. Nikolay Dmitryevich Rogalev	Member of the Board of Directors
Year of birth	1962
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	Russian Federation represented by the Federal Agency for State Property Management
Date of the first election to the Board of Directors of ROSSETI	June 30, 2016
Position as of the time of election	Rector, Moscow Power Engineering Institute
Education	Higher education, Doctor of Science (Engineering) 1985: Moscow Power Engineering Institute, Thermal Power Plants 1988: Moscow Power Engineering Institute, postgraduate program 1998: Moscow Power Engineering Institute, doctoral program
Positions held over the past 5 years:	
From 2013: Rector, Moscow Power Engineering Institute From 2015: Department Head and Professor (part-time), Moscow Power Engineering Institute **Service on the boards of directors (supervisory boards) of other entities:**	

From 2016: President, Scientific and Technical Council of Unified Energy System From 2016: Member of the Board of Directors, RusHydro Member of the Board of Directors, Gas Turbine Technologies Engineering Center (2014–2015); Member of the Board of Directors, Inter RAO (2015–2016)
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.

13. Anatoly Vladimirovich Tikhonov	Member of the Board of Directors
Year of birth	1969
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	Russian Federation represented by the Federal Agency for State Property Management
Date of the first election to the Board of Directors of ROSSETI	June 30, 2017
Position as of the time of election	Director General, Russian Energy Agency of the Ministry of Energy of the Russian Federation
Education	Higher education 1995: Lomonosov Moscow State University, Law 2011: Lomonosov Moscow State University, Management
Positions held over the past 5 years:	
2013–2014: Acting Director General, Russian Energy Agency of the Ministry of Energy of the Russian Federation; from 2014: Director General, Russian Energy Agency of the Ministry of Energy of the Russian Federation **Service on the boards of directors (supervisory boards) of other entities:** From 2014: Chairman of the Supervisory Board, International Energy Cooperation Assistance Fund From 2015: Co-chairman of the Strategy Board, Russian-French Center for Energy Efficiency Member of the Board of Directors, Zarubezhneft (from 2017); Member of the Governing Board, International Sustainable Energy Development Centre under the auspices of UNESCO (from 2014)	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

14. Sergey Ivanovich Shmatko	Member of the Board of Directors
Year of birth	1966
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	Russian Federation represented by the Federal Agency for State Property Management
Date of the first election to the Board of Directors of ROSSETI	June 28, 2013[28]
Position as of the time of election	Special Representative of the President of the Russian Federation on International Cooperation in the Electric Power Industry
Education	Higher education, Candidate of Science (Engineering) 1992: Faculty of Political Economics, Ural State University
Positions held over the past 5 years:	
From 2012: Member of the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security From 2012: President, Artpol Holding	

[28] Member of the Board of Directors from July 1, 2008, to June 23, 2010.

From 2013: Special Representative of the President of the Russian Federation on International Cooperation in the Electric Power Industry From 2014: Professor of the Department of Economics in Power Engineering and Industry, Moscow Power Engineering Institute **Service on the boards of directors (supervisory boards) of other entities:** Chairman of the Board of Directors, Artpol Engineering (from 2015); Chairman of the Board of Directors, Atommashexport (from 2015); Chairman of the Board of Directors, Converter Equipment Engineering Center (from 2016) From 2009: Member of the Board of Trustees, Moscow Power Engineering Institute From 2013: Member of the Supervisory Board, Scientific and Technical Council of Unified Energy System Member of the Board of Directors, Transneft (2013–2014); Member of the Board of Directors, FGC UES (2013–2016)
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.

15. Nikolay Grigoryevich Shulginov	Member of the Board of Directors
Year of birth	1951
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	Russian Federation represented by the Federal Agency for State Property Management
Date of the first election to the Board of Directors of ROSSETI	June 30, 2016
Position as of the time of election	Chairman of the Management Board and General Director, RusHydro
Education	Higher education, Candidate of Science (Engineering) 1973: Sergo Ordzhonikidze Novocherkassk Polytechnic Institute, Industrial and Urban Electricity Supply 2007: North-Caucasus State Technical University, postgraduate program
Positions held over the past 5 years:	
2009–2015: First Deputy Chairman of the Management Board, SO UPS From 2015: Chairman of the Management Board and General Director, RusHydro From 2016: Member of the Board, Russian Union of Industrialists and Entrepreneurs **Service on the boards of directors (supervisory boards) of other entities:** Member of the Supervisory Board, Scientific and Technical Council of Unified Energy System (from 2008); Member of the Supervisory Board, Association NP Market Council (from 2016); Chairman of the Supervisory Board, Association Hydropower of Russia (from 2016); Member of the Board of Directors, RusHydro (from 2016); Member of the Board of Directors, Global Sustainable Energy Partnership (from 2017); Chairman of the Board of Directors, Hydroproject (from 2018) Member of the Board of Trustees, Moscow Power Engineering Institute (from 2015); Member of the Board of Trustees, Siberian Federal University (from 2016) 2013–2016: Member of the Board of Directors, FGC UES 2016–2017: Chairman of the Board of Directors, RAO ES EAST	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

Until June 29, 2018, the Board of Directors was composed of the members elected by the Annual General Meeting of Shareholders on June 30, 2017.

No.	Name	Position (as of the time of election)
1.	Alexander Valentinovich Novak **Chairman**	Minister of Energy of the Russian Federation

2.	Stanislav Olegovich Ashirov **Independent director**	Director General, Mezhregionenergosbyt
3.	Boris Ilyich Ayuyev	Chairman of the Management Board, SO UPS
4.	Oleg Gennadyevich Barkin	Deputy Chairman of the Board, Association NP Market Council
5.	Vasily Mikhailovich Belov **Independent director**	Senior Vice-President for Innovations, Skolkovo Foundation
6.	Oleg Markovich Dubnov **Independent director**	Advisor to the Director General, Institute of Professional Directors
7.	Alexander Sergeyevich Kalinin **Independent director**	President, OPORA RUSSIA
8.	Vyacheslav Mikhailovich Kravchenko	Deputy Minister of Energy of the Russian Federation
9.	Andrey Yevgenyevich Murov	Chairman of the Management Board, FGC UES
10.	Nikolay Radyevich Podguzov	Deputy Minister of Economic Development of the Russian Federation
11.	Mikhail Igorevich Poluboyarinov	First Deputy Chairman and Member of the Board, Vnesheconombank
12.	Nikolay Dmitryevich Rogalev	Rector, Moscow Power Engineering Institute
13.	Anatoly Vladimirovich Tikhonov	Director General, Russian Energy Agency of the Ministry of Energy of the Russian Federation
14.	Sergey Ivanovich Shmatko	Special Representative of the President of the Russian Federation on International Cooperation in the Electric Power Industry
15.	Nikolay Grigoryevich Shulginov	Chairman of the Management Board and General Director, RusHydro

Key Results of the Performance Evaluation of the Board of Directors

Every three years, an independent external organization (consultant) is engaged on a competitive basis to evaluate the Board of Directors.

Since the Russian Institute of Directors evaluated the Board of Directors in 2017, the evaluation procedure was not scheduled to take place in 2018. The results of the performance evaluation made in 2017[29] showed that the activities of the Board of Directors were highly rated and, in general, followed the key recommendations of the Corporate Governance Code.

Based on the consideration of the performance evaluation report, the Company carried out measures aimed at implementing the recommendations:

1. **Newly elected members of the Board of Directors receive assistance with taking on their functions.**
   In order to help members of the Board of Directors improve their performance and become better informed about the Company's affairs, the Company formulated and brought into use the Introductory Course Program for Newly Elected Members of the Board of Directors of ROSSETI in 2017.[30]

[29] The performance evaluation report containing recommendations for the further improvement of the activities of the Board of Directors and committees of the Board of Directors was considered by the Board of Directors (Minutes of the Meeting No. 281 of November 2, 2017) (preliminarily reviewed by the Nomination and Remuneration Committee). Based on the consideration of the report, the Company carried out measures to correct the deficiencies found by the evaluation procedure and implement the recommendations contained in the report.

[30] Approved by the Nomination and Remuneration Committee of the Board of Directors on June 29, 2017 (Minutes of the Meeting No. 56).

Introductory meetings with the Company's management	→	One-on-one or collective meetings; at the request of members of the Board of Directors, introductory visits to the Company's office
Access to corporate documents	→	At the request of members of the Board of Directors, a brief description of any requested process and/or document
Insights into the Company's activities and the operating procedures of the Board of Directors	→	Information about how meetings are prepared and held, how remuneration is paid, whether it is necessary to declare income, etc.

2. **The main focus is on keeping a balance between in-person and absentee meetings of management bodies.**
   The Regulations for the Board of Directors were updated to define the most significant issues that should be considered by in-person meetings of the Board of Directors.

Meetings held by the Board of Directors in 2018

Form of the Meeting	2014	2015	2016	2017	2018
In person	**8**	**8**	**5**	**6**	**6**
	24%	17%	16%	16%	12%
In absentia	**25**	**35**	**27**	**31**	**45**
	76%	83%	84%	84%	88%
TOTAL	**33**	**43**	**32**	**37**	**51**

Issues considered by the Board of Directors in 2018

Form of the Meeting	2015	2016	2017	2018
In person	43	20	30	28
In absentia	151	142	134	160
TOTAL	**194**	**162**	**164**	**188**

The most important issues are considered by in-person meetings of the Board of Directors of ROSSETI.

Subjects of the issues considered by the Board of Directors

Issue	%
Strategic planning and development	5
Audit, control, and risks	6
Budget, finance, monitoring of financial and economic performance, investment, and R&D	7
Administration of SDCs with respect to key issues	34
KPIs	3
Procurement	4
Approval of internal documents	5
Other	36

Key Issues Considered by the Board of Directors

Decisions adopted by in-person meetings of the Board of Directors in relation to the priority areas of the Company's activities are as follows:

- the updated Modernization (Renewal) Program for Electric Grid Facilities of ROSSETI SDCs was approved;
- the target values of the KPIs for the Director General of ROSSETI were defined for 2018;
- the Company's budget was approved, and the consolidated investment program was given consideration;
- the Digital Transformation 2030 Concept was approved.

The most important issues considered by absentee meetings of the Board of Directors include as follows:

- the committees of the Board of Directors were formed; their performance reports were considered; a restated version of the Regulations for the Nomination and Remuneration Committee of the Board of Directors was approved;
- the head of the internal audit division was appointed; the Corporate Secretary of the Company was elected;
- a restated version of the Regulations for the Quality Management System and the Program of the Implementation of the Environmental Policy of the Electric Grid Sector for 2018–2019 were approved;
- the Uniform Procurement Standard (Procurement Regulations) of ROSSETI and the Procurement Plan for 2019 were approved.

Performance Report of the Board of Directors

Participation of the members of the Board of Directors in meetings of management bodies in 2018

Member of the Board of Directors	Number of Meetings Attended by the Member of the Board of Directors	Attendance Rate, %
A. V. Novak	51	100.00
S. O. Ashirov	51	100.00
B. I. Ayuyev	51	100.00
O. G. Barkin	50	98.04
V. M. Belov	51	100.00
O. M. Dubnov	50	98.04
A. S. Kalinin	44	86.27
V. M. Kravchenko	47	92.16
P. A. Livinsky (after the June 29, 2018, AGM)	24	100.00
A. Ye. Murov	51	100.00
N. R. Podguzov (until the June 29, 2018, AGM)	10	37.04
M. I. Poluboyarinov (until the June 29, 2018, AGM)	22	81.48
M. A. Rasstrigin (after the June 29, 2018, AGM)	21	87.50
N. D. Rogalev	51	100.00
A. V. Tikhonov	51	100.00
S. I. Shmatko	51	100.00
N. G. Shulginov	49	96.00

Average number of issues considered by the Board of Directors at one meeting

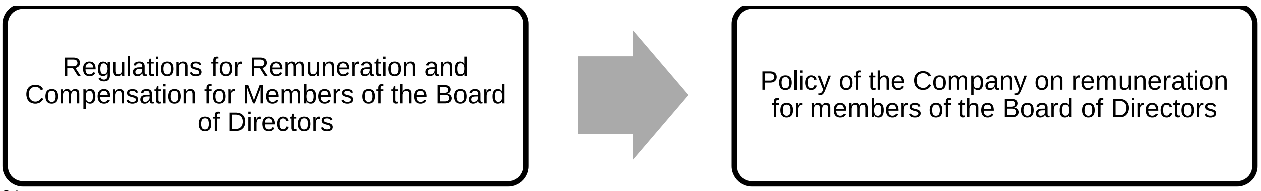
	2014	2015	2016	2017	2018
Number of issues	5.64	4.51	5.19	4.43	3.69

Report of the Board of Directors of ROSSETI on Development in the Priority Areas of Activities

The Board of Directors of the Company continued in 2018 to work on the Company's development in the priority areas of activities defined in previous periods.

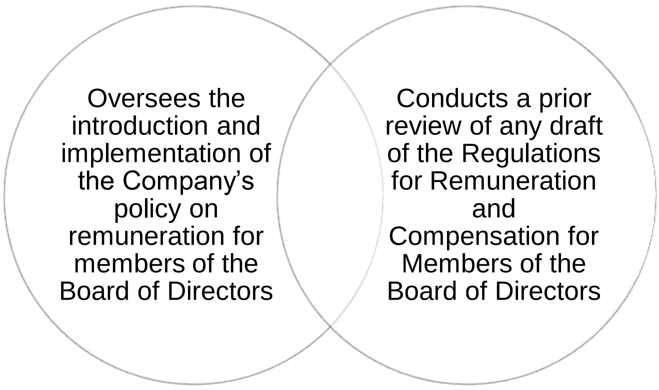
Area of Activities	Date and Number of the Minutes of the Meeting of the Board of Directors Determining the Priority Areas of Activities	Considered in 2018	Report of the Board of Directors
Developing and improving the internal control system of ROSSETI and ROSSETI SDCs	February 10, 2014; No. 143	Review of the report on the organization, functioning, and effectiveness of the internal control system of PJSC ROSSETI for 2017 and the annual report "On the Performance Results for the Schedule (Road Map) for Implementing the Strategy for Developing and Improving the Internal Control System of ROSSETI and Subsidiaries and Dependent Companies of ROSSETI"	The Board of Directors reviewed and took note of the report on the organization, functioning, and effectiveness of the internal control system of PJSC ROSSETI for 2017 and the annual report "On the Performance Results for the Schedule (Road Map) for Implementing the Strategy for Developing and Improving the Internal Control System of ROSSETI and Subsidiaries and Dependent Companies of ROSSETI" (Minutes of the Meeting No. 327 of October 22, 2018)

Remuneration for Members of the Board of Directors



[31]

Nomination and Remuneration Committee:



[31] Approved by the Annual General Meeting of Shareholders on June 30, 2015 (Minutes of the Meeting of July 2, 2015).

Remuneration is:

- *is not paid if the Company has no net profit*
- *is paid as a one-off payment for a corporate year (from election to dismissal)*
- *is paid as resolved by the General Meeting of Shareholders*

Key principles of the remuneration policy

The amount of remuneration depends on the Company's financial performance

Any member of the Board of Directors may decline to receive remuneration in full or in part

Any member of the Board of Directors should be compensated for expenses in connection with participation in meetings in accordance with the rates applied by the Company to reimbursement for travel expensesам

The Company does not provide any short-term/long-term financial incentives, any payment or compensation in the event of early dismissal, any remuneration in kind, or any share-based payment

Scope of application of the remuneration policy

no remuneration is paid to executive directors

no remuneration is paid to persons who are subject to a statutory restriction or ban on payments from for-profit organizations

no remuneration is paid to members of the Board of Directors if they participate in less than 50% of meetings

$$\text{AMOUNT OF REMUNERATION} = \text{REMUNERATION BASE AMOUNT} \times \frac{100}{130} \times \left(\frac{\text{number of meetings of the Board of Directors in which the member of the Board of Directors takes part}}{\text{total number of meetings of the Board of Directors}} \right)$$

Revenues	**Remuneration base amount**
above 200 billion rubles	1,000,000 rubles
above 30 billion rubles	900,000 rubles
above 10 billion rubles	800,000 rubles
above 1 billion rubles	700,000 rubles
above 600 million rubles	600,000 rubles
below 600 million rubles	on a case-by-case basis

Premiums

- **30 %** payable to the Chairman of the Board of Directors
- **20 %** payable to the chairman of a specialized committee of the Board of Directors (not accrued and not paid if the committee holds less than three meetings in the corporate year)
- **10 %** payable to a member of a specialized committee of the Board of Directors (not accrued and not paid if the committee holds less than three meetings in the corporate year)

Due to a loss according to the accounting (financial) statements for 2017, the Annual General Meeting of Shareholders of the Company resolved to pay no remuneration to members of the Company's Board of Directors for serving on the Company's Board of Directors in 2018.[32]

Liability Insurance for Members of the Board of Directors

Members of the Board of Directors and officers of ROSSETI have insurance coverage under a directors and officers (D&O) liability insurance contract. Coverage is consistent with international standards as to insured risks and indemnity limits.

The D&O contract provides liability insurance for the Insured Persons and/or ROSSETI in relation to claims arising out of losses/damage caused to third parties and/or ROSSETI by the mistakes/unintentional acts/omission to act on the part of the Insured Persons while they perform their functions.

D&O insurance provides the best protection recommended by the Russian Financial Market Development Strategy Until 2020 approved by the Russian Government and the Corporate Governance Code of the Bank of Russia and is specified in the Regulations for Insurance Coverage of ROSSETI.

[32] In accordance with the regulations approved by the General Meeting of Shareholders on June 30, 2015 (Minutes of the Meeting of July 2, 2015).

Committees of the Board of Directors

In order to perform its functions in the most effective manner and preliminarily consider the most important issues falling within its competence, the Board of Directors set up four committees.

Executive Bodies of ROSSETI

ROSSETI's executive bodies (Management Board and Director General) have a key role in organizing the efficient achievement of strategic goals and providing support for the Company's day-to-day activities.

Management Board

- Collegial executive body
- Governed by the Regulations for the Management Board[33]
- Chaired by the Director General
- The number of members is determined by the Board of Directors at the suggestion of the Director General
- The members of the Management Board are elected and their powers are terminated earlier by the Board of Directors

1. Pavel Anatolievich Livinsky	Chairman of the Management Board, ROSSETI[34]

[33] Approved by the Annual General Meeting of Shareholders on June 30, 2015 (Minutes of the Meeting of July 2, 2015); available on the Company's website at http://www.rosseti.ru/media/zakupki/pravl.pdf.
[34] Biographical data are contained in *Board of Directors*.

2. Andrey Aleksandrovich Dyomin	Member of the Management Board, ROSSETI
Year of birth	1974
Education	Higher education 1996: Zaporozhye State University, Applied Mathematics 1999: Zaporizhzhya Institute of Economics and Information Technologies, Finance
Positions held over the past 5 years:	
From 2013: Member of the Management Board, ROSSETI (2013–2015: First Deputy Director General for Economic Affairs and Finance, ROSSETI) **Membership in management bodies of other corporate entities:** Chairman of the Board of Directors, Tyumenenergo (2013–2015); Chairman of the Board of Directors, TDC (2013–2014) Member of the Board of Directors, MOESK (2014–2018); Member of the Board of Directors, FEEMC (2013–2015) From 2014: Member of the Board of Directors, FGC UES	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

3. Dmitry Sergeyevich Korotkov	Member of the Management Board, ROSSETI Deputy Director General for Legal Support, ROSSETI
Year of birth	1982
Education	Higher education 2004: St. Petersburg State University, Law
Positions held over the past 5 years:	
From 2018: Member of the Management Board and Deputy Director General for Legal Support, ROSSETI 2015–2018: Assistant Prime Minister of the Russian Federation, Government Executive Office of the Russian Federation 2011–2015: Advisor, Chief Advisor, Deputy Department Head, Presidential Control Directorate **Membership in management bodies of other corporate entities:** From 2015: Member of the Supervisory Board, Amur Tiger Center	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

4. Valentin Yefimovich Mezhevich	Member of the Management Board, ROSSETI
Year of birth	1947
Education	Higher education, Candidate of Science (Engineering) 1970: Irkutsk Polytechnic Institute, Thermal Power Plants 1991: Leningrad Polytechnic Institute, postgraduate program
Positions held over the past 5 years:	
From 2013: Member of the Management Board, ROSSETI (2013–2014: Deputy Director General for Strategic Communications, ROSSETI) From 2014: Chief Advisor, ROSSETI **Membership in management bodies of other corporate entities:** From 2015: Chairman of the Board of Directors, IDGC of Volga From 2015: Chairman of the Board of Directors, Tyumenenergo 2014–2015: Member of the Board of Directors, IDGC of Northern Caucasus; Member of the Board of Directors, IDGC of Siberia; Member of the Board of Directors, Kubanenergo 2008–2014: Deputy Chairman of the Supervisory Board, NP Market Council	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

5. Alexander Mikhailovich Pyatigor	Member of the Management Board, ROSSETI Deputy Director General for Sales of Services, ROSSETI
Year of birth	1980
Education	Higher education 2002: Seifullin Kazakh Agricultural University, Electricity Supply
Positions held over the past 5 years:	
From 2018: Member of the Management Board and Deputy Director General for Sales of Services, ROSSETI 2013–2018: Deputy Director General for Network Connection and Service Development, MOESK **Membership in management bodies of other corporate entities:** From 2017: Chairman of the Board of Directors, Energotsentr	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

6. Olga Andreyevna Sergeeva	Member of the Management Board, ROSSETI Deputy Director General and Head of the Administrative Office
Year of birth	1984
Education	Higher education 2006: Plekhanov Russian Academy of Economics in 2006, Corporate Economics and Management – Construction
Positions held over the past 5 years:	
2012–2015: Head of the Administrative Office, 2015–2016: Head of the Organizational and Legal Division; 2016–2017: Deputy Department Head, Fuel and Energy Department of Moscow 2017: Deputy Department Head, Housing and Utilities Department of Moscow 2017–2018: Advisor, Chief Advisor, ROSSETI From 2018 – Member of the Management Board, Deputy Director General and Head of the Administrative Office, ROSSETI **Membership in management bodies of other corporate entities:** From 2018: Chairperson of the Board of Directors, IDGC of South; Chairperson of the Board of Directors, IDGC of North-West; Chairperson of the Board of Directors, Kubanenergo; Chairperson of the Board of Directors, Power Grid Optical Networks Engineering; Chairperson of the Supervisory Board, Association ERA of Energy. From 2018: Member of the Board of Directors, MOESK; Member of the Board of Directors, LENENERGO; Member of the Board of Directors, IDGC of Northern Caucasus	
Shares held in ROSSETI and SDCs: none. No transactions involving the acquisition or transfer of shares.	

Changes in the Composition of the Management Board in 2018

As resolved by the Board of Directors on January 23, 2018, the powers of Nikolay Nikolayevich Varlamov as a member of the Management Board were terminated. Olga Andreyevna Sergeeva, ROSSETI's Deputy Director General and Head of the Administrative Office, was elected to the Management Board.

As resolved by the Board of Directors on April 27, 2018, the powers of Roman Nikolaevich Berdnikov as a member of the Management Board were terminated.

As resolved by the Board of Directors on December 14, 2018, Dmitry Sergeyevich Korotkov and Alexander Mikhailovich Pyatigor were elected to the Management Board.

Information about the current members of the Management Board of ROSSETI is available on the Company's website at http://www.rosseti.ru/about/management/Pravlenie/.

Performance Report of the Management Board

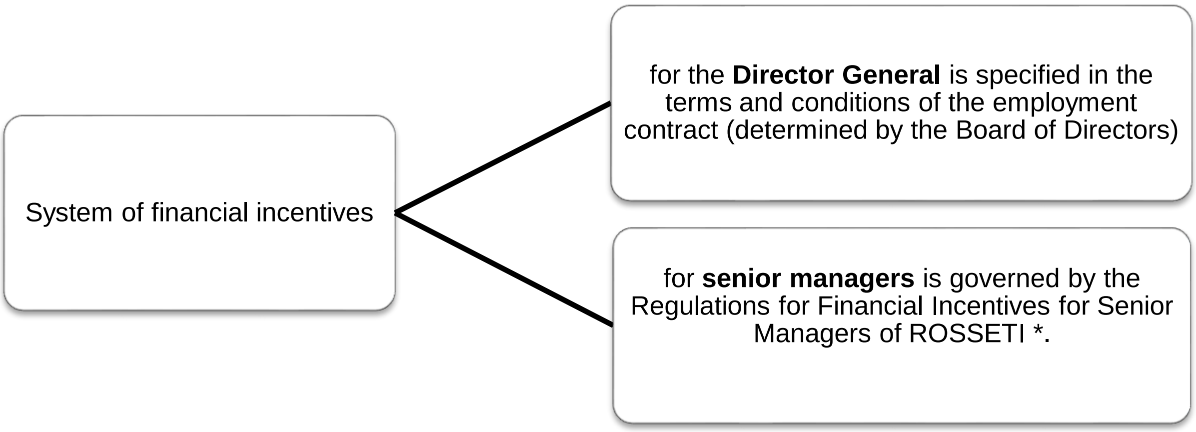
From January to December 2018, the Management Board of the Company held 136 meetings, including 3 in person.

SOLE EXECUTIVE BODY

- Governed by the Articles of Association[35]
- Elected by the Board of Directors in accordance with directives of the Russian Government
- In charge of the Company's day-to-day activities

As resolved by the Board of Directors of ROSSETI on September 11, 2017, **Pavel Anatolievich Livinsky** was approved as the Director General of the Company.

Remuneration for the Management Board, the Director General, and Other Key Employees of the Company



* Adopted by the Board of Directors (Minutes of the Meeting of November 19, 2009, No 26).

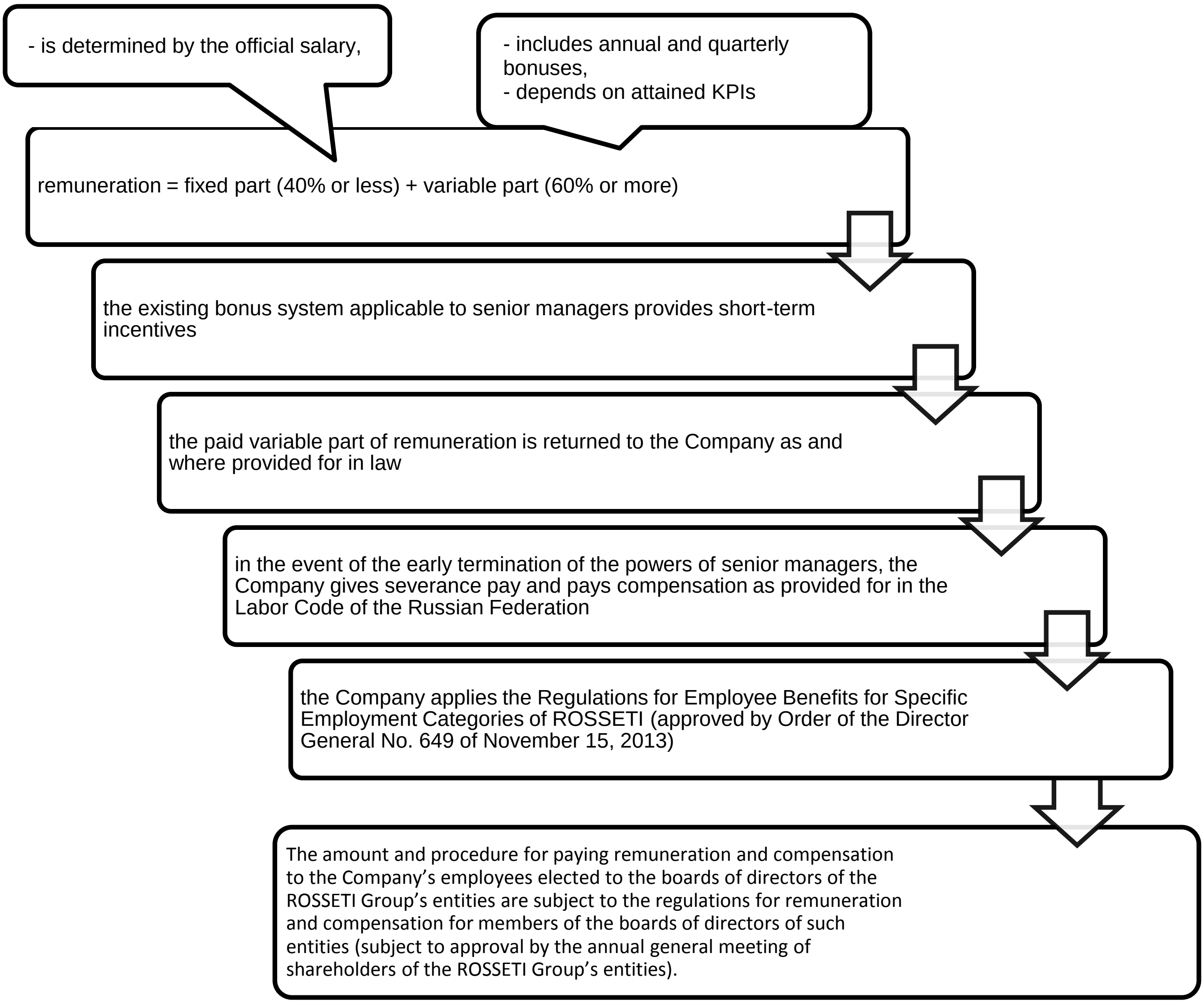
- Supervision over the introduction and implementation of the remuneration policy for senior managers is exercised by the Board of Directors and the Nomination and Remuneration Committee.

- The Company's remuneration policy for key employees applies to SDCs in the context of attaining the equivalent KPIs for the sole executive bodies and key employees of subsidiaries.

The regulations governing the remuneration policy for executives were not amended in 2018.

[35] Approved by the Annual General Meeting of Shareholders on June 30, 2017 (Minutes of the Meeting of July 5, 2017); available on the Company's website at http://www.rosseti.ru/about/documents/doc/Ustav_2017.pdf.

Basic principles of remuneration for the Director General and key employees of the Company



Total amount of remuneration for members of the Management Board (thousand rubles)

Type of Remuneration	**Amount of Remuneration, thsd RUB**
Remuneration for participation in the work of the management body/body exercising control of financial and economic activities	2,301
Salary	97,918
Bonuses	90,080
Commission fees	0
Benefits	0
Other remuneration	12,078
TOTAL	**202,377**

Corporate Secretary

- Governed by the Regulations for the Corporate Secretary
- Functionally subordinate to the Board of Directors and administratively subordinate to the Director General
- Functions:

ensures the efficient work of the Board of Directors	coordinates the Board of Dicerctors and the Management Board interaction	participates in the improvement of the Company's corporate governance practices	participates in the implementation of corporate policy

Natalia Nikolayevna Baranyuk	**Corporate Secretary, ROSSETI**
Year of birth:	1978
Nationality:	Russian Federation
Nominating person:	Chairman of the Board of Directors, ROSSETI
Date of election:	June 29, 2018[36]
Position as of the time of election:	Corporate Secretary, ROSSETI[37]
Education:	Higher education, master's degree 2000: Krasnoyarsk State Agrarian University, Law 2011: Lomonosov Moscow State University, Management
Positions held over the past 5 years:	
2008–2015: Administrative Assistant and Deputy Department Director, Ministry of Finance of the Russian Federation 2015: Deputy Director of the Administrative Department, Ministry of Energy of the Russian Federation From November 2015: Corporate Secretary and Head of the Administrative Office of the Chairman of the Board of Directors, ROSSETI	
Shares held in ROSSETI and SDCs: none.	
No transactions involving the acquisition or transfer of shares.	

KPI System

The attainment of ROSSETI's goals of development is evaluated through a system of key performance indicators (KPIs). KPIs are defined by the necessity of achieving the targets of the Strategy for Development of the Electric Grid Sector.

THE COMPANY'S KPI SYSTEM IS ALIGNED WITH

- the Strategy for Development of the Electric Grid Sector of the Russian Federation
- the Company's Long-Term Development Program
- specific instructions issued by the Government of the Russian Federation

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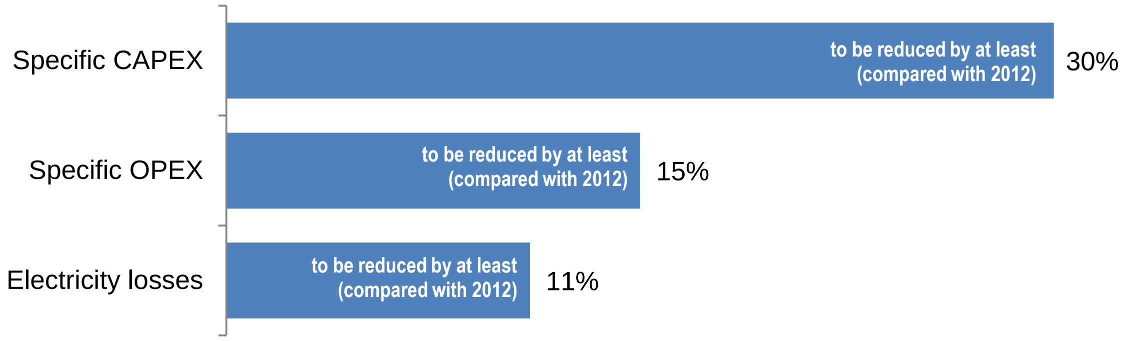
[36] Minutes of the Meeting No. 316 of July 2, 2018.

[37] Approved by the Board of Directors on August 5, 2015 (Minutes of the Meeting No. 198 of August 7, 2015).

The KPI system and target values specified in decisions adopted by the Company's Board of Directors (as amended) are in accordance with the goals of the Long-Term Development Program of ROSSETI and are conditional on achieving the targets of the Strategy for Development of the Electric Grid Sector.



The KPI system is linked to the variable component of management's remuneration: each indicator is assigned a specific weight in the bonus pool. Quarterly and annual bonuses are paid if the corresponding KPIs are attained.

The KPI system was approved and brought into effect from 2017 by the Board of Directors[38] in March 2017. The target values for 2018 were approved by the Board of Directors[39] in March 2018.

KPI structure and target values for 2017 and 2018

Long-Term Goals	KPI Description	Weight in the Bonus System, %	Results Achieved in 2017	Target Value in 2018	Results Achieved in 2018
QUARTERLY INDICATORS					
Keeping a balance between the interests of different key stakeholders	Consolidated profit from operating activities (EBITDA)	50	Attained	Attained	Attained[40] (subsidiaries did not exceed the permissible number of unachieved indicators)
Keeping a balance between the interests of different key stakeholders	Consolidated net debt/EBITDA	25	Attained	Attained	Attained[41] (subsidiaries did not exceed the permissible number of unachieved indicators)

[38] Approved by the Board of Directors on March 1, 2017 (Minutes of the Meeting No. 254 of March 3, 2017).
[39] Approved by the Board of Directors on March 16, 2018 (Minutes of the Meeting No. 298 of March 19, 2018).
[40] The indicator is deemed to be attained by ROSSETI if it is not achieved by at most three SDCs. In the case of each of the SDCs, the indicator is deemed to be attained if the actual value for the 1st quarter, the 1st half, and the 9 months of the reporting year is ≥ 0 and, for the year, is ≥ of the average annual growth rate of tariffs of grid organizations in accordance with the Forecast of the Socioeconomic Development of the Russian Federation.
[41] The indicator is deemed to be attained by ROSSETI if it is not achieved by at most three SDCs. In the case of each of the SDCs, the indicator is deemed to be attained if the actual value does not exceed the planned value calculated according to accounting statements.

Long-Term Goals	KPI Description	Weight in the Bonus System, %	Results Achieved in 2017	Target Value in 2018	Results Achieved in 2018
Keeping a balance between the interests of different key stakeholders	Implementation of the action plan to reduce subsidiaries' and dependent companies' receivables	25	Attained	Attained	Attained[42] (subsidiaries did not exceed the permissible number of unachieved indicators)
Securing the reliable, high-quality, and safe energy supply	No growth of large accidents	-25	No growth	No growth	No growth[43] (the number of large accidents was decreased)
Improving power supply safety, including reducing the total number of accidents	No growth of casualties	-25	No growth	No growth	No growth[44] (the occupational injury rate was reduced as compared with 2017, except for the 3rd quarter of 2018; the number of casualties from among SDCs' personnel was decreased)
ANNUAL INDICATORS					
Keeping a balance between the interests of different key stakeholders	Consolidated net cash flow	20	5.9 billion rubles	≥ -57.8 billion rubles[45]	25.0 billion rubles[46] (the consolidated net cash flow exceeded the target value)
Reducing operating expenses	Reduction of specific operating expenses (costs)	15	≥ 3% (not attained by three companies)	≥ 2% (not attained by at most three companies)	≥ 2% (not attained by one company)[47] (companies did not exceed the permissible number of unachieved indicators)
Securing the reliable, high-quality, and safe energy supply	Increased capacity utilization rate of electric grid equipment	10	Attained	Attained	Attained[48] (persons involved in planning the development of electricity distribution grid facilities and requesting new network connections were provided with

[42] The indicator is deemed to be attained by ROSSETI if it is not achieved by at most three SDCs. In the case of each of the SDCs, the indicator is deemed to be attained if they achieve the planned values specified in the action plans approved by the boards of directors of SDCs to reduce SDCs' receivables.

[43] The indicator is deemed to be attained if there is no growth of large accidents in the current quarter as compared with the average quarterly number of accidents for the corresponding quarters of the past three years.

[44] The indicator is deemed to be attained if there is no growth of occupational injuries in the current quarter as compared with the average quarterly number of occupational injuries for the past three years.

[45] According to the IFRS-based consolidated business plan of the ROSSETI Group for 2018 approved by the Management Board of the Company (Minutes of the Meeting No. 713pr of May 14, 2018).

[46] The indicator is deemed to be attained by ROSSETI if the actual value exceeds the planned value in the ROSSETI Group as a whole.

[47] The indicator is deemed to be attained by ROSSETI if, if it is not achieved by at most three companies (ROSSETI and its SDCs). In the case of each company, the indicator is deemed to be attained if the planned value specified in Directive of the Government of the Russian Federation No. 2303p-P13 of April 16, 2015, is achieved.

[48] The indicator is deemed to be attained if it is achieved by all SDCs.

Long-Term Goals	KPI Description	Weight in the Bonus System, %	Results Achieved in 2017	Target Value in 2018	Results Achieved in 2018
					more information on the current capacity utilization rate)
Reducing electricity losses	Electricity losses	10	9.22%	≤ 9.05%	8.95%[49] (electricity losses were kept at the planned level)
Improving investment efficiency	Reduction of specific investment costs	15	0.95	≤ 1	0.97[50] (specific investment costs were reduced as required under the consolidated investment program of ROSSETI SDCs for 2018)
Pursuant to Directive of the Government of the Russian Federation No. 7389p-P13 of October 31, 2014, to implement the action plan to ensure workforce productivity growth and create the conditions for the modernization of highly efficient jobs as approved by Ordinance of the Government of the Russian Federation No. 1250-r of July 9, 2014	Improvement of workforce productivity	10	7.54%	≥ 2.00%	3.40%[51] (workforce productivity was improved as required)
Ensuring innovative development and pursuant to Directive of the Government of the Russian Federation No. 1472p-P13 of March 3, 2016	Innovation effectiveness	20	109%	≥ 90%	111.9%[52] (evaluated by the Interdepartmental Working Group on the Attainment of Innovative Development Priorities of the Presidium of the Presidential Council on the Economic Modernization and Innovative Development of the Russian Federation within the prescribed period)

[49] The indicator is deemed to be attained by ROSSETI if the target value is not exceeded in transmission and distribution grids as a whole.
[50] The indicator is deemed to be attained by ROSSETI if the target value of investment costs is not exceeded for high-priority projects.
[51] The indicator is deemed to be attained by ROSSETI if the target value is exceeded in the ROSSETI Group as a whole.
[52] The indicator is deemed to be attained by ROSSETI if the target value is exceeded for projects included in the current capital investment programs of SDCs.

Long-Term Goals	KPI Description	Weight in the Bonus System, %	Results Achieved in 2017	Target Value in 2018	Results Achieved in 2018
Improving investment efficiency	Compliance with commissioning schedules	-10	92%	≥ 90%	90%[53] (commissioning schedules were complied with)
Ensuring infrastructure accessibility and creating the conditions for economic growth: decreasing the time required to obtain an electricity connection	Compliance with network connection deadlines	-10	1.0	≤ 1.1	1.01[54] (the ROSSETI Group's measures to ensure grid infrastructure accessibility resulted in a 25% decrease in the time required to obtain an electricity connection, from contract to certificate, for network connection requests for facilities rated below 150 kW as compared with 2017)
Improving energy supply reliability and quality: ensuring the target values of the reliability and quality of electricity transmission and distribution services	Achieved reliability of services	-10	0.52 (attained by all subsidiaries)	≤ 1 (not attained by at most three subsidiaries)	0.89 (attained by all subsidiaries)[55] (the target level of service reliability was achieved in all regions of ROSSETI's operations. In 2018, the average duration of power outages and the average frequency of power outages did not exceed the ceiling values set by authorities in charge of governmental tariff regulation at all branches of ROSSETI SDCs)

[53] The indicator is deemed to be attained by ROSSETI if the target value is exceeded.
[54] The indicator is deemed to be attained by ROSSETI if the target value is not exceeded in transmission and distribution grids as a whole.
[55] The indicator is deemed to be attained by ROSSETI if the target value is not exceeded and if it is not achieved by at most two SDCs.

Shares and Share Market

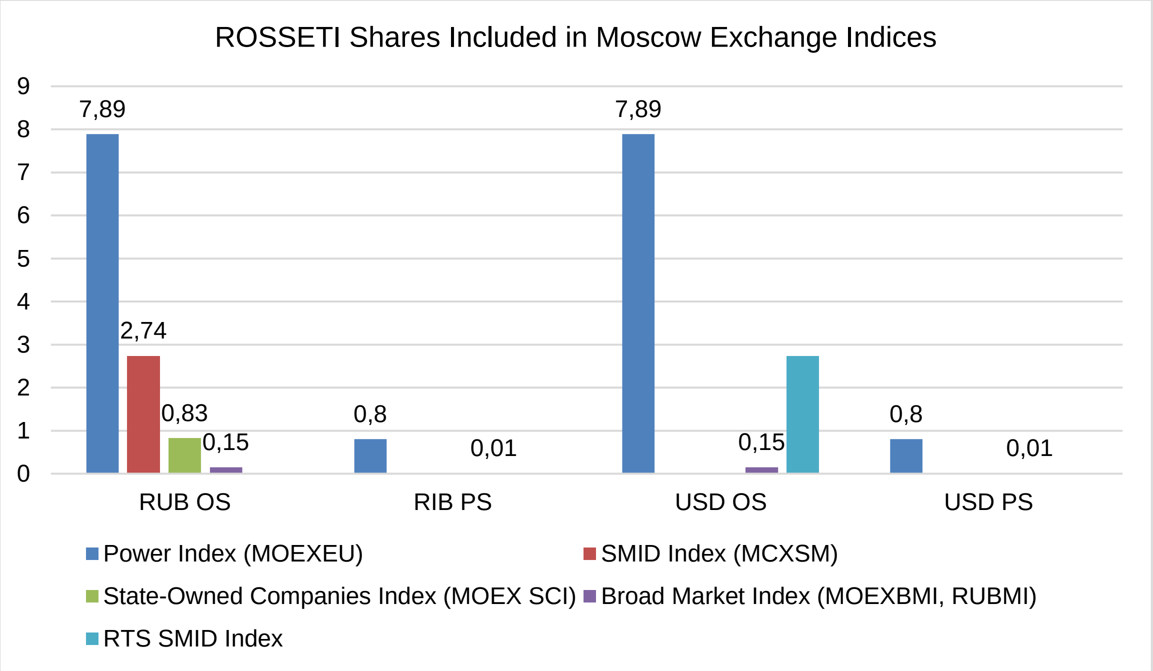
Listing:

<u>Moscow Exchange</u>

- ticker: RSTI, RSTIP
- listing date: December 3, 2008
- quotation list: Level 1
- segment: Main Market

<u>London Stock Exchange</u>

- ticker: RSTI
- listing date: December 8, 2011
- 1 depositary receipt = 200 ordinary shares in ROSSETI
- segment: Main Market – Standard Listing, IOB



International Indices

- FTSE All-World
- FTSE Emerging
- MVIS Russia Small-Cap

ROSSETI Share Capital Overview

- As of December 31, 2018, the registered share capital of ROSSETI was 200,903,014,525 rubles.
- The share capital consists of 200,903,014,525 shares, each with a par value of 1 ruble, including 198,827,865,141 ordinary shares and 2,075,149,384 preference shares.
- The total number of ROSSETI's ordinary share holders and preference share holders is over 317,000.
- The Government holds an 88.04% stake, while corporate entities and individuals hold 8.94% and 3.02% stakes respectively.
- The free float percentage is 11.1% of ordinary shares and 58.7% of preference shares.

Key shareholders of ROSSETI (more than 1%) as of December 31, 2018:

Name	Quantity of Shares		Ownership, %		
	Ordinary Shares	Preference Shares	of Ordinary Shares	of Preference Shares	of Share Capital
Federal property (Federal Agency for State Property Management)	176,729,514,113	145,523,224	88.89	7.01	88.04
Gazprom Finance B.V.	2,562,400,000	0	1.29	0.00	1.28

After Reporting Period:

Key shareholders of ROSSETI (more than 1%) as of March 31, 2019:

Name	Quantity of Shares		Ownership, %		
	Ordinary Shares	Preference Shares	of Ordinary Shares	of Preference Shares	of Share Capital
Federal property (Federal Agency for State Property Management)	176,729,514,113	145,523,224	88.89	7.01	88.04
Progressive Investment Ideas Asset Management JSC	5,151,710,000	0,00	2.59	0.00	2.56
Gazprom Finance B.V.	2,562,400,000	0	1.29	0.00	1.28

Additional Share Issues in 2018

ROSSETI did not issue shares in 2018.

Other than disclosed by the Company, the Company's executive bodies do not have information that any shareholder owns a share of more than five percent. The shareholding structure with an ownership interest of more than 5 % did not change.

Depositary Receipts

ROSSETI's global depositary receipts began trading on the London Stock Exchange's Main Market on December 8, 2011, and were admitted to trading as interdealer share repos on the MICEX Stock Exchange on May 28, 2014.

Since the depositary receipts that represent ownership of ROSSETI's shares are traded in the Standard Listing segment of the London Stock Exchange's Main Market, the Company should comply with the requirements for depositary receipts under the Listing Rules and the Disclosure and Transparency Rules.

Risks and Controls

1.4.1. Risk Management System

The goal of the risk management system is to ensure the sustained and continued functioning and development of the Company by means of the timely identification, assessment, and effective management of risks threatening the efficiency of operations.

ROSSETI approved and implements the Risk Management Policy, which:

- determines the Company's risk attitude;
- defines the general principles of building up the risk management system, its goals and objectives, general approaches to its organization, the distribution of responsibilities among its participants, and the pattern of their interaction.

Risk management is part of the functions of governing bodies, collegial and sole executive bodies, and executives and employees at all management levels of the Group.

Risk management is a continuous and cyclical process within the general management system of the ROSSETI Group and includes the following main stages: goal setting, risk identification, risk assessment, risk response, and risk monitoring.

Objectives of the risk management system

- Develop a risk-oriented corporate culture
- Improve the decision-making process related to risk response
- Identify and manage operational risks in their totality
- Keep an optimal balance between risk preference (risk appetite) and the development strategy
- Reduce the number of unforeseen operational events and losses

Compared with the previous reporting period, the list of significant risks changed as follows:

Risks associated with the introduction of new innovative technology and with the failure of customers to pay for provided electricity distribution services became more significant.

Tariff regulation risks and risks associated with the effects of inflation became less significant.

The tasks set in the Russian President's Decree 204 in relation to accelerated high-impact development make it necessary to introduce new innovative technology, including with respect to large-scale digitalization in the electric grid sector. Carrying out these tasks is affected by risks that capex may go up, return on investment may go down, and the required effects may fail to be achieved and is affected by cybersecurity risks.

There was a substantial rise in receivables for electricity distribution services in 2018, largely because of worse payment discipline on the part of suppliers of last resort.

Tariff regulation risks became less significant due to the more widespread practice of setting electricity distribution tariffs at a level close to inflation, while the average inflation rate stabilized at around 4% in 2016–2018.

Basic Principles of the Risk Management System

<table>
<tr><td>Create and protect the Company’s values</td><td>Ensure that risk management is incorporated into the Company’s overall management system</td><td>Integrate risk management into the decision-making process</td><td>Ensure that risk management is systematic, timely, and structured</td></tr>
<tr><td>Ensure the adaptability of the risk management system with due consideration to the necessity of meeting the new challenges arising from changes in the internal and external conditions of the Company’s operations</td><td>Ensure the transparency of activities and protect the interests of stakeholders</td><td>Ensure that processes are dynamic, iterative, and prompt</td><td>Cause all participants to be responsible for risk management</td></tr>
<tr><td colspan="2">Optimize the structure of the system, ensuring that decision making related to risk response is based on the comprehensive consideration of factors, including an indicator such as the ratio between expenses associated with risk management measures and the effect of their implementation</td><td colspan="2">Ensure the unity of the methodological framework for all of the Company’s divisions, using unified approaches and standards developed and approved for the ROSSETI Group</td></tr>
</table>

Risk Tolerance and Risk Appetite Approaches

In order to improve the effectiveness of the risk management processes, the ROSSETI Group introduced the system of risk management evaluation. ROSSETI evaluates the current status of the risk management system on a periodic basis.

The impact of risks on the Group's activities is assessed according to their significance (incidence) levels: moderate; significant; critical.

Changes in risk significance in the reporting year

Decrease in risk ↓ Increase in risk ↑ No change →

ROSSETI Group's most substantial risks

Risk	Changes in Risk Significance in the Reporting Year	Description	Risk Mitigation Measures
Industry-Specific Risks			
Risk associated with the failure of customers to pay for provided electricity distribution services	↑	This risk arises from imperfect operation mechanisms of the retail electricity market and from the insufficiency of existing mechanisms for encouraging customers to make timely payments for electricity distribution services and also results from macroeconomic factors (impaired financial solvency of customers). A significant factor influencing the level of payment for provided electricity distribution services is an imbalance in the existing incentives for the fulfillment of obligations in the wholesale and retail electricity markets. The problem of the failure of counterparties to perform their payment obligations the electric grid sector in a timely manner and in full is complicated by accumulated overdue receivables related to the forced performance of the supplier of last resort functions. In 2018, overdue receivables rose by 5.9 billion rubles (or 5%). Total receivables increased by 2.9 billion rubles, whereas the period of receivables turnover decreased by 2 days. However, this risk remains material and significant.	• The Group takes measures to eliminate the causes of disagreements, reduce contested overdue receivables for their services provided, and cooperate with federal governmental authorities in improving the rules for the operation of the retail market. • SDCs are active in litigating against nonpayers to collect debts and overdue payments for services provided, including forming judicial practice and setting positive precedents. • SDCs implement the Long-Term Development Programs for Electricity Metering Systems in the Retail Electricity Market in Distribution Grids.

			• With the aim of minimizing the risk of nonpayments, the Company implements the Program for Improving the Efficiency of Measures to Reduce Receivables for Electricity Distribution Services. • SDCs' accounts and records include provisions for doubtful debts. • A substantial part of SDCs' debt is included on the register of creditors under bankruptcy procedures against debtors.
Risk associated with the decreased volume of electricity distribution services	→	This risk arises from a possible decrease in electricity consumption due to macroeconomic factors and from changes in external electricity supply for large customers aiming to bring down their production costs. A possible decrease in electricity consumption is generally due to macroeconomic factors and the enactment of Federal Law No. 261-FZ of November 23, 2009, "On Energy Conservation and Energy Efficiency Enhancement and on Amendments to Certain Legislative Acts of the Russian Federation." Timely forecasts of changes in electricity consumption in Russian regions and municipalities are of great significance. Macroeconomic factors may also cause a decrease in electricity consumption due to a decline in the sales markets of the largest industrial customers and due to a decrease in new network connections. The volume of electricity distribution services provided by SDCs rose by 1.8% and 5.4% in 2018 in physical terms and in money terms respectively. However, this risk remains material and significant.	• Work is done on monitoring the demand for electricity and capacity, measures are taken to increase the reliability of forecasting the volume of services for their provision for the purposes of pricing and business planning. • The approved development schemes and programs for regional electricity sectors are analyzed for the availability of plans to build new generation facilities. • The Company and SDCs negotiate with customers over including the planned values in contracts for the following year and over entering into electricity distribution services contracts with two-rate tariffs. • The Company and SDCs develop and implement energy conservation programs and energy efficiency enhancement programs, including programs to reduce electricity losses and long-term programs to develop electricity metering systems.
Tariff regulation risks	→	These risks are associated with a possibility that grid companies' expenses are only partially recognized for the formation of minimum regulated revenue due to restrictions on the tariff for electricity distribution services.	• The Company cooperates with federal executive authorities in relation to the possibility of adjusting the ceiling value of cross-subsidies with due consideration to the factors affecting the ceiling value (changes in

		In 2018, tariff decisions did not take account of lost income resulting from previous periods. The amount of accumulated smoothing (revenues carried forward) did not decrease substantially and, in some cases, increased. The implementation of the tariff policy toward the distribution of the social burden of household cross-subsidies to the electricity distribution grid sector's customers caused the Group's distribution grid companies to lose large customers. These factors have an adverse effect on the Group's financial stability.	electricity consumption and its structure, changes in electricity tariffs for households and other customers), in relation to the distribution of cross-subsidies among all customers, and in relation to the legislative introduction of a legal framework for agreements for regulated activities between regional tariff regulators and territorial grid organizations, with such agreements incorporating the provisions with respect to holding territorial grid organizations' lost income resulting from interrupted electricity consumption at a fixed level and with respect to defining a mechanism for settling such lost income. • If necessary, applications for pre-trial dispute resolution are filed with the federal executive authority in charge of governmental tariff regulation against regional regulators. • The Company pursues a balanced policy on improving the efficiency of investing and operating activities, aimed at reducing costs and optimally planning the structure of the financing sources.

The following risks have a smaller impact on the activities of the ROSSETI Group:

Risk	Changes in Risk Significance in the Reporting Year	Description	Risk Mitigation Measures
Financial Risks[56]			
Risks associated with interest rate changes	→	These risks are involved in a possible rise in the Group's entities' costs if they need to borrow to finance capital investment programs.	Measures are taken to optimize the loan portfolio, including reducing debt service costs, partially repaying debts, and optimizing the terms and conditions of loan agreements.

[56] No capital investment with estimated ROIC of more than 10% per year.

		The weighted average interest rate for the Group’s debt portfolio decreased by 1.15 pp to 6.98% p.a. in 2018 compared with 2017. Compared with the previous year, debt service costs decreased by 5 billion rubles in 2018.	
Risks associated with the effects of inflation	↓	These risks are associated with the effect of a rise in the consumer price index on the Group’s expenses, profitability, and, as a consequence, financial condition and ability to perform obligations. The average inflation rate stabilized at 4% in 2016–2018.	The Group’s entities formulated the schedules of improving the operating efficiency and reducing expenses, which were approved by their boards of directors.
Risks Associated with the Company’s Activities			
Risk associated with failure to achieve the reliability level of electricity distribution services	→	This risk is associated with climatic factors, physical deterioration, noncompliance with operation requirements, and critical changes in the operating parameters of electric grid equipment, which may lead to failures (accidents) of electrical equipment and impair electricity supply reliability. None of the Group’s electric grid SDCs exceeded the maximum permissible values of reliability in 2018. However, this risk remains significant.	Measures are taken to raise the level of traceability and manageability in the electric grid sector and reduce the time of remedying emergency situations. Measures are taken to formulate and carry out technical upgrading and rehabilitation programs for worn-out equipment, carry out repair programs, and formulate repair plans taking into account the technical condition of equipment. Training and advanced training are provided for production personnel on a regular basis and their activities are controlled. Much attention is paid to developing the technical diagnostics system for electrical equipment.
Legal risks	→	Activities of the Company and SDCs are governed and overseen by executive authorities and agencies, primarily by the following: Federal Antimonopoly Service; Federal Taxation Service; Ministry of Energy; Bank of Russia; Federal Service for Environmental, Technological and Nuclear Supervision; etc. Furthermore, as government-linked companies, the Company and SDCs implement ordinances and instructions issued by the Government of the Russian Federation, and their proper use of budgetary funds allocated for significant capital investment projects is supervised by the Accounts Chamber of the Russian Federation.	The Company conducts preliminary legal review of planned corporate procedures, conducted transactions, and other aspects of financial and economic activities provided for by the applicable laws and/or Articles of Association of the Company. Changes to legislation and judicial practice are monitored. In order to minimize the compliance risk, ROSSETI and ROSSETI’s SDCs set up a vertically integrated unified system of anti-corruption. ROSSETI and ROSSETI’s SDCs approved and implement the Anti-Corruption Policy subject to the provisions of the Anti-Corruption Charter of the Russian Business.

		These risks are associated with changes to legislation and judicial practice relating to the Company's activities and with changes to the balance between the interests of the Company and other electricity sector entities.	
Risks associated with the introduction of new innovative technology	↑	The tasks set in Decree of the President of the Russian Federation No. 204 of May 7, 2018, in relation to accelerated high-impact development make it necessary to introduce new innovative technology, including with respect to large-scale digitalization in the electric grid sector. Carrying out these tasks is affected by risks that capex may go up, return on investment may go down, and the required effects may fail to be achieved and is affected by cybersecurity risks.	With the aim of minimizing these risks, the Company carries out an in-depth analysis of foreign best practices in the introduction of digital technology in the electric grid sector. Measures are taken to analyze the necessity and sufficiency of using digital technology in all constituent entities of the Russian Federation. The development of pilot projects is under way, which will provide the basis for decisions on whether they will be fit for use by other facilities of ROSSETI SDCs.

Risk management is part of the functions of governing bodies, collegial and sole executive bodies, and executives and employees at all management levels of the Group.

Risk management system participants

Board of Directors of the Company	• Approves the Company’s internal documents and formulates the strategy for organizing and developing the Company’s risk management system • Reviews reports of the Company’s executive bodies on the organization, operation, and effectiveness of the risk management system, evaluates the performance of the system, and prepares recommendations to improve the system on an annual basis • Controls the effectiveness of risk management procedures and evaluates the effectiveness of measures to manage risks and improve the risk management system
Audit Committee of the Board of Directors of the Company (Authorized Committee of the Board of Directors of the Company)	• Controls the effectiveness of risk management procedures and evaluates the effectiveness of measures to manage risks and improve the risk management system
Internal Audit Commission of the Company	• Prepares proposals and recommendations to improve the risk management system
Executive Bodies (Management Board of the Company, Director General of the Company)	• Establish requirements for the format and completeness of information about the Company’s risks • Define the areas and plans for developing and improving the risk management system • Analyze the risk portfolio and develop the relevant strategic measures of response and resource redistribution in relation to risk management
Risk owners	• Perform the functions of timely risk identification and risk assessment, the selection of methods for risk response, the timely development and organization of risk management, and regular risk monitoring
Officers responsible for risk management measures	• Establish requirements for the format and completeness of information about the Company’s risks • Carry out risk management measures
Risk management division	• Performs the functions of the general coordination of risk management processes, including the activities of all participants in the risk management system; the functions of preparing methodological documents related to ensuring the risk management process and operating the risk management system; the functions of aggregating information about all identified risks and updating the risk register in a timely manner; and the functions of monitoring the risk management process for the Company and its controlled entities
Internal audit division	• Makes an internal independent effectiveness evaluation of the risk management system and provides recommendations to improve the efficiency and effectiveness of the risk management system

Effectiveness Evaluation of the Risk Management System

The independent effectiveness evaluation of the Company's risk management system ensures its improvement	
Internal evaluations are made by the internal audit division on an annual basis	External evaluations are made by independent consultants at least every three years

The evaluation made in 2018 in relation to risk management system effectiveness for 2017 found an upward trend in the development of ROSSETI's and ROSSETI SDCs' risk management system. The maturity level of the risk management system was found to be Moderate to Optimal (4.6) according to the criteria contained in the Strategy for Developing and Improving the Internal Control System of ROSSETI and Subsidiaries and Dependent Companies of ROSSETI.

This maturity level shows that the risk management system is not integrated into the planning and decision-making processes in full, that the risk management system is not automated, and that problems (risks) associated with the management of activities are identified.

The report on the effectiveness evaluation of the risk management system was reviewed by:

the Management Board (Minutes of the Meeting No. 721pr of June 1, 2018);
the Audit Committee (Minutes of the Meeting No. 94 of July 17, 2018);
the Board of Directors (Minutes of the Meeting No. 323 of September 20, 2018).

The report on the internal effectiveness evaluation of the ROSSETI Group's risk management system for 2018 is to be submitted for review by the Board of Directors of ROSSETI in June 2018.

The external evaluation of the risk management system was not made in 2018.

Work was done in 2018 on building an integrated risk management system based on unified approaches and standards.

Main areas of improving risk management measures:

- Develop a system of assessing and determining risk significance based on risk appetite.
- Continue work on identifying risk appetite.
- Improve the effectiveness of measures to minimize risk probability and the effects of materializing risks, including by introducing advanced electricity transmission and distribution technology using digital solutions.
- Improve the regulatory and methodological framework for risk management and provide methodological support for the ROSSETI Group's risk management process.

Plans for Improving Risk Management Measures in 2019

Further areas of developing the ROSSETI Group's risk management system:

- introduce a system of assessing and monitoring risk occurrence for risk influence on key operating indicators (targets) in 2019;
- identify the ROSSETI Group's critical risks in all key areas of activities (build a critical risk map based on assessing and monitoring risk occurrence);
- organize the risk management system as related to developing additional measures to lower the probability of critical risks and minimize their consequences in the event of exceeded risk tolerance for key operating indicators;
- collect and analyze statistics on risk occurrence; assess risk probability distribution in order to improve prediction accuracy and risk management effectiveness;
- identify and assess strategic risks;
- automate the risk management system.

Controls

Internal Audit Commission

- Is a standing body responsible for internal control within the Company.
- Acts to the benefit of shareholders.
- Is independent of officers and management bodies.
- Operates under the laws of the Russian Federation, the Articles of Association of the Company, and the Regulations for the Internal Audit Commission of the Company.[57]

In the reporting year, there was one change of the composition of the Internal Audit Commission.

Current members of the Internal Audit Commission[58]

Name	Position
Tatiana Valentinovna Zobkova **Chairperson**	Head of the Corporate Governance Unit of the Department for Corporate Governance, Price Conditions and Auditing in Fuel and Energy Industry Branches, Ministry of Energy of the Russian Federation
Anzhelika Aleksandrovna Zadorozhnaya	Deputy CEO and Head of the Internal Audit Department, TransTeleCom
Dmitry Igorevich Simochkin	Division Head, Federal Agency for State Property Management of the Russian Federation
Natalia Valeryevna Sinitsina	Division Head, Ministry of Energy of the Russian Federation[59]
Nina Sergeyevna Khakimova	Project Supervisor of the Corporate Department, Digital Economy

Members of the Internal Audit Commission in 2018 until June 29, 2018[60]

Name	Position (as of the time of election)
Tatiana Valentinovna Zobkova **Chairperson**	Head of the Corporate Governance Unit of the Department for Corporate Governance, Price Conditions and Auditing in Fuel and Energy Industry Branches, Ministry of Energy of the Russian Federation
Ilya Igorevich Karpov	Deputy Head of the Division for Property Relations and Privatization of Major Entities, Federal Agency for State Property Management of the Russian Federation
Dmitry Igorevich Filipenko	Deputy Head of the Corporate Governance Unit of the Department for Corporate Governance, Price Conditions and Auditing in Fuel and Energy Industry Branches, Ministry of Energy of the Russian Federation
Nina Sergeyevna Khakimova	Lead Advisor of the Department for Corporate Governance, Ministry of Economic Development of the Russian Federation
Alexandra Vladimirovna Charondina	Deputy Head of the Directorate, ROSSETI

[57] Approved by the General Meeting of Shareholders on June 30, 2015 (Minutes of the Meeting of July 2, 2015); available at http://www.rosseti.ru/about/documents/polozhenie_o_revizionnoi_komissii.pdf.

[58] Elected by the General Meeting of Shareholders on June 29, 2018 (Minutes of the Meeting of June 29, 2018)

[59] As of the time of election to the Internal Audit Commission.

[60] Elected by the General Meeting of Shareholders on June 30, 2017 (Minutes of the Meeting of July 5, 2017).

The remuneration policy pertaining to members of the Internal Audit Commission is defined by the Regulations for Remuneration and Compensation for Members of the Internal Audit Commission of ROSSETI,[61] whereby:

remuneration is paid as resolved by the General Meeting of Shareholders

remuneration is paid as a one-off payment for the year

remuneration depends on personal involvement in the work of the Internal Audit Commission

no remuneration is paid to persons who are subject to a statutory restriction or ban on payments from for-profit organizations

$$\text{REMUNERATION AMOUNT} = \text{REMUNERATION BASE AMOUNT} \times \left(\frac{\text{the number of calendar days in corporate year, during which the member of the audit Committee has fulfilled its duties of}}{\text{total calendar days in corporate year}} \right) \times \text{FACTOR OF PERSONAL PARTICIPATION OF THE MEMBER OF THE AUDIT}$$

Revenue	**Remuneration Base Amount**
over 200 bn RUB	150,000 RUB
over 30 bn RUB	135,000 RUB
over 10 bn RUB	120,000 RUB
over 1 bn RUB	105,000 RUB
over 600 mn RUB	90,000 RUB

$$Cp = (1 + Cm + Cadd) * Ci$$

Remuneration paid to the members of the Internal Audit Commission in 2018[62]

Name[63]	Remuneration Amount, thsd RUB
Alexandra Vladimirovna Charondina	141
Nina Sergeyevna Khakimova	0
Ilya Igorevich Karpov	0
Dmitry Igorevich Filipenko	0
Tatiana Valentinovna Zobkova	0

No compensation was paid to the members of the Internal Audit Commission in 2018.

[61] Approved by the General Meeting of Shareholders on June 30, 2015 (Minutes of the Meeting of July 2, 2015); available at http://www.rosseti.ru/about/documents/polozhenie_o_viplate_voznagrazhdenii_chlenam_rk.pdf.
[62] As resolved by the General Meeting of Shareholders on June 30, 2017, (Minutes of the Meeting of July 5, 2017), remuneration was paid in 2017 to the members of the Internal Audit Commission elected by the General Meeting of Shareholders on June 30, 2016 (Minutes of the Meeting of July 5, 2016).
[63] No remuneration was paid to the members of the Internal Audit Commission who held public office due to statutory restrictions on payments from for-profit organizations.

Performance report of the Internal Audit Commission for 2018

- 9 meetings
- An internal inspection to verify the justification for the Company’s financial result in 2017 according to accounting statements
- Internal inspections of ROSSETI’s financial and economic activities for 2017 and the 9 months of 2018

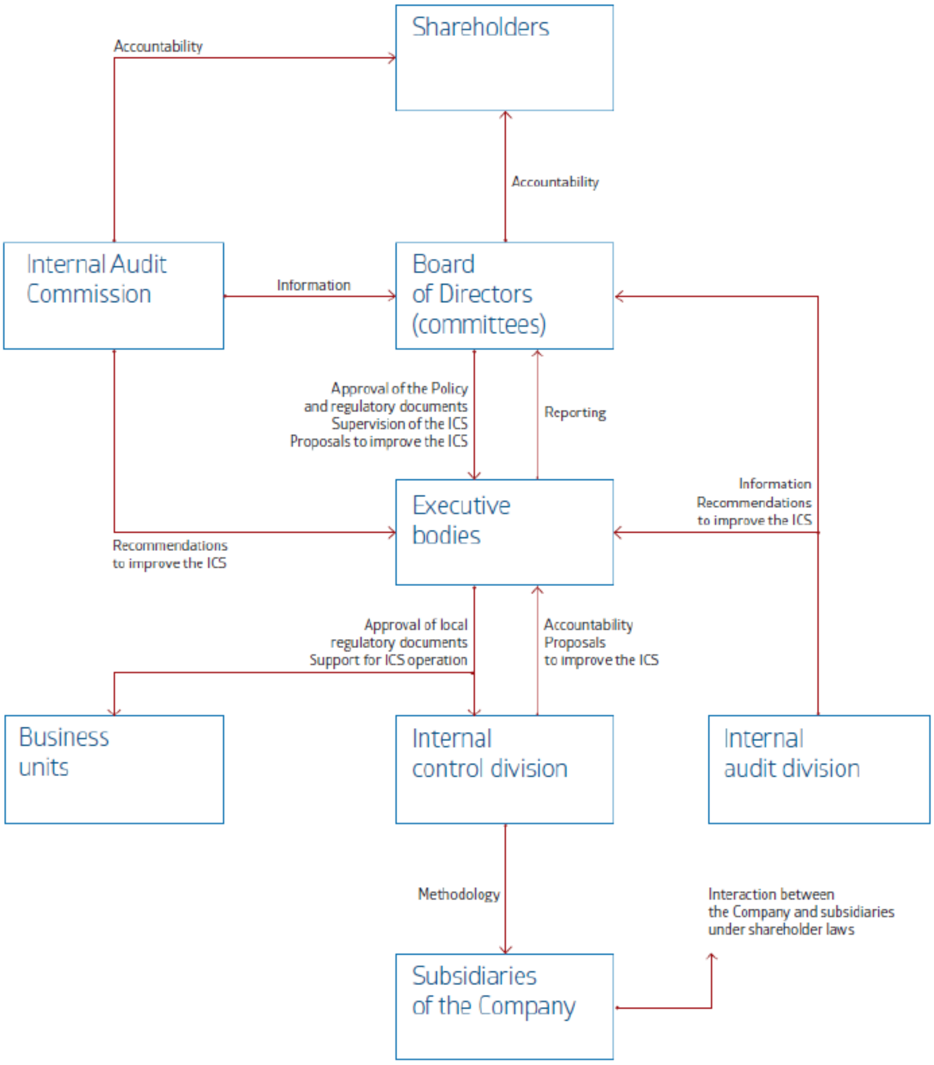
Internal Control System

The ROSSETI Group's effective internal control system (ICS) is necessary for:

- ensuring the efficiency of activities and safeguarding assets;
- ensuring the reliability, completeness, and timeliness of accounting (financial) and other reporting;
- ensuring compliance with legal requirements and local regulatory documents.

- Is based on the COSO *Internal Control – Integrated Framework* (2013).
- Follows the recommendations of the Corporate Governance Code.
- Is governed by internal regulatory documents.[64]

Interaction among ICS participants



The roles of ICS participants are delineated, depending on their involvement in the relevant stages of the internal control process at the relevant levels of management.

[64] Strategy for Developing and Improving the Internal Control System of ROSSETI and Subsidiaries and Dependent Companies of ROSSETI (Minutes of the Meeting of the Board of Directors No. 143 of February 10, 2014); Internal Control Policy of ROSSETI (Minutes of the Meeting of the Board of Directors No. 208 of November 16, 2015); Model Internal Control Policy for ROSSETI SDCs; Procedure for Implementing the Internal Control Policy of ROSSETI.

Key Results in 2018

ROSSETI continued in 2018 to integrate the internal control system into the management system:

- The Company approved matrixes for controls and risks integrated into process models for all of its business processes.
- The Company made business process worksheets, specifying interrelated goals and KPIs.
- The Company's management performed self-assessment in relation to the effectiveness of control procedures and the effectiveness of the internal control system for the controllable business processes.

The report on the organization, functioning, and effectiveness of the internal control system of ROSSETI for 2017 was reviewed by the Board of Directors on October 22, 2018.[65]

ROSSETI operates an anti-corruption hotline. The main page of the corporate website contains a banner with contact information for sending messages with allegations of corruption in ROSSETI, subsidiaries, and branches.

In 2018, the hotline received 259 reports. Each allegation was followed by investigations.

Evaluation of Internal Control System Effectiveness

Internal Evaluation

To provide assurances that the internal control system is effective and consistent with the current situation, the internal audit division makes the internal independent evaluation of internal control system effectiveness on an annual basis.

Internal evaluation results for the ROSSETI Group's internal control system:

Evaluated in 2017 for 2016:	Evaluated in 2018 for 2017:
Compliance level: 75%	Compliance level: 80%
Maturity level: Optimal	Maturity level: Optimal

The internal auditor's annual report on the effectiveness of the internal control system is submitted for review by the Company's Board of Directors.[66]

External Evaluation

The Internal Control Policy requires that the effectiveness of the internal control system be externally evaluated by independent consultants on a regular basis.

[65] Minutes of the Meeting No. 327 of October 25, 2018.

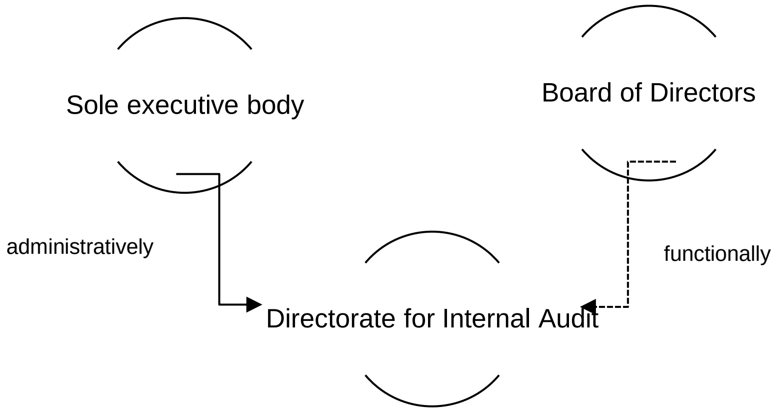
[66] The report for 2016 was reviewed by the Board of Directors (Minutes of the Meeting No. 276 of September 8, 2017) and preliminarily reviewed by the Audit Committee (Minutes of the Meeting No. 82 of June 27, 2017). The report for 2017 was reviewed by the Board of Directors (Minutes of the Meeting No. 323 of September 20, 2018) and preliminarily reviewed by the Audit Committee (Minutes of the Meeting No. 94 of July 17, 2018). The data for 2018 will be disclosed after the effectiveness of the internal control system is independently evaluated by internal audit. The recommendation to the Audit Committee of the Board of Directors that the Company's management be instructed to include the above-mentioned information in the Annual Report is contained in paragraph 2.2 of the decision of the Management Board of ROSSETI with respect to the issue under review.

Internal Audit

Internal Audit

- Assists with the improvement of the Company’s management effectiveness.
- Improves the Company’s financial and economic activities and evaluates the effectiveness of the risk management, internal control, and corporate governance systems.

As recommended by the Corporate Governance Code, the Company has a special division, the Directorate for Internal Audit, functionally subordinate to the Board of Directors and administratively subordinate to the Director General. The head of the Directorate for Internal Audit was appointed by the Company’s Board of Directors (preliminarily considered by the Audit Committee).



The activities of the internal audit division are governed by:
- the Internal Audit Policy;[67]
- the International Professional Practices Framework (IPPF) released by The Institute of Internal Auditors (IIA).

Principles:

- independence
- integrity
- objectivity
- confidentiality
- competency

The action plan for the Directorate for Internal Audit for 2018 was approved by the Audit Committee and the Board of Directors.[68]

Results in 2018:
- The number of end-to-end focused audits conducted by internal audit divisions within the ROSSETI Group in 2018 increased by 30% on the baseline year 2014.

[67] Approved by the Board of Directors on November 16, 2015, (Minutes of the Meeting No. 208 of November 18, 2015) and based on the Guidelines for Preparing the Regulations for Internal Audit approved by Instructions of the Government of the Russian Federation No. ISh-P13-4148 of June 24, 2015.
[68] Approved by the Board of Directors on February 12, 2018 (Minutes of the Meeting No. 293 of February 15, 2018).

- The conducted audits and internal inspections resulted in preparing and approving corrective measures whose implementation is subject to supervision by management, internal audit, and the Internal Audit Commission. As of December 31, 2018, there were no corrective measures to with unmet deadlines for implementation.

Self-assessment of Internal Audit

Under the Internal Audit Quality Assurance and Improvement Program, ROSSETI conducted annual self-assessment in relation to internal audit in 2018.

The self-assessment confirmed that:

- the Company's internal audit was in compliance with the Internal Audit Policy and the definition of internal audit contained in the Internal Audit Policy;
- the Company's internal auditors complied with the Code of Ethics;
- it was not necessary to amend the Internal Audit Policy.

Plans for 2019

- conduct evaluations specified in Russian laws;
- carry out measures to improve internal audit, including conducting an external independent evaluation of internal audit.

External Audit

To independently assess the reliability of accounting (financial) statements prepared in accordance with Russian and international standards, shareholders approved RSM RUS as the Company's external auditor.

External Auditor Information

RSM RUS
Registered address: Russia, 119285, Moscow, ul. Pudovkina, 4
Taxpayer Identification Number (INN): 7722020834
Principal State Registration Number (OGRN): 1027700257540
Telephone: +7 (495) 363-2848
Fax: +7 (495) 981-4121
Email: mail@rsmrus.ru

RSM RUS is a member of a self-regulatory organization of auditors, Auditor Association Sodruzhestvo Non-profit Partnership, is a member of RSM International, and ranks among Russia's ten largest accounting firms.

Auditor selection procedure:

The Board of Directors approved the terms and conditions of a public bidding procedure for the right to enter into the agreement to conduct a mandatory annual audit of the statements for 2018–2020 (Minutes of the Meeting No. 291 of January 29, 2018).

«Based on the results of a public bidding procedure, RSM RUS was selected as the preferred bidder (Minutes of the Meeting of the Bidding Commission of March 30, 2018).

The Annual General Meeting of Shareholders approved on June 29, 2018, RSM RUS as ROSSETI's auditor for 2018.

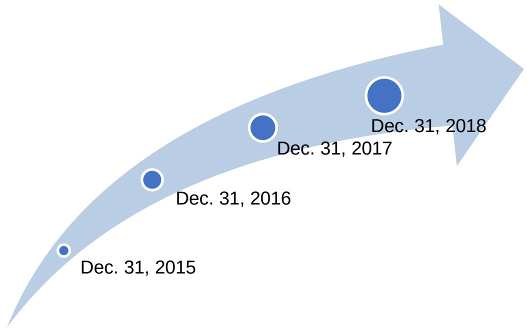
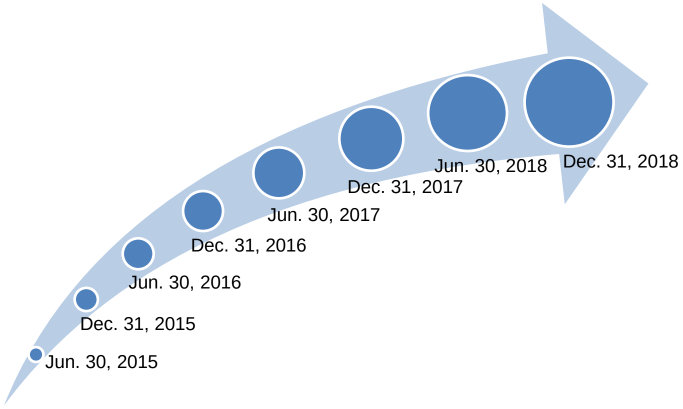
RSM RUS began to audit ROSSETI's accounting and financial statements in 2015.

Number of Audits

From 2015 to 2018:

- 4 audits of RAS accounting (financial) statements
- 8 audits of IFRS consolidated financial statements

The auditor did not provide any services other than audit services in 2018.

<table>
<tr><th>Accounting (Financial) Statements (RAS)</th><th>Consolidated Financial Statements (IFRS)</th></tr>
<tr><td>
</td><td>
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The fee for the mandatory annual audit of the accounting and financial statements for 2018 (IFRS and RAS) is 4,000,000 rubles.

Due to a rise in the rate of VAT to 20%, effective from January 1, 2019, an addendum to the agreement to conduct a mandatory annual audit of ROSSETI’s statements for 2018 was signed, whereby the auditor’s fee is 4,034,000 rubles.

Shareholders and Investors

Maintaining contact with shareholders and investors and protecting their rights are high on the Company's list of priorities. ROSSETI builds its relations with shareholders and investors on the principles of mutual respect, transparency, and the accessibility of information about the Company's activities.

Shareholder/Investor Relations

One of the most important areas of protecting shareholder rights is to provide equal and free access to information to the extent necessary for shareholders to make reasonable decisions to invest in ROSSETI securities. To provide investors and shareholders with information about its activities, ROSSETI:

- Expands contact with the investment community: banks, investors, and analysts
- Discloses information about the Company on a regular basis: reports, meeting minutes, statements of material fact, and press releases
- Holds events that ensure the Company's transparency
- Maintains contact with shareholders: prompt answers to inquiries

Results in 2018

- 15 meetings with shareholders and investors
- 11 meetings with stock market analysts
- 2 analyst days with visits to production facilities
- 3 investment forums
- 2 conference calls on the disclosure of financial results
- 1 General Meeting of Shareholders

Plans for 2019

ROSSETI's plans for 2019 include presenting to investors the Company's digitalization concept and revealing the main points of digital transformation.

Road map for presenting the digitalization concept to shareholders and investors

- Presenting the concept at meetings with investors
- Revealing the main points of the concept in management statements
- Publishing interviews with senior managers
- Holding analyst day events at pilot facilities

ROSSETI Group Structure

Subsidiaries and dependent companies as of December 31, 2018

Name	Location of head office
TRANSMISSION GRID COMPANY	
FGC UES	Moscow
INTERREGIONAL GRID COMPANIES	
IDGC of Northern Caucasus	Pyatigorsk
IDGC of Centre	Moscow
IDGC of North-West	Saint Petersburg
IDGC of Siberia	Krasnoyarsk
IDGC of Urals	Yekaterinburg
IDGC of South	Rostov-on-Don
IDGC of Center and Volga Region	Nizhniy Novgorod
IDGC of Volga	Saratov
MOESK	Moscow
LENENERGO	Saint Petersburg
Tyumenenergo	Surgut
DISTRIBUTION GRID COMPANIES	
Yantarenergo	Kaliningrad
Kubanenergo	Krasnodar
TDC	Tomsk
Chechenenergo	Grozny
REGIONAL RETAIL COMPANIES	
Karachaevo-Cherkesskenergo	Cherkessk
Kalmenergosbyt	Elista
Tyvaenergosbyt	Kyzyl
Dagestan Energy Supply Company	Makhachkala
Sevkavkazenergo	Vladikavkaz
Kabbalkenergo	Nalchik
OTHER (R&D AND DESIGN, CONSTRUCTION, PROCUREMENT, AND SERVICE ORGANIZATIONS)	
TCC	Moscow
VNIPIENERGOPROM	Moscow
SKB VTI	Moscow
Power Grid Optical Networks Engineering	Moscow
Engineering Center UES Real Estate	Moscow
NWEMC	Saint Petersburg
Ingushenergo	Nazran
ENIN	Moscow
Urals Power Engineering Company	Yekaterinburg
VPEC	Samara
NURENERGO	Grozny
IT Energy Service	Moscow
ZES	Moscow

Responsibility Statement

1. The financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

2. The management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board of Directors,
D. V. Nagovitsyn
Chief Accountant

Glossary

Terms, abbreviations, and definitions

Term/Abbreviation	Meaning
ACS	Automated control system
Blockchain	Decentralized, distributed ledger of data records, called blocks. Chains of blocks are typically managed across multiple independent computers.
GDP	Gross domestic product
RES	Renewable energy source
OL	Overhead line
GNI	Gross national income
AGM	Annual General Meeting of Shareholders
GOELRO Plan	Plan of the State Commission for Electrification of Russia (after the October Revolution of 1917)
SoLR	Supplier of last resort
SDCs	Subsidiaries and dependent companies
D&O contract	Directors and officers liability insurance contract
RTA	Road traffic accident
SEB	Sole executive body
UNEG	Unified National (All-Russian) Electric Grid
IDP	Innovative Development Program
CGC	Corporate Governance Code of the Bank of Russia
KPI	Key performance indicator
PL	Power line
Economic Development Ministry	Ministry of Economic Development of the Russian Federation
IDGC	Interregional distribution grid company
IFRS	International Financial Reporting Standards
ETG	Electricity transmission grid
CE	Common Era
MRR	Minimum regulated revenue
VAT	Value-added tax
R&D	Research and development
NP	Nonprofit partnership
OREM	Wholesale electricity and capacity market
SWRA	Sectoral Wage Rate Agreement
GTS	General technical specifications
Report	2018 Annual Report of ROSSETI
H	Half year
BPE	Bird protection equipment
PC	Personal computer
ETGE	Electricity transmission grid entity
Svetlaya Strana	Svetlaya Strana customer relations website
RoG	Resolution of the Government of the Russian Federation
SS	Substation
Repo	Repurchase agreement, whereby the seller of securities agrees to buy it back at a specified price and time
IAC	Internal Audit Commission
EDG	Electricity distribution grid
RAS	Russian Accounting Standards
DGC	Distribution grid company
ICS	Internal control system
BoD	Board of Directors
ESS	Energy storage system
RMS	Risk management system
TGO	Territorial grid organization
SC	Share capital
NCC	Network control center
BoDM	Member of the Board of Directors

EE	Electromagnetic environment
Android	Operating system developed by Google for smartphones, tablet computers, electronic books, media players, smartwatches, fitness trackers, video game consoles, laptop computers, netbooks, smartbooks, Google Glass smartglasses, televisions, and other devices (beginning in 2015, automotive head units and domestic robots)
Big data	Very large sets of structured and unstructured data that can be handled, analyzed, and used only with special tools, approaches, and methods for specific goals and objectives
EBITDA	Earnings before interest, tax, depreciation and amortization
EV	Enterprise value
GPS	Global Positioning System
HR	Human resources
iOS	Mobile operating system created and developed by Apple for smartphones, tablet computers, portable media players, and some other devices
LoRaWAN	Long Range Wide Area Network, a patented digital wireless data communication technology
OPEX	Operating expenses/expenditures
RAB	Regulatory Asset Base
RFID	Radio-frequency identification
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index

Units of measurement

Abbreviation	**Meaning**
GVA	Gigavolt-ampere
GW	Gigawatt
u	Unit
Q	Quarter
kV	Kilovolt
kWh	Kilowatt-hour
km	Kilometer
MVA	Megavolt-ampere
MW	Megawatt
mn	Million
bn	Billion
subpara.	Subparagraph
RUB	Russian ruble
t	Tonne
toe	Tonne of fuel equivalent
tn	Trillion
thsd	Thousand
pc.	Piece
$/USD	US dollar

Contact Information

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Appendix

Не удается отобразить связанный рисунок. Возможно, этот файл был перемещен, переименован или удален. Убедитесь, что ссылка указывает на правильный файл и верное размещение.

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28.03.2019
№ РСМ-1091

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Public Joint Stock Company "ROSSETI" (PJSC "ROSSETI")

Opinion

We have audited the consolidated financial statements of PJSC "ROSSETI" and its subsidiaries (the Group), which comprise the Consolidated Statement of Financial Position as of 31 December 2018, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended 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 the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

Impairment of property, plant and equipment

In our opinion, this matter was one of most significance in our audit due to a significant share of property, plant and equipment in total assets of the Group, high level of subjectivity of assumptions used to determine the fair value as well as materiality of judgments and estimates made by the management in determining the replacement cost of property, plant and equipment.

The majority of the Group's property, plant and equipment is specialized in nature and is rarely sold on the open market other than as part of a continuing business, making it impossible to use market-based approaches for determining its fair value. Consequently, the fair value of such items is primarily determined by the Group using depreciated replacement cost valuation method.

We have performed procedures of analysis and testing of the model used in making the estimates, assessment of adequacy of assumptions underlying the estimates, including assumptions in respect of projected revenue, tariffs solutions, discount rates etc.

We have also reviewed the relevant controls in respect of the estimates, consideration by management of estimation uncertainty and changes in approaches as compared to the previous period. We have reviewed the actual outcomes of the use of the model to obtain sufficient and appropriate audit evidence about whether the management in making the estimates complied with IFRS requirements, the methods used in estimates of tests are appropriate and are applied consistently and the changes in estimates are reasonable based on information available at the date of preparation of the accounts.

For testing the model of estimate and underlying assumptions, we have engaged an expert in accordance with the procedure established by ISA.

We have evaluated the accuracy and sufficiency of disclosures to the consolidated financial statements of information about determination of the fair value of property, plant and equipment, including information about uncertainties taken into consideration when making the estimates.

Information about property, plant and equipment, the manner of recognition and measurement of the Group's property, plant and equipment is provided in Notes 2, 3, 4, 14 to the consolidated financial statements.

Allowance for expected credit losses on trade and other receivables

In our opinion, this matter was one of most significance in our audit due to significant balances of trade and other receivables as at 31 December 2018. The management estimate of recoverability of these receivables is complex, largely subjective and based on the assumptions, in particular, forecasting and estimating financial solvency of the Group's counterparties, credit risk and expected credit losses.

We have performed procedures of evaluation of the adequacy of the Group's policy on reviewing trade and other receivables and determining if allowance for credit losses should be accrued, as well as procedures of confirming the reasonableness of the estimates made by the management of the Group, including specific characteristics of specific clients, their financial solvency, dynamics of collection of accounts receivable, payments and arrangements after the balance-sheet date, as well as review of expected future cash flows, credit losses.

Accrued allowance for expected credit losses on trade and other receivables is disclosed by the Group in Notes 2, 10, 19 and 28 to the consolidated financial statements.

Recognition and measurement of revenue

Recognition and measurement of revenue were matters of most significance in our audit due to certain imperfection of mechanisms of operation of retail electricity market and it leads to disagreements between electric grid companies and energy supply companies in respect of volume of electricity consumption and capacity. The assessment by the Group's management of favorable outcome of the dispute resolution is, to a large extent, subjective and is based on the assumptions of dispute resolution.

We evaluated the internal control over revenue recognition, reviewed the accuracy of determined revenue amounts based on concluded contracts for electricity transmission and other work (services), on a sample basis obtained confirmations of accounts receivable balances from the counterparties, reviewed and evaluated existing procedures for confirming the volume of electricity transmitted and outcomes of litigations in respect of disputed amounts for the provided services, and also performed other procedures to obtain sufficient and appropriate audit evidence, in order to confirm the accuracy, in all material respects, of the amounts of revenues recognized in the consolidated financial statements.

Revenue amounts and recognition approach are disclosed in Notes 2, 7, 8 to the consolidated financial statements.

Recognition, measurement and disclosure of provisions and contingent liabilities

Recognition, measurement and disclosure of provisions and contingent liabilities in respect of litigations and claims of counterparties (including territorial electric grid companies and energy supply companies) were matters of most significance in our audit because they require a lot of management judgments in respect of significant amounts in dispute in the course of litigations and claim settlements.

The audit procedures included review of court rulings made by courts of different levels, review of adequacy of management judgments and documents confirming the assessment of possibility of outflow of economic resources following dispute resolutions, conformity of the prepared documentation with the existing contracts and compliance with the law.

Provisions and contingent liabilities of the Group are disclosed in Notes 3, 10, 27 and 30 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report of PJSC "ROSSETI" for 2018, but does not include the consolidated financial statements and our auditor's report thereon. The annual report of PJSC "ROSSETI" for 2018 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 do not express any form of assurance conclusion thereon.

When we read the annual report of PJSC "ROSSETI" for 2018, if we conclude that there are material misstatements therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and the 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

From the matters communicated with the 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.

Management Board Chairperson — **N.A. Dantser**

Audit Certificate No. 05-000015. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 15 November 2011 No. 24. Permanent award.

ORNZ in the Register of auditors and audit organizations – 21706004215

Engagement Leader on the audit resulting in this independent auditor`s report — **N.N. Usanova**

Audit Certificate No. 05-000030. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 30 November 2011 No. 25. Permanent award.

ORNZ in the Register of auditors and audit organizations – 21706004441

"РСМ РУСЬ"
МОСКВА

Audited entity:
Public Joint Stock Company "ROSSETI" (abbreviated name - **PJSC "ROSSETI"**)
Location: 4 Belovezhskaya St., Moscow, 121353, Russia;
Primary state registration number – 1087760000019.

Auditor:
RSM RUS Ltd.
Location: room 25, floor 4, 4, Pudovkina St., Moscow, 119285;
Tel.: (495) 363-28-48; Fax: (495) 981-41-21;
Primary state registration number – 1027700257540;
RSM RUS Ltd. is a member of Self-regulatory organization of auditors Association "Sodruzhestvo" (membership certificate # 6938, ORNZ 11306030308), location: 21, Michurinsky Ave., bldg. 4, Moscow, 119192.

The audit was conducted pursuant to Contract No. 181a036 dated 18.07.2018, concluded based on the results of competitive selection (Minutes of 30.03.2018, procurement №0473000000518000001). The auditor was approved by the Annual General Meeting of Shareholders (AGM) on 29 June 2018.

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

	Notes	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
Revenue	8	1,021,602	948,344
Operating expenses	10	(869,263)	(797,625)
Other income, net	9	23,355	21,677
Results from operating activities		**175,694**	**172,396**
Finance income	12	17,617	16,319
Finance costs	12	(27,517)	(30,034)
Net finance costs		**(9,900)**	**(13,715)**
Share of profit of associates and joint ventures (net of income tax)		337	2
Profit before income tax		**166,131**	**158,683**
Income tax expense	13	(41,453)	(37,524)
Profit for the period		**124,678**	**121,159**
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value of available-for-sale financial assets		–	(8,650)
Foreign currency translation difference		178	(51)
Income tax	17	–	1,728
Total items that may be reclassified subsequently to profit or loss		**178**	**(6,973)**
Items that will not be reclassified subsequently to profit or loss			
Changes in fair value of financial assets at fair value through other comprehensive income		1,667	–
Remeasurements of the defined benefit liability	25	2,381	(3,780)
Income tax	17	6,160	610
Total items that will not be reclassified subsequently to profit or loss		**10,208**	**(3,170)**
Other comprehensive income/(loss) for the period, net of income tax		**10,386**	**(10,143)**
Total comprehensive income for the period		**135,064**	**111,016**
Profit attributable to:			
Owners of the Company		90,985	89,828
Non-controlling interest		33,693	31,331
Total comprehensive income attributable to:			
Owners of the Company		99,184	82,093
Non-controlling interest		35,880	28,923
Earnings per share			
Basic and diluted earnings per ordinary share (in RUB)	22	0.46	0.46

These consolidated financial statements were approved by management on 28 March 2019 and were signed on its behalf by:

Director General

P.A. Livinsky

Director for accounting and reporting – Chief Accountant

D.V. Nagovitsyn

ПАО "Россети"

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

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

	Notes	31 December 2018	31 December 2017 (restated)	1 January 2017 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	14	1,983,874	1,877,078	1,753,354
Intangible assets	15	19,145	16,758	16,804
Investments in associates and joint ventures		1,401	883	936
Trade and other receivables	19	82,521	74,483	51,262
Assets related to employee benefits plans	25	6,216	6,709	6,708
Financial investments	16	41,562	69,914	78,643
Deferred tax assets	17	10,090	7,186	6,724
Total non-current assets		**2,144,809**	**2,053,011**	**1,914,431**
Current assets				
Inventories	18	37,109	35,050	33,143
Financial investments	16	47,192	149	12,620
Income tax prepayments		3,380	4,528	6,339
Trade and other receivables	19	180,619	151,644	167,616
Cash and cash equivalents	20	84,056	102,054	86,970
Total current assets		**352,356**	**293,425**	**306,688**
Assets held for sale	33	21,467	–	–
Total assets		**2,518,632**	**2,346,436**	**2,221,119**
EQUITY AND LIABILITIES				
Equity				
Share capital	21	200,903	200,903	198,071
Share premium		213,098	213,098	212,978
Treasury shares		(109)	(2,702)	(2,702)
Reserve for issue of shares		–	–	1,678
Other reserves		15,322	25,960	33,695
Retained earnings		687,786	583,216	495,926
Total equity attributable to owners of the Company		**1,117,000**	**1,020,475**	**939,646**
Non-controlling interest		377,962	349,318	327,188
Total equity		**1,494,962**	**1,369,793**	**1,266,834**
Non-current liabilities				
Loans and borrowings	23	480,989	506,990	472,057
Trade and other payables	26	44,046	39,840	23,698
Employee benefit liabilities	25	23,592	32,717	28,425
Deferred tax liabilities	17	76,640	65,843	59,081
Total non-current liabilities		**625,267**	**645,390**	**583,261**
Current liabilities				
Loans and borrowings	23	87,268	51,244	86,829
Trade and other payables	26	295,124	263,090	261,754
Provisions	27	10,901	10,561	14,305
Current income tax liabilities		5,110	6,358	8,136
Total current liabilities		**398,403**	**331,253**	**371,024**
Total liabilities		**1,023,670**	**976,643**	**954,285**
Total equity and liabilities		**2,518,632**	**2,346,436**	**2,221,119**

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

	Notes	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		**124,678**	**121,159**
Adjustments for:			
Depreciation of property, plant and equipment and amortization of intangible assets	10	116,124	107,300
Impairment of property, plant and equipment	14	7,688	21,244
Finance costs	12	27,517	30,034
Finance income	12	(17,617)	(16,319)
Loss on disposal of property, plant and equipment		2,275	3,048
Share of (profit) of associates and joint ventures, net of income tax		(337)	(2)
(Gain on derecognition of subsidiary)/Loss on regain of control over subsidiaries	9	(690)	80
Allowance for expected credit losses	10	25,820	16,159
Bad debt write-off		406	509
Non-cash receipt of property, plant and equipment		(2,684)	(2,777)
Accounts payable write-off		(860)	(666)
Non-cash settlements of technological connection agreements		(2,570)	(5,137)
Other non-cash transactions		(244)	760
Income tax expense		41,453	37,524
Total impact of adjustments		**196,281**	**191,757**
Change in assets related to employee benefit liabilities		494	(2)
Change in employee benefit liabilities		(8,839)	(1,608)
Cash flows from operating activities before changes in working capital		**312,614**	**311,306**
Changes in working capital:			
Change in trade and other receivables		(31,992)	(24,147)
Change in inventories		(1,648)	(754)
Change in trade and other payables		26,514	4,526
Change in provisions		340	(3,744)
Cash flows from operating activities before income tax and interest paid		**305,828**	**287,187**
Income tax paid		(27,550)	(29,637)
Interest paid		(39,707)	(45,164)
Net cash flows from operating activities		**238,571**	**212,386**

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

	Notes	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(220,653)	(215,701)
Proceeds from sale of property, plant and equipment and intangible assets		1,375	1,941
Acquisition of investments and placement of bank deposits		(73,091)	(26,660)
Disposal of investments and withdrawal of bank deposits		26,351	39,865
Interest received		7,129	9,215
Sale of financial investments		2,795	–
Dividends received		2,254	2,500
Net cash flows used in investing activities		**(253,840)**	**(188,840)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		615,072	537,413
Repayment of loans and borrowings		(605,710)	(537,483)
Proceeds from share premium		–	1,525
Acquisition of non-controlling interests		(476)	–
Sale of own shares		1,214	–
Dividends paid		(12,684)	(9,642)
Repayment of finance lease liabilities		(145)	(275)
Net cash flows used in financing activities		**(2,729)**	**(8,462)**
Net (decrease)/increase in cash and cash equivalents		**(17,998)**	**15,084**
Cash and cash equivalents at the beginning of the period	20	**102,054**	**86,970**
Cash and cash equivalents at the end of the period	20	**84,056**	**102,054**

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

	Attributable to equity holders of the Company							
	Share capital	Share premium	Treasury shares	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 31 December 2017	**200,903**	**213,098**	**(2,702)**	**25,430**	**621,077**	**1,057,806**	**365,755**	**1,423,561**
Changes in accounting policy (Note 2(e),2(f)) and restatement	–	–	–	322	(37,653)	(37,331)	(16,437)	(53,768)
Balance at 1 January 2018 (restated)	**200,903**	**213,098**	**(2,702)**	**25,752**	**583,424**	**1,020,475**	**349,318**	**1,369,793**
Profit for the period	–	–	–	–	90,985	90,985	33,693	**124,678**
Transfer of provision for revaluation on the disposal of equity investments	–	–	–	(18,629)	18,629	–	–	–
Other comprehensive income	–	–	–	3,244	–	3,244	982	4,226
Related income tax	–	–	–	4,955	–	4,955	1,205	6,160
Total comprehensive income/(loss) for the period	–	–	–	**(10,430)**	**109,614**	**99,184**	**35,880**	**135,064**
Transactions with owners of the Company								
Contributions and distributions								
Sale of treasury shares (Note 21)	–	–	2,593	–	(1,379)	1,214	–	1,214
Dividends	–	–	–	–	(2,442)	(2,442)	(10,461)	(12,903)
Total contributions and distributions	–	–	**2,593**	–	**(3,821)**	**(1 228)**	**(10,461)**	**(11,689)**
Changes in ownership interests in subsidiaries								
Shares issued by subsidiaries	–	–	–	–	(1,431)	(1,431)	1,210	(221)
Changes in ownership								
Derecognition of subsidiary	–	–	–	–	–	–	2,015	2,015
Total transactions with owners of the Company	–	–	**2,593**	–	**(5,252)**	**(2,659)**	**(7,236)**	**(9,895)**
Balance at 31 December 2018	**200,903**	**213,098**	**(109)**	**15,322**	**687,786**	**1,117,000**	**377,962**	**1,494,962**

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

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Treasury shares**	**Reserve for issue of shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2016	**198,071**	**212,978**	**(2,702)**	**1,678**	**33,165**	**521,300**	**964,490**	**340,149**	**1,304,639**
Changes in accounting policy (Note 2(e),2(f)) and restement	–	–	–	–	530	(25,374)	(24,844)	(12,961)	(37,805)
Balance at 1 January 2017 (restated)	**198,071**	**212,978**	**(2,702)**	**1,678**	**33,695**	**495,926**	**939,646**	**327,188**	**1,266,834**
Profit for the period	–	–	–	–	–	89,828	89,828	31,331	121,159
Other comprehensive loss	–	–	–	–	(9,518)	–	(9,518)	(2,963)	(12,481)
Related income tax	–	–	–	–	1,783	–	1,783	555	2,338
Total comprehensive income/(loss) for the period	–	–	–	–	**(7,735)**	**89,828**	**82,093**	**28,923**	**111,016**
Transactions with owners of the Company									
Contributions and distributions									
Issue of shares	2,832	120	–	(1,678)	–	–	1,274	–	1,274
Dividends	–	–	–		–	(1,895)	(1,895)	(7,868)	(9,763)
Total contributions and distributions	**2,832**	**120**	–	**(1,678)**	–	**(1,895)**	**(621)**	**(7,868)**	**(8,489)**
Changes in ownership interests in subsidiaries									
Shares issued by subsidiaries	–	–	–	–	–	(643)	(643)	1,075	432
Total transactions with owners of the Company	**2,832**	**120**	–	**(1,678)**	–	**(2,538)**	**(1,264)**	**(6,793)**	**(8,057)**
Balance at 31 December 2017 (restated)	**200,903**	**213,098**	**(2,702)**	–	**25,960**	**583,216**	**1,020,475**	**349,318**	**1,369,793**

1. Background

a) The Group and its operations

Joint Stock Company IDGC Holding (hereinafter referred to as "JSC IDGC Holding") was established on 1 July 2008 in accordance with the resolution of the Extraordinary General Meeting of the Shareholders of the Unified Energy System of Russia (hereinafter referred to as "RAO UES") dated 26 October 2007, as a spin-off of RAO UES.

At an Extraordinary General Meeting of Shareholders of JSC IDGC Holding on 23 March 2013, the decision was made to amend the Charter of JSC IDGC Holding, under which it was renamed JSC Russian Grids. On 4 April 2013, the respective changes to the Charter of JSC IDGC Holding were registered by the Interregional Inspectorate of the Federal Tax Service of Russia No. 46 for the city of Moscow.

Due to changes in the Civil Code of the Russian Federation at the Annual General Shareholders' Meeting held on 30 June 2015 the changes of organizational and legal form in the Charter of the Company were approved. JSC Russian Grids changed to Public Joint stock company «ROSSETI» (hereinafter referred to as PJSC «ROSSETI» or the "Company").

The ordinary and preference shares of the Company are traded on the Moscow Exchange. The Company's GDRs are traded on the London Stock Exchange.

The Company's registered address is Moscow, Russia.

The legal address of the Company is 4 Belovezhskaya Street, Moscow, Russia, 121353.

The primary activities of PJSC «ROSSETI» and its subsidiaries (hereinafter referred to as the "Group" or "ROSSETI 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. The Group's power distribution companies sell electricity. The Group's principal subsidiaries are disclosed in Note 5.

b) The Group's business environment

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

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by the market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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

The consolidated financial statements 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. The Group is supported by the Russian Government due to its strategic position in the Russian Federation. The Group's customer base includes a large number of state-controlled entities.

As at 31 December 2018 the Russian Government owned 88.04 % in the share capital of the Company, including 88.89 % of the voting ordinary shares and 7.01 % of the preference shares. As at 31 December 2017 the Russian Government owned 88.04 % in the share capital of the Company, including 88.89 % of the voting ordinary shares and 7.01 % of the voting preference shares.

The Group's strategic business units (see Note 7) are regional natural monopolies. 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.

2. Basis of preparation

a) Statement of compliance

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

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Russian Accounting Standarts of the Russian Federation ("RAS").

The Group's consolidated financial statements are based on the statutory records in accordance with RAS with adjustments and reclassifications recorded in the consolidated financial statements for the fair presentation in accordance with IFRS.

b) Basis for measurement

These consolidated financial statements have been prepared on the historical cost basis, except for:

- financial assets measured at fair value through profit or loss,
- financial assets measured at fair value through other comprehensive income.

c) Functional and presentation currency

The Russian ruble (hereinafter referred to as ruble or RUB) is the national currency of the Russain Federation and is used by the Group as its 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 million.

d) Use of professional judgements 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 management constantly reviews assumptions and estimates based on previous experience and other factors that affect the application of accounting policies and the reported amounts of assets and liabilities. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected by these changes.

The professional judgements and assumptions that have the most significant effect on the amounts recognised in these consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of fixed assets

At each reporting date management assesses whether there is any indication of impairment in respect of property, plant and equipment. Such indication includes a change in business plans, tariffs and other factors leading to unfavourable impact on the Group's business.

For the purposes of assessing recoverable amount, management assesses expected cash flows from assets or groups of assets (cash generating units) and calculates the acceptable discount rate for the present value of these cash flows. For more detailed information, see note "Property, plant and equipment"

Impairment of accounts receivable

Allowance for expected credit losses of accounts receivable is based on management assumption of debt recovery made for wach 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 excessive effort and is appropriate for the assessment of receivables

Experience gained in the past is adjusted on the basis of data available to date to reflect current conditions that had no impact on previous periods and to exclude the impact of conditions that have occurred in the past and no longer exist.

Pension obligations

The costs of the defined benefit pension plan and its related costs are determined using actuarial valuations. Actuarial valuations involve making demographic and financial data assumptions. As the programme is the long-term one there is considerable uncertainty about such estimates.

Deferred tax assets recognition

At each reporting date, management assesses the amount of deferred tax assets to be recognised to the extent that tax deductions are likely to be used. In determining future taxable profit and deductions, management makes estimates and judgments based on the taxable profit of previous years and expectations for future profits that are reasonable in the current circumstances.

e) Change in accounting policies

The Group has adopted the following new standards starting from 1 January 2018:

***i.* IFRS 15 Revenue from Contracts with Customer**

The Group recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service (i.e. an asset) 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 in exchange for the transfer of the pledged assets to the customer, excluding any amounts received from third parties (e.g., net of recoverable taxes).

Trade accounts receivable

The accounts receivables represent the Group's right to compensation, which is unconditional (i.e., the moment when such compensation becomes payable is due only to the passage of time).

Contract liabilities

A contract liability is an obligation to transfer goods or services to a customer for which the
Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract. Contract liabilities are recognized within "Advances received" line item included in accounts trades and other accounts payable.

Electricity distribution and sales of electricity

Revenue from distribution and sales of electricity is recognized during the period (settlements month) and is estimated by the results method (cost of transferred electricity volumes). The tariffs for the distribution of electricity (in respect to all constituent entities of the Russian Federation) and sale of electricity on the regulated market (in respect of constituent entities of the Russian Federation, not united in the price zones of the wholesale electricity market) are approved by the executive authorities of constituent entities 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 service for technological connection is performed at the beginning of the electricity supply and connection of the consumer to the power grid on the basis of the act on technological connection.

Payment for technological connection for an individual project, the standardized tariff rates, the rates per unit of maximum capacity and fee's formula for the technical connection are approved by the regional energy commission (the department of prices and tariffs of the corresponding region) and do not depend on the proceeds from the provision of electricity transmission services.

Payment for technological connection to the unified national electric network is approved by the Federal Antimonopoly Service.

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

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 applied IFRS 15 retrospectively with cumulative effect of initially applying the Standard to be 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.

ii. **IFRS 9 Financial instruments**

The standard introduces new requirements for classification and measurement of financial instruments, impairment, and hedge accounting. As the Group does not apply hedge accounting, the main changes relevant to the Group impacted its accounting policies for classification of financial instruments and impairment of financial assets.

According to IFRS 9, the financial assets are classified in the following measurement categories: those to be measured subsequently at amortised cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

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

In respect of impairment, IFRS 9 replaces the "incurred loss" model used in IAS 39, Financial instruments: Recognition and Measurement, with a new "expected credit loss" ("ECL") model that requires a more timely recognition of expected credit losses. An allowance for expected credit losses shall be recorded for financial assets classified as at amortised cost.

Under IFRS 9, loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument. For trade receivables, the Group measures loss allowances applying a simplified approach at an amount equal to lifetime ECLs. For other financial assets classified as at amortised cost, including some shareholders' loans provided, loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

(in millions of Russian rubles, unless otherwise stated)

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 as a result 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 of the Group's financial instruments measurement.

As at 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:

		Reclassification of financial assets as at 1 January 2018			
	Balance as at 1 January 2018 under IAS 39	Carried at fair value through profit or loss	Carried at fair value through other comprehensive income	Carried at amortised cost	**Balance as at 1 January 2018 under IFRS 9**
Financial assets available-for-sale	67,024	(609)	(66,415)	–	–
Financial assets held – to - maturity	3,039	–	–	(3,039)	–
At fair value through profit or loss	–	609	–	–	609
At fair value through other comprehensive income	–	–	66,415	–	66,415
At amortised cost	–	–	–	3,039	3,039
Total:	**70,063**	**–**	**–**	**–**	**70,063**

The impact of the changes on the Group's equity, net of deferred tax, was as follows:

	Effect on available-for-sale reserve	**Effect on measured at fair value through other comprehensive income reserves**	**Effect on retained earnings**
Opening balance at 1 January 2018 under IAS 39	**33,784**	**–**	**208**
Reclassification of investments from available-for-sale into measured at fair value through other comprehensive income	(33,784)	33,992	(208)
Total impact	(33,784)	**33,992**	**(208)**
Opening balance at 1 January 2018 under IFRS 9	**–**	**33,992**	**–**

(in millions of Russian rubles, unless otherwise stated)

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		
	IAS 39	**IFRS 9**	**IAS 39**	**IFRS 9**	**Difference**
Non-current financial assets					
Financial investments, including:					
Equity shares	*Available-for-sale*	*Measured at fair value through other comprehensive income*	66,415	66,415	–
Shares	*Available-for-sale*	*Measured at fair value through other profit or loss*	609	609	–
Deposits with maturity of more than 12 months and promissory notes	*Held- to- maturity*	*Amortised cost*	2,890	2,890	–
Trade and other receivables, loans given	*Amortised cost*	*Amortised cost*	69,426	69,426	–
Current financial assets					
Financial investments, including:					
Deposits with maturity of less than 12 months and promissory notes	*Held- to- maturity*	*Amortised cost*	149	149	–
Trade and other receivables, loans given	*Amortised cost*	*Amortised cost*	129,890	129,890	–
Cash and cash equivalents	*Amortised cost*	*Amortised cost*	102,054	102,054	–
Non-current and current financial liabilities					
Loans and borrowings, accounts payable	*Amortised cost*	*Amortised cost*	745,007	745,007	–

f) Change in presentation

Reclassification of comparative information

Certain amounts of the previous year have been adjusted to conform with the current year disclosures. All reclassifications are immaterial.

Restating the amounts

The group restated the amounts relating to previous periods due to:

2f(i) Corrections in connection with changes in accounting policies in respect of property, plant and equipment:

When the subsidiary of the Group changed its accounting policy to measuring property, plant and equipment in the accounting model at cost (less accumulated depreciation and impairment losses) the model of calculating future cash flows from technological connection was adjusted.

2f(ii) Change in accounting policies in respect of property, plant and equipment:

From 1 January 2018, the Group has changed its accounting treatment for initial measurement of the gratuitously received items of property, plant and equipment and subject to recognition in the statement of financial position in accordance with the requirements of the industry and Federal regulations to ensure reliable and uninterrupted power supply and maintenance of power grid facilities in proper conditions.

(in millions of Russian rubles, unless otherwise stated)

Previously, the Group recognised such items of property, plant and equipment in the statement of financial position at deemed cost which was based on independent measurement of the fair value of such items and recognised as income in the consolidated statement of profit or loss and other comprehensive income. Based on the technical condition of the items, the Group has recognised similar items of property, plant and equipment in the amount of actual expenditure since 1 January 2018. The Group applied this change in the accounting policies retrospectively.

2f(iii) Other corrections

The other corrections mainly include the restating of deferred income tax (in part of allowance for expected credit losses, fixed assets) and accrual of expenses for electricity transmission services for the period of service.

The results of the recalculation relating to the previous reporting periods are presented below:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2017	**As reported**	**2f (i)**	**2f (ii)**	**2f (iii)**	**As restated**
Operating expenses	(779,288)	(18,163)	814	(988)	(797,625)
Other income, net	22,261	698	(1,282)	–	21,677
Results from operating activities	**191,317**	**(17,465)**	**(468)**	**(988)**	**172,396**
Income tax expense	(40,482)	3,553	(31)	(564)	(37,524)
Profit for the period	**137,122**	**(13,912)**	**(499)**	**(1,552)**	**121,159**
Total comprehensive income for the period	**126,979**	**(13,912)**	**(499)**	**(1,552)**	**111,016**
Profit attributable to:					
Owners of the Company	102,315	(11,148)	(255)	(1,084)	89,828
Non-controlling interest	34,807	(2,764)	(244)	(468)	31,331
Total comprehensive income attributable to:					
Owners of the Company	94,580	(11,148)	(255)	(1,084)	82,093
Non-controlling interest	32,399	(2,764)	(244)	(468)	28,923
Basic and diluted earnings per ordinary share (in RUB)	0.52	(0.05)	–	(0.01)	0.46

(in millions of Russian rubles, unless otherwise stated)

Consolidated Statement of Financial Position

31 December 2017	As reported	2f (i)	2f (ii)	2f (iii)	As restated
Property, plant and equipment	1,940,227	(53,566)	(9,583)	–	1,877,078
Deferred tax assets	7,178	–	8	–	7,186
Total non-current assets	**2,116,152**	**(53,566)**	**(9,575)**	**–**	**2,053,011**
Trade and other receivables	151,466	–	–	178	151,644
Total current assets	**293,247**	**–**	**–**	**178**	**293,425**
Total assets	**2,409,399**	**(53,566)**	**(9,575)**	**178**	**2,346,436**
Other reserves	25,430	–		530	25,960
Retained earnings	621,077	(34,755)	(3,972)	866	583,216
Total equity attributable to owners of the Company	**1,057,806**	**(34,755)**	**(3,972)**	**1,396**	**1,020,475**
Non-controlling interest	365,755	(8,615)	(3,837)	(3,985)	349,318
Total equity	**1,423,561**	**(43,370)**	**(7,809)**	**(2,589)**	**1,369,793**
Non-current liabilities					
Deferred tax liabilities	76,202	(10,196)	(1,766)	1,603	65,843
Total non-current liabilities	**655,749**	**(10,196)**	**(1,766)**	**1,603**	**645,390**
Trade and other payables	261,926	–	–	1,164	263,090
Total current liabilities	**330,089**	**–**	**–**	**1,164**	**331,253**
Total liabilities	**985,838**	**(10,196)**	**(1,766)**	**2,767**	**976,643**
Total equity and liabilities	**2,409,399**	**(53,566)**	**(9,575)**	**178**	**2,346,436**

31 December 2016	As reported	2f (i)	2f (ii)	2f (iii)	As restated
Property, plant and equipment	1,798,568	(36,101)	(9,113)	–	1,753,354
Deferred tax assets	7,069	(352)	7	–	6,724
Total non-current assets	**1,959,990**	**(36,453)**	**(9,106)**	–	**1,914,431**
Total assets	**2,266,678**	**(36,453)**	**(9,106)**	–	**2,221,119**
Other reserves	33,165	–	–	530	33,695
Retained earnings	521,300	(23,607)	(3,708)	1,941	495,926
Total equity attributable to owners of the Company	**964,490**	**(23,607)**	**(3,708)**	**2,471**	**939,646**
Non-controlling interest	340,149	(5,852)	(3,585)	(3,524)	327,188
Total equity	**1,304,639**	**(29,459)**	**(7,293)**	**(1,053)**	**1,266,834**
Deferred tax liabilities	66,835	(6,994)	(1,813)	1,053	59,081
Total non-current liabilities	**591,015**	**(6,994)**	**(1,813)**	**1,053**	**583,261**
Total liabilities	**962,039**	**(6,994)**	**(1,813)**	**1,053**	**954,285**
Total equity and liabilities	**2,266,678**	**(36,453)**	**(9,106)**	**–**	**2,221,119**

g) Application of new and amended standards and interpretations

Except for the changes in accounting policies described in section 2e the following new amendments and interpretations that are effective as at 1 January 2018 have no impact on these consolidated financial statements:

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2);
- Transfers of Investment Property (Amendments to IAS 40);
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- Investments in Associates and Joint Ventures (Amendments to IAS 28);
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments ti IFRS 4)

The following new standards and interpretations that are mandatory for the annual periods beginning on or after 1 January 2019, and which the Group has not early adopted:

IFRS 16 Leases. IFRS 16 was issued in January 2016 and replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether anArrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single, on-balance lease sheet accounting model as stated in IAS 17 for leasing. There are optional recognition exemptions for the lessee regarding leases of low value items (e.g. computers) and short-term leases (e.g. lease terms ends within 12 months). The Group intends to apply both exceptions.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an 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 separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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 rate of attraction of additional borrowed funds on the date of initial application and recognition of assets in the form right-of-use in the amount equal to the obligation under the lease, adjusted by the amount pre-made or accrued lease payments.

The group also plans to use permitted practical simplifications and not apply the new standard to lease agreements that expire within twelve months from the date of transition.

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

The Group is in the process of recalculating the impact of applying IFRS 16 consolidated financial statements.

In March 2018 the IASB issued a new edition of the Conceptual Framework for Financial Reporting. The new edition is effective and mandatory for application for the annual periods beginning after 1 January 2020. The Group is currently analysing the impact of the new edition on the consolidated financial statements.

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

- IFRIC 23: Uncertainty over Income Tax Treatments;
- Amendments to IFRS 9: Prepayment Features with Negative Compensation;
- Amendments to IFRS 3: Business Combintaions;

- Amendments to IFRS 11 Joint Arrangement;
- Amendments to IAS 12 Income Taxes – Income Tax Consequences of Payments on Instruments Classified as Equity;
- Amendments to IAS 23 Borrowing Costs;
- Amendments to IAS 28: Long-term interests in associates and joint ventures;
- Amendments to IAS 19:Plan amendment, Curtailment or settlement;
- 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

3. Significant accounting policies

Accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for changes in the accounting policy described in notes 2f and related to adoption of from 1 January 2018 IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments and note 2e.

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 allocated to non-controlling interests, even if doing so causes the non-controlling interests to have a debit balance ("deficit") on the account.

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 of the acquiree.
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 the pre-existing equity interest 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 are accounted for as transactions with owners in their capacity as 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 the control of the shareholder that controls the Group are accounted for by the method the predecessor. The acquired assets and liabilities are recognized at the carrying amounts recognized previously in the consolidated 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 the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

vi. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in 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, but only to the extent that there is no evidence of impairment.

b) Foreign currency

Monetary assets and liabilities denominated in foreign currency at the reporting date are translated to roubles at the exchange rate at that date. Foreign currency transactions accounted for at the exchange rates prevailing at the date of the transactions. Foreign currency profit or loss arising from retranslation isrecognised in profit or loss.

c) Share capital

Ordinary shares and non-redeemable preference shares are both classified as equity.

d) Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The deemed cost of property, plant and equipment as at 1 January 2007, the date of transition to IFRS, was determined by using its 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 labour, 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 within "Net other income/(expense)" line within profit or loss for the period.

ii. Subsequent costs

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

iii. Depreciation

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

The estimated useful lives for the current and comparative periods are as follows:

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

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

e) Intangible assets

i. Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates, and joint ventures.

For the measurement of goodwill at initial recognition, see Note 3(a)(ii).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. With respect to associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

ii. Other intangible assets

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

iii. 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.

iv. 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 1-10 years
- Software 1-15 years

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

f) Leased assets

Leases in terms of which 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 value of the minimum (discounted) 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 the leased assets are not recognized in the consolidated statement of the Group's financial position.

g) Inventories

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

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

h) 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.

i) 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 and disclosed 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 accounts payable.

Where a provision has been made for the impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

j) Impairment

i. Financial assets

Estimated allowance for expected credit losses for financial instrument is estimated at each reporting date in an amount equal to the expected credit losses over the entire term,if the credit risk of this financial instrument has increased significantly since initial recognition, taking into account all reasonable and corroborated information, including forward-looking. For receivables, the estimated allowance for expected credit losses is always estimated at an amount equal to the expected credit losses over the entire term.

As indicators of a significant increase in credit risk, the Group considers actual or expected difficulties of the issuer or debtor on the asset, actual or expected violation of contractual terms, expected revision of the terms of the contract due to the financial difficulties of the debtor under unfavorable conditions for the Group circumstances. Based on the usual practice of credit risk management, the Group defines default as the counterparty's inability to fulfill its obligations (including repayment of funds under the contract) due to a significant deterioration in its financial position.

The impairment loss on a financial asset is accounted by recognizing an allowance for impairment. For a financial asset carried at amortized cost, the amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in subsequent periods the credit risk of the financial asset decreases as a result of an event that occurred after the loss was recognized, the previously recognized impairment loss is reversed by reducing the corresponding estimated reserve. As a result of the reversal, the carrying amount of the asset should not exceed its value, at which it would be reflected in the statement of financial position if the impairment loss was not recognized.

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 there is any indication of impairment. If any such indication exists, the recoverable amount of the relevant asset is estimated.

For goodwill and intangible assets that have an indefinite useful life or that are not yet ready for use, the recoverable amount is estimated at each reporting date. An impairment loss is recognised if the carrying amount of an asset or its related cash genetating unit (CGU) exceeds its estimated (recoverable) amount.

The recoverable amount of an asset or cash generating unit is the greater of its two values: the value in use of this asset (this unit) and its fair value less costs to sell.

In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate reflecting the current market assessment of the impact of the time value of money and the risks specific to this asset or cash generating unit. For the purpose of an impairment test, assets that cannot be individually tested are grouped into the smallest group of assets that generates cash inflows from continuing use of the relevant assets that are largely dependent on the cash inflows of other assets or groups of assets ("cash generation unit"). For the purposes of impairment testing, the goodwill acquired in a business combination allocated to cash generating units which it relates to.

The corporate assets of the Group do not generate separate cash flows and are used by more than one cash generating unit. The cost of a corporate asset is allocated to CGUs on a reasonable and consistent basis, and it is tested for impairment as part of testing the unit to which the corporate asset was allocated.

Impairment losses are recognized in profit or loss. Impairment losses on cash generating units are initially allocated to reduce the carrying amount of goodwill allocated to these units, and then proportionally to reduce the carrying amount of other assets in the unit (group of units).

Amounts written off as a goodwill impairment loss are not reversed. For other assets at each reporting date, an impairment loss recognized in one of the previous periods is assessed for any indication that the loss has decreased or no longer exists.

Amounts written off for impairment losses are reversed if the valuation factors used in determimimg the relevant recoverable amount change. . In respect of other assets at each reporting date, the analysis of the impairment loss recognized in previous periods is carried out to identify amounts to be reduced or no longer recognised.

An impairment loss is reversed only to the extent that it is possible to restore the value of assets to their book value, in which they would be reflected (less accumulated depreciation amounts), if no impairment loss had been recognized.

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 differing from a defined contribution plan. The liability recognised in consolidated statement of financial position in respect of defined benefit programmes is the discounted amount of the liability 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.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are 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 then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss. Actuarial gains and losses on changes in actuarial assumptions are recognized in other comprehensive income/expense.

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

iii. Other non-current employee benefits

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

iv. Short-term benefits

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

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

l) Provisions

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

m) 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 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. 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.

o) Finance income and costs

Finance income comprises of interest income on funds invested, dividend income, gains on the disposal of financial assets measured at fair value and amortised cost, discounts on financial instruments. Interest income is recognized as it accrues in profit or loss, using the effective interest rate 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, and loss on disposal of financial assets measured at fair value or amortised 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 rate method.

p) Income tax expense

Income tax expense is comprised of current and deferred tax. It is recognized in profit or loss, except to the extent that it relates to a business combination, or items 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 the amounts used for taxation purposes.

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 for prior periods; 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.

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.

q) Earnings per share

The Group presents basic and diluted 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. Profit attributable to ordinary shareholders is calculated by adjusting profit attributable to owners of the Company by profit attributable to holders of preference shares.

4. Measurement of fair values

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

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

(in millions of Russian rubles, unless otherwise stated)

5. Significant subsidiaries

	Country of incorporation	Ownership/voting, % 31 December 2018	31 December 2017
PJSC "FGC UES"	Russian Federation	80.14	80.14
PJSC "MOESK"	Russian Federation	50.90	50.90
JSC "Tyumenenergo"	Russian Federation	100.00	100.00
PJSC "Lenenergo"	Russian Federation	68.10/69.17	68.10/69.17
PJSC "IDGC of Centre"	Russian Federation	50.23	50.23
JSC "IDGC of Urals"	Russian Federation	51.52	51.52
PJSC "IDGC of Centre and Volga region"	Russian Federation	50.40	50.40
PJSC "Kubanenergo"	Russian Federation	92.78	92.78
PJSC "IDGC of Siberia"	Russian Federation	57.84/55.59	57.84/55.59
PJSC "IDGC of Volga"	Russian Federation	67.97	67.97
PJSC "IDGC of North-West"	Russian Federation	55.38	55.38
PJSC "IDGC of Northern Caucasus"*	Russian Federation	98.71	97.30
JSC "Chechenenergo"*	Russian Federation	71.73	77.64
PJSC "IDGC of South"	Russian Federation	65.12	65.12
PJSC "TDC"	Russian Federation	85.77/94.58	85.77/94.58
JSC "Yantarenergo"	Russian Federation	100.00	100.00
JSC "Karachaevo-Cherkesskenergo"	Russian Federation	100.00	100.00
JSC "Kalmenergosbyt"	Russian Federation	100.00	100.00
JSC "Kabbalkenergo"	Russian Federation	65.27	65.27
JSC "Tyvaenergosbyt"	Russian Federation	100.00	100.00
JSC "Sevkavkazenergo"	Russian Federation	55.94	55.94
PJSC "Dagestan Power Sales Company"	Russian Federation	51.00	51.00

*The share is specified taking into account actually placed shares of the current issue.

(in millions of Russian rubles, unless otherwise stated)

6. Non-controlling interests

The following table summarizes the information relating to each of the Group's subsidiaries that has material non-controlling interest, before any intra-group eliminations.

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

	FGC	MOESK	Lenenergo	IDGC of Centre	IDGC of Urals	IDGC of Centre and Volga region	IDGC of Siberia	Other subsidiaries	Total
Non-controlling percentage	**19.86**	**49.10**	**31.90**	**49.77**	**48.48**	**49.60**	**42.16**		
Non-current assets	1,062,120	313,161	191,208	91,969	65,535	75,142	53,838		
Current assets	133,101	26,957	15,390	16,155	14,455	28,180	14,709		
Assets held for sale	21,467	–	–	–	–	–	–		
Non-current liabilities	(280,791)	(98,119)	(42,490)	(36,865)	(14,193)	(23,100)	(25,485)		
Current liabilities	(95,104)	(68,943)	(33,426)	(26,407)	(21,934)	(25,810)	(25,209)		
Net assets	**840,793**	**173,056**	**130,682**	**44,852**	**43,863**	**54,412**	**17,853**		
Carrying amount of non-controlling interest	**167,605**	**84,962**	**40,381**	**22,459**	**21,624**	**26,994**	**7,524**	**6,413**	**377,962**
Revenue	254,463	159,485	77,990	93,834	100,303	94,213	57,051		
Profit	93,588	6,257	13,145	2,938	602	11,759	1,182		
Other comprehensive income/(loss)	8,332	169	(289)	120	459	366	(20)		
Total comprehensive income	**101,920**	**6,426**	**12,856**	**3,058**	**1,061**	**12,125**	**1,162**		
Profit/(loss) allocated to non-controlling interest	18,591	3,072	4,193	1,462	292	5,832	498	(247)	33,693
Other comprehensive income/(loss) allocated to non-controlling interest	1,655	83	(8)	60	226	183	(9)	(3)	2,187
Cash flows from operating activities	124,137	27,801	23,298	14,437	6,486	20,057	9,176		
Cash flows used in investing activities	(84,639)	(24,927)	(15,539)	(13,017)	(7,495)	(12,972)	(12,456)		
Cash flows from/(used in) financing activities:	(44,415)	3,498	(4,824)	(1,995)	1,685	(4,228)	2,427		
- including dividends to non-controlling shareholders	(3,569)	(752)	(1,188)	(427)	(917)	(2,211)	(150)		
Net increase/ (decrease) in cash and cash equivalents	**(4,917)**	**6,372**	**2,935**	**(575)**	**676**	**2,857**	**(853)**		

(in millions of Russian rubles, unless otherwise stated)

As at 31 December 2017 and for the year ended 31 December 2017 (restated):

	FGC	**MOESK**	**Lenenergo**	**IDGC of Centre**	**IDGC of Urals**	**IDGC of Centre and Volga region**	**IDGC of Siberia**	**Other subsidiaries**	**Total**
Non-controlling percentage	**19.87**	**49.10**	**31.90**	**49.77**	**48.48**	**49.60**	**42.16**		
Non-current assets	1,023,664	306,110	180,324	88,781	62,991	71,479	44,221		
Current assets	107,380	27,215	14,298	15,208	12,188	18,052	18,290		
Non-current liabilities	(282,533)	(108,923)	(31,930)	(42,492)	(18,453)	(32,641)	(27,836)		
Current liabilities	(89,681)	(56,229)	(42,728)	(18,893)	(12,066)	(10,074)	(17,609)		
Net assets	**758,830**	**168,173**	**119,964**	**42,604**	**44,660**	**46,816**	**17,066**		
Carrying amount of non-controlling interest	**151,155**	**82,564**	**37,486**	**21,306**	**21,997**	**23,226**	**7,196**	**4,388**	**349,318**
Revenue	242,980	150,494	77,653	91,116	81,159	91,002	53,598		
Profit	84,386	1,811	18,212	2,757	4,022	11,438	2,410		
Other comprehensive income/(loss)	(8,191)	(583)	2	(239)	(68)	(361)	16		
Total comprehensive income	**76,195**	**1,228**	**18,214**	**2,518**	**3,954**	**11,077**	**2,426**		
Profit/(loss) allocated to non-controlling interest	16,763	889	5,809	1,372	1,950	5,673	1,016	(2,141)	31,331
Other comprehensive income/(loss) allocated to non-controlling interest	(1,627)	(286)	–	(119)	(44)	(179)	12	(165)	(2,408)
Cash flows from operating activities	120,767	26,337	11,818	14,268	7,671	13,470	2,562		
Cash flows used in investing activities	(76,536)	(26,827)	(19,339)	(11,864)	(6,200)	(9,675)	(7,259)		
Cash flows from/(used in) financing activities:	(46,100)	427	575	(3,608)	(1,278)	(1,689)	5,639		
- including dividends to non-controlling shareholders	(3,712)	(707)	(948)	(915)	(355)	(646)	–		
Net increase/ (decrease) in cash and cash equivalents	**(1,869)**	**(63)**	**(6,946)**	**(1,204)**	**193**	**2,106**	**942**		

7. Information about segments

The Group has identified fourteen reportable segments, as described below, which are the Group's strategic business units. Each strategic business unit offers electricity transmission services, including technological connection services, in a separate geographical region of the Russian Federation and is managed separately.

The "other" segment includes several operating segments such as electricity sales, rent services and repair services. Unallocated items are comprised mainly of assets and account balances related to the Company's headquarters.

The Management Board of the Company assesses the performance, assets and liabilities of operating segments based on internal management reporting, which is based on the information reported in RAS. Performance of each reportable segment is measured based on earnings or loss before interest expense, income tax and depreciation and amortization (EBITDA). Management believes that EBITDA is the most relevant measurement for evaluating the results of the Group's operating segments.

The reconciliation of reportable segment measurements with 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.

Information regarding reportable segments is included below.

(in millions of Russian rubles, unless otherwise stated)

a) Information about reportable segments

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

	IDGC of Siberia and Tomskaya DC	Tyumen-energo	IDGC of Urals	IDGC of Volga	IDGC of South	Kuban-energo	IDGC of Northern Caucasus	IDGC of Centre and Volga	IDGC of North-West	Len-energo	Yantar -energo	IDGC of Centre	MOESK	FGC	Other	Total
Revenue from external customers	62,209	58,496	82,116	63,486	35,887	46,397	11,758	93,750	57,564	76,156	3,205	93,640	156,395	94,632	92,064	1,027,755
Inter-segment revenue	92	111	7,509	106	507	4	5,282	126	3,559	293	4,947	234	99	145,662	49,726	218,257
Segment revenue	**62,301**	**58,607**	**89,625**	**63,592**	**36,394**	**46,401**	**17,040**	**93,876**	**61,123**	**76,449**	**8,152**	**93,874**	**156,494**	**240,294**	**141,790**	**1,246,012**
Including																
Electricity transmission	57,986	56,149	67,897	62,592	34,928	45,583	14,010	88,853	40,427	68,807	5,165	90,015	145,380	213,620	11,209	1,002,621
Technological connection services	1,018	2,110	744	721	380	602	41	926	2,423	7,066	2,838	1,864	9,023	24,300	1,366	55,422
Resale of electricity	2,958	–	20,538	–	847	–	1,951	3,316	17,541	–	21	530	–	–	81,176	128,878
Other revenue	339	348	446	279	239	216	1,038	781	732	576	128	1,465	2,091	2,374	48,039	59,091
Finance income	116	92	544	346	48	91	321	133	57	332	50	68	229	10,562	487	13,476
Finance costs	(2,016)	(204)	(887)	(129)	(2,508)	(1,911)	(964)	(1,513)	(1,105)	(1,065)	(270)	(3,196)	(5,294)	(3,978)	(984)	(26,024)
Depreciation and amortisation	5,550	8,709	5,303	5,341	2,673	3,978	2,081	7,330	4,611	11,778	832	11,103	23,774	78,649	6,073	177,785
EBITDA	**9,184**	**7,375**	**7,315**	**11,353**	**6,670**	**7,169**	**834**	**21,834**	**6,782**	**26,251**	**3,572**	**16,508**	**38,052**	**156,035**	**(8,822)**	**310,382**
Segment assets	**84,109**	**156,584**	**71,940**	**63,767**	**45,122**	**75,909**	**38,059**	**114,703**	**56,417**	**214,720**	**26,800**	**122,536**	**347,573**	**1,487,063**	**141,454**	**3,046,756**
Including property, plant and equipment and construction in progress	62,897	148,825	53,972	51,517	28,180	62,535	22,402	82,217	45,020	175,177	23,053	101,461	311,632	1,201,105	75,210	2,445,203
Capital expenditure	13,886	11,468	8,329	7,752	2,205	6,950	1,865	13,735	7,576	20,982	5,272	12,716	31,257	107,210	7,025	258,228
Segment liabilities	**50,593**	**27,844**	**32,022**	**13,969**	**38,163**	**40,670**	**16,515**	**47,748**	**30,714**	**75,018**	**8,236**	**64,105**	**156,081**	**396,669**	**148,766**	**1,147,113**

(in millions of Russian rubles, unless otherwise stated)

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

	IDGC of Siberia and Tomskaya DC	Tyumen-energo	IDGC of Urals	IDGC of Volga	IDGC of South	Kuban-energo	IDGC of Northern Caucasus	IDGC of Centre and Volga	IDGC of North-West	Len-energo	Yantar -energo	IDGC of Centre	MOESK	FGC	Other	Total
Revenue from external customers	58,104	57,880	64,147	59,106	34,686	42,249	11,362	90,769	41,154	74,269	3,003	90,961	147,297	76,641	102,038	953,666
Inter-segment revenue	143	13	6 943	33	459	4	4,773	75	3,154	413	4,702	99	75	139,358	60,315	220,559
Segment revenue	**58,247**	**57,893**	**71,090**	**59,139**	**35,145**	**42,253**	**16,135**	**90,844**	**44,308**	**74,682**	**7,705**	**91,060**	**147,372**	**215,999**	**162,353**	**1,174,225**
Including																
Electricity transmission	57,169	56,665	69,873	58,395	33,439	41,486	13,559	83,680	42,710	60,600	4,930	87,623	138,350	192,560	10,781	951,820
Technological connection services	520	1,006	874	519	415	648	99	733	810	13,377	2,618	1,591	7,184	21,412	2,733	54,539
Resale of electricity	–	–	–	–	860	–	1,668	6,011	–	–	–	548	–	–	66,772	75,859
Other revenue	558	222	343	225	431	119	809	420	788	705	157	1,298	1,838	2,027	82,067	92,007
Finance income	129	338	357	190	61	48	104	226	45	548	111	388	117	10,526	645	13,833
Finance costs	(1,997)	(234)	(859)	(495)	(3,070)	(1,907)	(986)	(2,169)	(1,408)	(1,383)	(422)	(4,046)	(5,389)	(3,941)	(1,271)	(29,577)
Depreciation and amortisation	5,077	8,163	4,923	5,276	2,582	3,783	2,198	6,976	4,429	10,603	468	10,699	24,274	81,957	5,819	177,227
EBITDA	**8,597**	**9,388**	**11,495**	**12,025**	**6,287**	**6,858**	**393**	**23,410**	**3,004**	**28,703**	**3,592**	**19,323**	**32,254**	**146,492**	**(2,869)**	**308,952**
Segment assets	**78,479**	**147,816**	**66,359**	**63,291**	**44,461**	**71,857**	**34,548**	**101,518**	**53,951**	**205,678**	**24,109**	**119,666**	**343,040**	**1,425,040**	**148,080**	**2,927,893**
Including property, plant and equipment and construction in progress	55,096	141,268	51,736	49,735	28,697	59,659	22,579	75,889	42,342	168,639	18,863	99,672	304,656	1,158,091	73,680	2,350,602
Capital expenditure	8,829	10,596	6,571	4,101	2,768	7,562	1,320	9,580	6,578	28,710	9,949	11,866	31,479	109,630	7,372	256,911
Segment liabilities	**45,461**	**22,313**	**25,354**	**14,936**	**38,245**	**36,448**	**18,800**	**39,377**	**28,848**	**73,941**	**9,680**	**61,769**	**154,049**	**387,469**	**141,579**	**1,098,269**

(in millions of Russian rubles, unless otherwise stated)

b) Reconciliation of key indicators of reportable segment revenues, EBITDA, assets and liabilities

The reconciliation of key segment items measured as reported to the Management Board of the Group with similar items in these consolidated financial statements is presented below.

The reconciliation of segment revenue is presented below:

	Year ended 31 December 2018	Year ended 31 December 2017
Segment revenues	**1,246,012**	**1,174,225**
Intersegment revenue elimination	(218,257)	(220,559)
Reclassification from other income	585	1,748
Other adjustments	(6,750)	(7,080)
Unallocated revenues	12	10
Revenues per consolidated statement of profit or loss and other comprehensive income	**1,021,602**	**948,344**

Reconciliation of reportable segment EBITDA:

	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
EBITDA of reportable segments	**310,382**	**308,952**
Adjustment of allowance for expected credit losses and impairment allowance of advances given	7,745	399
Provisions	684	1,614
Adjustments for financial lease	293	439
Adjustment for disposal of property, plant and equipment	(91)	950
Discounting of financial instruments	1,824	1,139
Impairment of property, plant and equipment	(8,475)	(23,260)
Adjustment on assets related to employee benefits	(494)	2
Adjustment for write-off of the other current and non-current assets	370	(369)
Recognition of retirement and other long-term employee benefit obligation	6,741	(509)
Adjustment of impairment of intercompany promissory notes	–	(1,818)
Re-measurement of financial assets measured at fair value through other comprehensive income (transfer of re -measurement to equity)	(5,075)	7,508
Other adjustments	(5,522)	469
Unallocated items	(2,130)	(2,703)
	306,252	**292,813**
Depreciation and amortization	(116,124)	(107,300)
Interest expenses on financial liabilities	(23,747)	(26,690)
Interest expenses on finance lease liabilities	(250)	(140)
Income tax expense	(41,453)	(37,524)
Profit for the year per consolidated statement of profit or loss and other comprehensive income	**124,678**	**121,159**

(in millions of Russian rubles, unless otherwise stated)

The reconciliation of reportable segment total assets is presented below:

	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
Total segment assets	**3,046,756**	**2,927,893**
Intersegment balances	(134,013)	(142,595)
Intersegment finansial assets	(50,852)	(51,496)
Adjustment for net book value of property, plant and equipment	(102,074)	(107,346)
Impairment of property, plant and equipment	(359,547)	(367,909)
Recognition of assets related to employee benefits	6,216	6,709
Investments accounted for using the equity method	669	153
Adjustment of allowance for expected credit losses and impairment allowance of advances given	39,520	33,299
Adjustment for inventories valuation	(47)	(103)
Deferred tax assets adjustment	(10,343)	(14,277)
Advances given	(1)	(2,095)
Other adjustments	(8,708)	(17,404)
Unallocated items	91,056	81,607
Total assets per consolidated statement of financial position	**2,518,632**	**2,346,436**

The reconciliation of reportable segment total liabilities is presented below:

	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
Total segment liabilities	**1,147,113**	**1,098,269**
Intersegment balances	(130,659)	(140,279)
Deferred tax adjustment	(38,389)	(38,565)
Accrual of retirement and other long-term employee benefit obligation	23,592	32,715
Finance lease liabilities	780	963
Accrued salaries and wages to employees	139	122
Other provisions and accruals	232	1,355
Other adjustments	(11,709)	(11,070)
Unallocated items	32,571	33,133
Total liabilities per consolidated statement of financial position	**1,023,670**	**976,643**

c) Major customer:

In 2018, the Inter RAO Group (consisting primarily of electricity sales companies within the Inter RAO Group) was a major customer of the Group. Total revenues from companies of Inter RAO Group amounted to RUB 241,350 million for the year ended 31 December 2018 (RUB 216,190 million for the year ended 31 December 2017).

(in millions of Russian rubles, unless otherwise stated)

8. Revenue

	Year ended 31 December	
	2018	**2017**
Electricity transmission	826,241	784,216
Sales of electricity and capacity	119,915	75,740
Technological connection services	52,563	52,379
Other revenue	22,883	36,009
	1,021,602	**948,344**

Other revenues are mainly comprised of revenue from construction services, rental income, repair and maintenance services.

9. Other income, net

	Year ended 31 December	
	2018	**2017 (restated)**
Income in the form of fines and penalties on commercial contracts	14,994	16,475
Income from identified non-contracted electricity consumption	3,083	2,834
Income from compensation of losses in connection with retirement / liquidation of electric grid assets	3,133	2,660
Profit / (loss) from dericognition of subsidiaries	690	(80)
Net other income/(expenses)	1,455	(212)
	23,355	**21,677**

As at 30 June 2018 the Group derecognised investments in OJSC Ingushenergo as a subsidiary due to loss of control (recognition of the company as a bankrupt, the appointment of a liquidator and OJSC Ingushenergo's bankruptcy proceedings); gain on derecognition of OJSC Ingushenergo amounted to RUB 690 million.

For the year ended 31 December 2017 the loss from derecognition of the subsidiary includes the net loss from the regain and loss of control over OJSC Nurenergo in the amount of RUB 68 million.

Net other income/expense includes profit/loss on insurance reimbursement, on disposal of fixed assets and other items.

(in millions of Russian rubles, unless otherwise stated)

10. Operating expenses

	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
Personnel costs	187,386	181,530
Depreciation and amortization	116,124	107,300
Impairment of property, plant and equipment	7,688	21,244
Material expenses, including:		
Electricity for compensation of losses	148,070	128,217
Electricity for sale	67,069	42,216
Purchased electricity and heat power for own needs	4,344	4,268
Other material costs	39,679	39,346
Production work and services, including:		
Electricity transmission services	153,261	143,859
Repair and maintenance services	14,420	13,447
Other works and industrial services	13,369	19,543
Taxes and levies other than income tax	31,762	24,832
Rent	7,163	6,266
Insurance	2,325	2,350
Other third-party services, including:		
Communication services	2,485	2,811
Security services	4,891	4,611
Consulting, legal and audit services	3,282	3,170
Software costs and servicing	2,548	2,434
Transportation services	2,877	2,635
Other services	9,088	8,794
Allowance for expected credit losses	25,820	16,159
Provisions	4,952	5,067
Other expenses	20,660	17,526
	869,263	**797,625**

(in millions of Russian rubles, unless otherwise stated)

11. Personnel costs

	Year ended 31 December	
	2018	**2017**
Wages and salaries	145,381	135,142
Social security contributions	41,441	38,452
(Ggains)/expenses related to defined benefit plan	(5,750)	1,677
Expenses related to other long-term employee benefits	13	301
Other	6,301	5,958
	187,386	**181,530**

The amount of contributions to the defined contribution plan was RUB 29,548 million for the year ended 31 December 2018 (for the year ended 31 December 2017: RUB 27,826 million).

The amounts of remuneration to the key management personnel are disclosed in Note 32.

12. Finance income and costs

	Year ended 31 December	
	2018	**2017**
Finance income		
Interest income on loans, bank deposits and accounts, and promissory notes	7,462	7,975
Interest income on assets related to employee benefits plans	20	444
Dividends	2,254	2,507
Depreciation of discount of financial assets	6,837	4,577
Other finance income	1,044	816
	17,617	**16,319**

	Year ended 31 December	
	2018	**2017**
Finance costs		
Interest expenses on financial liabilities measured at amortized cost	23,747	26,690
Interest expenses on finance lease liabilities	250	140
Interest expenses on long-term defined benefit liabilities	2,093	2,031
Other finance costs	1,427	1,173
	27,517	**30,034**

(in millions of Russian rubles, unless otherwise stated)

13. Income tax

	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
Current income tax		
Accrual of current tax	(27,553)	(29,688)
Adjustment for previous periods tax	153	854
	(27,400)	**(28,834)**
Deferred income tax		
Accrual and reversal of temporary differences	(13,225)	(8,989)
Change in tax base of property, plant and equipment	(828)	299
	(14,053)	**(8,690)**
	(41,453)	**(37,524)**

In 2018 and 2017, some Group companies recalculated income tax for prior periods related to the deductibility for tax purposes of certain operating expenses. As a result, adjusted tax declarations were submitted to the tax authorities and income tax overprovided in prior periods was recognized.

Income tax recognized in other comprehensive income

	Year ended 31 December 2018			Year ended 31 December 2017		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Available-for-sale financial assets	–	–	–	(8,650)	1,728	(6,922)
Financial assets measured at fair value through other comprehensive income	1,667	6,742	8,409	–	–	–
Foreign currency translation differences	178	–	178	(51)	–	(51)
Remeasurements of the defined benefit liability	2,381	(582)	1,799	(3,780)	610	(3,170)
	4,226	**6 160**	**10,386**	**(12,481)**	**2,338**	**(10,143)**

The income tax rate applicable to the Group's entities for the year ended 31 December 2018 is 20 % (for the year ended 31 December 2017: 20 %).

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

	Year ended 31 December 2018	%	Year ended 31 December 2017 (restated)	%
Profit before income tax	**166,131**		**158.683**	
Income tax at the applicable tax rate	**(33,226)**	**(20)**	**(31,737)**	**(20)**
Effect of income taxed at lower rates	14	–	1,363	1
Tax effect on not taxable or non-deductible for tax purposes items	(5,380)	(3)	(7,601)	(5)
Change in tax base of property, plant and equipment	(828)	(1)	299	–
Adjustments for prior years	153	–	854	–
Change in unrecognized deferred tax assets	(2,186)	(1)	(702)	–
	(41,453)	**(25)**	**(37,524)**	**(24)**

(in millions of Russian rubles, unless otherwise stated)

14. Property, plant and equipment

	Land plots and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/Deemed cost						
At 1 January 2017 (restated)	**253,660**	**1,204,433**	**979,019**	**286,286**	**348,160**	**3,071,558**
Reclassification between groups	(5,211)	(1,594)	7,082	(277)	–	–
Additions	957	15,526	5,239	8,003	227,389	257,114
Transfers	15,360	55,476	82,930	18,494	(172,260)	–
Disposals	(231)	(1,009)	(2,421)	(2,162)	(6,411)	(12,234)
At 31 December 2017 (restated)	**264,535**	**1,272,832**	**1,071,849**	**310,344**	**396,878**	**3,316,438**
Accumulated depreciation and impairment						
At 1 January 2017 (restated)	**(75,850)**	**(538,280)**	**(457,506)**	**(176,308)**	**(70,260)**	**(1,318,204)**
Reclassification between groups	2,565	(455)	(8,664)	(288)	6,842	–
Depreciation charge	(8,615)	(38,173)	(36,644)	(20,791)	–	(104,223)
Disposals	44	616	1,512	2,003	138	4,313
Impairment	(2,208)	(6,365)	(7,176)	(1,189)	(4,308)	(21,246)
At 31 December 2017 (restated)	**(84,064)**	**(582,657)**	**(508,478)**	**(196,573)**	**(67,588)**	**(1,439,360)**
Net book value						
At 1 January 2017 (restated)	**177,810**	**666,153**	**521,513**	**109,978**	**277,900**	**1,753,354**
At 31 December 2017 (restated)	**180,471**	**690,175**	**563,371**	**113,771**	**329,290**	**1,877,078**

(in millions of Russian rubles, unless otherwise stated)

	Land plots and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/Deemed cost						
At 1 January 2018 (restated)	**264,535**	**1,272,832**	**1,071,849**	**310,344**	**396,878**	**3,316,438**
Reclassification between groups	(353)	(24)	354	23	–	–
Additions	625	2,473	1,905	8,202	238,743	251,948
Transfers	13,548	111,818	112,754	28,972	(267,092)	–
Reclassification to assets held for sale	(130)	(14,859)	(14,388)	(1,892)	–	(31,269)
Disposals	(510)	(1,421)	(1,354)	(1,882)	(7,259)	(12,426)
At 31 December 2018	**277,715**	**1,370,819**	**1,171,120**	**343,767**	**361,270**	**3,524,691**
Accumulated depreciation and impairment						
At 1 January 2018 (restated)	**(84,064)**	**(582,657)**	**(508,478)**	**(196,573)**	**(67,588)**	**(1,439,360)**
Reclassification between groups	45	(2,833)	(6,363)	(381)	9,532	–
Depreciation charge	(9,257)	(40,768)	(40,878)	(22,115)	–	(113,018)
Reclassification to assets held for sale	35	6,047	7,684	1,422	–	15,188
Disposals	124	591	983	1,982	381	4,061
Impairment	(767)	(3,408)	(2,015)	(816)	(682)	(7,688)
At 31 December 2018	**(93,884)**	**(623,028)**	**(549,067)**	**(216,481)**	**(58,357)**	**(1,540,817)**
Net book value						
At 1 January 2018 (restated)	**180,471**	**690,175**	**563,371**	**113,771**	**329,290**	**1,877,078**
At 31 December 2018	**183,831**	**747,791**	**622,053**	**127,286**	**302,913**	**1,983,874**

As at 31 December 2018, construction in progress includes advance payments for purchase of property, plant and equipment of RUB 23,187 million (31 December 2017: RUB 26,306 million) and materials for the fixed assets construction of RUB 10,155 million (31 December 2017: RUB 7,096 million).

Capitalized borrowing costs for the year ended 31 December 2018 amounted to RUB 15,385 million (for the year ended 31 December 2017: RUB 17,822 million), with capitalization rates of 5.33 – 10.73% (for the year ended 31 December 2017: 5.85 – 11.64%).

The depreciation charge for the year ended 31 December 2018 in the amount of RUB 91 million (for the year ended 31 December 2017: RUB 82 million) has been capitalized to the cost of the capital construction objects.

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

Leased property, plant and equipment

The property, plant and equipment line includes leased fixed assets with the net book value of RUB 2,302 million as at 31 December 2018 (31 December 2017: RUB 1,290 million).

Impairment of property, plant and equipment

The Group performed an impairment test of the property, plant and equipment as at 31 December 2018 for the cash generating units (CGU) and recognized an impairment loss on property, plant and equipment in the amount of RUB 12,242 million (as at 31 December 2017: RUB 29,683 million), thus loss recognised as at 31 December 2018 and partially amortised was reversed in the amount of RUB 4,554 million (as at 31 December 2017: RUB 8,439 million).

Recoverable amount for all CGU's, as value in use, was calculated using the discounting rate, determined as the weighted average cost of capital (WACC) within the range of 9.48% - 10.00% (2017: 9.08% - 10.25%).

(in millions of Russian rubles, unless otherwise stated)

15. Intangible assets

	Software	Licenses, certificates and patents	Other	Total
Cost				
At 1 January 2017	**21,564**	**143**	**11,132**	**32,839**
Reclassification between groups	33	40	(73)	–
Additions	2,472	638	962	4,072
Disposals	(896)	(101)	(1,289)	(2,286)
At 31 December 2017	**23,173**	**720**	**10,732**	**34,625**
Accumulated amortization and impairment				
At 1 January 2017	**(12,225)**	**(102)**	**(3,708)**	**(16,035)**
Reclassification between groups	12	(8)	(4)	–
Amortization charge	(2,433)	(71)	(660)	(3,164)
Disposals	799	41	492	1,332
At 31 December 2017	**(13,847)**	**(140)**	**(3,880)**	**(17,867)**
Net book value				
At 1 January 2017	**9,339**	**41**	**7,424**	**16,804**
At 31 December 2017	**9,326**	**580**	**6,852**	**16,758**
Cost				
At 1 January 2018	**23,173**	**720**	**10,732**	**34,625**
Reclassification between groups	166	(2)	(164)	–
Additions	4,730	259	1,180	6,169
Disposals	(2,628)	(74)	(656)	(3,358)
At 31 December 2018	**25,441**	**903**	**11,092**	**37,436**
Accumulated amortization and impairment				
At 1 January 2018	**(13,847)**	**(140)**	**(3,880)**	**(17,867)**
Amortization charge	(2,453)	(76)	(675)	(3,204)
Disposals	2,624	74	82	2,780
At 31 December 2018	**(13,676)**	**(142)**	**(4,473)**	**(18,291)**
Net book value				
At 1 January 2018	**9,326**	**580**	**6,852**	**16,758**
At 31 December 2018	**11,765**	**761**	**6,619**	**19,145**

Capitalized borrowing costs for the year ended 31 December 2018 amounted to RUB 59 million (for the year ended 31 December 2017: RUB 34 million), with capitalization rates of 7.68 – 8.28% (for the year ended 31 December 2017: 8.38 – 9.98%).

(in millions of Russian rubles, unless otherwise stated)

16. Financial investments

	30 December 2018	31 December 2017
Non-current		
Financial assets measured at amortised cost	3,209	–
Financial assets measured at fair value through other comprehensive income	37,922	–
Financial assets measured at fair value through profit or loss	431	–
Available-for-sale financial assets	–	67,024
Financial assets held-to-maturity	–	2,890
	41,562	**69,914**
Current		
Financial assets measured at amortised cost	47,192	–
Financial assets held-to-maturity	–	149
	47,192	**149**

Financial assets measured at fair value through other comprehensive income at 31 December 2018 are mainly represented by the shares of PJSC "Inter RAO UES" (as at 31 December 2017 - financial assets available-for-sale). Fair value of these shares is based on published market quotations and amounted to RUB 37,572 million and RUB 65,947 million respectively.

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

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

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

(in millions of Russian rubles, unless otherwise stated)

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

	Interest rate	Rating	Rating agency	31 December 2018	31 December 2017
VTB Bank (PJSC)*	7.40-8.30	BBB-	Standard & Poor's	22,231	–
PJSC Sberbank*	8.40	BBB-	Fitch Ratings	14,595	3
Bank GPB (JSC)*	7.22-8.37	BB+	Standard & Poor's	7,443	35
OJSC Bank Tavrichesky	0.51	–	–	2,886	2,664
JSC Russian Agricultural Bank*	6.55-8.35	BB+	Fitch Ratings	1,722	–
JSC Alfa-Bank	7.50-8.15	BB+	Standard & Poor's	1,196	–
JSC AB ROSSIYA	–	A+(RU)	ACRA	–	96
				50,073	**2,798**

*Government-related

(in millions of Russian rubles, unless otherwise stated)

17. Deferred tax assets and liabilities

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 (restated)**	**31 December 2018**	**31 December 2017 (restated)**	**31 December 2018**	**31 December 2017 (restated)**
Property, plant and equipment	6,489	3,456	(92,249)	(77,261)	(85,760)	(73,805)
Intangible assets	389	516	(282)	(262)	107	254
Available-for-sale investments	–	3,478	–	(8,019)	–	(4,541)
Financial assets measured at fair value through other comprehensive income and financial assets measured at amortized cost	4,514	–	(2,247)	–	2,267	–
Financial assets measured at fair value through profit or loss	35	–	–	–	35	–
Inventories	218	247	(172)	(98)	46	149
Trade and other receivables and prepayments	19,064	14,519	(989)	(930)	18,075	13,589
Finance lease liabilities	149	185	(3)	–	146	185
Loans and borrowings	–	–	(229)	(229)	(229)	(229)
Provisions	5,457	5,024	(1)	(2)	5,456	5,022
Employee benefit liabilities	1,968	3,415	(126)	(54)	1,842	3,361
Trade and other payables	2,317	2,338	(173)	(59)	2,144	2,279
Tax loss carry-forwards	4,919	4,395	–	–	4,919	4,395
Asset held for sale	–	–	(4,293)	–	(4,293)	–
Other	1,394	773	(1,152)	(728)	242	45
Tax assets/(liabilities)	**46,913**	**38,346**	**(101,916)**	**(87,642)**	**(55,003)**	**(49,296)**
Set-off of tax	(25,276)	(21,799)	25,276	21,799	–	–
Unrecognized deferred tax assets	(11,547)	(9,361)	–	–	(11,547)	(9,361)
Net tax assets/(liabilities)	**10,090**	**7,186**	**(76,640)**	**(65,843)**	**(66,550)**	**(58,657)**

(in millions of Russian rubles, unless otherwise stated)

b) Unrecognized deferred tax liabilities

At 31 December 2018, a deferred tax liability for temporary differences of RUB 225,034 million (31 December 2017: RUB 189,155 million) related to an investment in subsidiaries was not recognized as the Group is able to control the timing of the reversal of this temporary difference and the implementation of this temporary difference in the foreseeable future is not expected.

c) Unrecognized deferred tax assets

Deferred tax assets have not been recognized with respect to tax losses and temporary differences as it is not probable that future taxable profit will be available, against which the loss-making Group's companies can utilize the relevant temporary differences and tax losses.

Deferred tax assets have not been recognized with respect to the following:

	31 December 2018	31 December 2017 (restated)
Deductible temporary differences	37,286	28,291
Tax losses	20,449	18,513
Total	**57,735**	**46,804**
Unrecognized deferred tax assets at the applicable tax rate	**11,547**	**9,361**

d) Movement in temporary differences during the year

	1 January 2018 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2018
Property, plant and equipment	(73,805)	(11,955)	–	(85,760)
Intangible assets	254	(147)	–	107
Financial assets measured at fair value through other comprehensive income and financial assets measured at amortized cost	(4,541)	66	6,742	2,267
Financial assets measured at fair value through profit or loss	–	35	–	35
Inventories	149	(103)	–	46
Trade and other receivables and prepayments	13,589	4,486	–	18,075
Finance lease liabilities	185	(39)	–	146
Loans and borrowings	(229)	–	–	(229)
Provisions	5,022	434	–	5,456
Employee benefit liabilities	3,361	(937)	(582)	1,842
Trade and other payables	2,279	(135)	–	2,144
Tax loss carry-forwards	4,395	524	–	4,919
Asset held for sale	–	(4,293)	–	(4,293)
Other	45	197	–	242
Unrecognized deferred tax assets	(9,361)	(2,186)	–	(11,547)
	(58,657)	**(14,053)**	**6,160**	**(66,550)**

(in millions of Russian rubles, unless otherwise stated)

	1 January 2017 (restated)	Additions on acquisition of subsidiaries	Recognized in profit or loss	Recognized in other comprehensive income	Disposal of subsidiaries and other movement	31 December 2017 (restated)
Property, plant and equipment	(61,069)	–	(12,736)	–	–	(73,805)
Intangible assets	210	–	44	–	–	254
Available-for-sale investments	(6,850)	–	581	1,728	–	(4,541)
Inventories	353	–	(204)	–	–	149
Trade and other receivables and prepayments	9,775	–	3,814	–	–	13,589
Finance lease liabilities	216	–	(31)	–	–	185
Loans and borrowings	(194)	–	(35)	–	–	(229)
Provisions	4,549	–	473	–	–	5,022
Employee benefit liabilities	2,855	–	(104)	610	–	3,361
Trade and other payables	2,666	–	(387)	–	–	2,279
Tax loss carry-forwards	3,395	5	993	–	2	4,395
Other	396	–	(396)	–	45	45
Unrecognized deferred tax assets	(8,659)	–	(702)	–	–	(9,361)
	(52,357)	**5**	**(8,690)**	**2,338**	**47**	**(58,657)**

18. Inventories

	31 December 2018	31 December 2017
Raw materials and supplies	20,082	18,380
Allowance for impairment of raw materials and supplies	(439)	(215)
Other inventories	17,783	16,906
Allowance for impairment of other inventories	(317)	(21)
	37,109	**35,050**

As at 31 December 2018 and 31 December 2017, the Group has no pledged inventories in accordance with loan or other agreements as collateral.

(in millions of Russian rubles, unless otherwise stated)

19. Trade and other receivables

	31 December 2018	31 December 2017 (restated)
Non-current trade and other accounts receivable		
Trade receivables	76,825	69,415
Allowance for expected credit losses on trade receivables	(409)	(742)
Other receivables	1,773	609
Allowance for expected credit losses on other receivables	(240)	–
Loans given	119	144
Total financial assets	**78,068**	**69,426**
Advances given	7,299	7,309
Advances given impairment allowance	(6,922)	(6,635)
VAT on advances from customers	4,076	4,383
	82,521	**74,483**
Current trade and other accounts receivable		
Trade receivables	219,200	200,448
Allowance for expected credit losses on trade receivables	(100,307)	(85,608)
Other receivables	62,810	29,630
Allowance for expected credit losses on other receivables	(20,368)	(14,739)
Loans given	284	339
Allowance for expected credit loss on current loans given	(154)	(180)
Total financial assets	**161,465**	**129,890**
Advances given	13,375	17,113
Advances given impairment allowance	(7,430)	(8,858)
VAT recoverable	3,464	2,339
VAT on advances from customers and VAT on advances given for purchase of property, plant and equipment	8,725	10,035
Prepaid taxes, other than income tax	1,020	1,125
	180,619	**151,644**

Long-term trade receivables mainly relate to the contracts of technological connection that imply deffered inflow of cash for the provided services (as at 31 Decemeber 2018: RUB 67,994 million, as at 31 December 2017: RUB 56,577 million) and to restructured receivable balances for electricity transmission services.

As at 31 December 2018 other receivables includes RUB 28,389 million due from JSC "Inter RAO Capital" and "DVB Leasing" LLC under the share sales agreement.

(in millions of Russian rubles, unless otherwise stated)

20. Cash and cash equivalents

	31 December 2018	31 December 2017
Cash at banks and in hand	53,063	44,234
Cash equivalents	30.993	57,820
	84,056	**102,054**

	Rating	Rating agency	31 December 2018	31 December 2017
Bank GPB (JSC)*	BB+	Standard & Poor's	13,915	11 425
JSC AB ROSSIYA	A+(RU)	ACRA	12,578	5 322
VTB Bank (PJSC)*	BBB-	Standard & Poor's	10,571	1,183
PJSC Sberbank*	BBB-	Fitch Ratings	7,545	16,945
UFK*	–	–	4,234	4,464
PJSC RNCB*	A(RU)	ACRA	2,234	3,354
VBRR	Ba2	Moody's	896	–
JSC «Alfa-Bank»	BB+	Standard & Poor's	840	815
Other banks	–	–	210	670
Cash in hand			40	56
			53,063	**44,234**

*Government-related

Cash equivalents primarily consist of bank deposits placed with a number of banks for less than three months.

	Interest rate	Rating	Rating agency	31 December 2018	31 December 2017
VTB Bank (PJSC)*	6.00-8.30	BBB-	Standard & Poor's	12,837	11,712
PJSC Sberbank*	4.50-7.90	BBB-	Fitch Ratings	7,193	8,759
Bank GPB (JSC)*	4.50-8.05	BB+	Standard & Poor's	6,615	21,263
VBRR	7.35-8.00	Ba2	Moody's	2,739	–
JSC Russian Agricultural Bank*	6.31-7.45	BB+	Fitch Ratings	617	3,282
JSC AB ROSSIYA	7.35	A+(RU)	ACRA	474	9,228
JSC «Alfa-Bank»	–	BB+	Standard & Poor's	–	3,302
Other banks	–	–		–	43
				30,475	**57,589**

* Government-related

As at 31 December 2018 and as at 31 December 2017 all cash and cash equivalents balances were RUB nominated.

(in millions of Russian rubles, unless otherwise stated)

21. Equity

a) Share capital

	Ordinary shares		Preference shares	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Par value	RUB 1	RUB 1	RUB 1	RUB 1
On issue at 1 January	198,827,865,141	195,995,579,707	2,075,149,384	2,075,149,384
On issue at the end of the year and fully paid	198,827,865,141	198,827,865,141	2,075,149,384	2,075,149,384

b) Ordinary and preference shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

Holders of preference shares are entitled to an annual dividend equal to 10% of net statutory profit divided by 25% of all shares. If the amount of dividends paid by the Company for each ordinary share in a given year exceeds the amount payable as a dividend on each preference share, the dividend rate payable on the latter must be increased to the amount of dividends on ordinary shares.

Preference shares carry the right to vote on all issues within the competence of general shareholders' meetings following the Annual Shareholders' Meeting at which a decision not to pay (or not to pay the full amount of) dividends on preference shares was taken. The right of preference shareholders to vote at general shareholders' meetings ceases from the date of the first full payment of dividends on such shares. The dividend is not cumulative, however. The preference shares also carry the right to vote, but this right is limited according to the amendments of the Company Charter, which include reorganization and liquidation, also the delisting of preferred shares.

In the event of liquidation, preference shareholders receive any declared unpaid dividends and the par value of the preference shares. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

c) Dividends

The basis for distribution of profits of the Company's profit to shareholders is defined by Russian legislation as net profit presented in its statutory financial statements prepared in accordance with the Regulations on Accounting and Reporting of the Russian Federation.

On 29 June 2018 the annual General meeting of shareholders decided not to pay dividends on preference and ordinary shares of PJSC "ROSSETI" on the results of 2017 and to pay dividends on preference and ordinary shares of PJSC "ROSSETI" for the first quarter of 2018 in the amount of RUB 2,468 million (for preference shares in the amount of RUB 0.04287 per one preferrence share and on ordinary shares in the amount of RUB 0.011965 per one ordinary share).

d) Treasury shares

Information regarding treasury shares is presented below:

31 December 2018			31 December 2017		
Number of shares, mln.		Cost,	Number of shares, mln.		Cost,
Ordinary	Preference	mln. RUB	Ordinary	Preference	mln. RUB
3	308	109	1,486	308	2,702

Due to completion of the shares repurchase period by the participants of the option program approved by the Company's Board of Directors on 9 November 2010, the Group has sold 402,185,598 own shares as at 31 December 2018.

On 28 August 2018 the Group concluded sales agreement to sell 1,080,646,965 own shares to "GENNORD PROJECTS LIMITED" company. The transaction price amounted to RUB 900 million. As at 31 December 2018 shares were transferred to the buyer.

e) Changes in shares in subsidiaries

On 5 September 2016, the extraordinary General Meeting of Shareholders of JSC Chechenenergo, a subsidiary of the Group, approved an increase in the authorized capital of JSC Chechenenergo by issuing additional 5,068,551,655 ordinary shares with a par value of 1 RUB each, under closed subscription. The placement price was 1 RUB per share. In 2018, the Group acquired 1,030,515,558 ordinary shares and, taking into account the actually placed shares of the current issue, the Group's share was 71.73%.

On 23 August 2016, at an extraordinary General Meeting of Shareholders of IDGC of Northern Caucasus, PJSC, it was decided to increase the authorized capital by placing additional ordinary registered uncertified shares in the amount of 3,258,695,653 pieces with a par value of 1 ruble each. The placement price was 17.45 rubles per share. In 2018 the Group acquired 462,235,043 shares and, taking into account the actually placed shares of the current issue, the Group's share was 98.71%.

22. Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2018 was based on the earnings attributable to ordinary shareholders in the amount of RUB 90,985 million (for the year ended 31 December 2017: RUB 89,828 million), and a weighted average number of ordinary shares outstanding of 198,825 million (for the year ended 31 December 2017: 197,087 million). The Company has no dilutive financial instruments.

In millions of shares	**2018**	**2017**
Issued shares at 1 January	198,828	195,996
Effect of own shares held	(3)	(1,486)
Effect of issued shares	–	2,577
Weighted average number of shares for the period ended 31 December	**198,825**	**197,087**

	Year ended 31 December 2018	**Year ended 31 December 2017 (restated)**
Weighted average number of ordinary shares for the period ended 31 December (in millions of shares)	198,825	197,087
Profit for the period attributable to holders of ordinary shares	90,985	89,828
Earnings per ordinary share (in RUB) – basic and diluted	**0.46**	**0.46**

(in millions of Russian rubles, unless otherwise stated)

23. Loans and borrowings

	31 December 2018	31 December 2017
Non-current liabilities		
Unsecured loans and borrowings	217,421	220,682
Unsecured bonds	327,387	333,193
Finance lease liabilities	1,952	984
Less: current portion of long-term finance lease liabilities	(467)	(400)
Less: current portion of long-term loans and borrowings	(28,442)	(22,269)
Less: current portion of long-term bonds	(36,862)	(25,200)
	480,989	**506,990**
Current liabilities		
Unsecured loans and borrowings	21,138	3,016
Promissory notes	359	359
Current portion of long-term finance lease liabilities	467	400
Current portion of long-term loans and borrowings	28,442	22,269
Current portion of long-term bonds	36,862	25,200
	87,268	**51,244**
Including:		
Interests payable on loans and borrowings	332	233
Interests payable on bonds	4,378	4,849
	4,710	**5,082**

(in millions of Russian rubles, unless otherwise stated)

		Effective interest rate		Carrying value	
	Year of maturity	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Unsecured loans and borrowings					
Unsecured bank loans*	2018-2021	7.15-9.80%	7.70-12.00%	131,489	97,847
Unsecured bank loans*	2018-2021	7.50-11.00%	8.20-11.70%	47,290	52,452
Unsecured bank loans*	2019-2021	7.20-9.80%	7.65-10.65%	28,283	55,742
Unsecured bank loans*	2019-2021	7.75-10.00%	8.18-10.00%	10,973	7,503
Unsecured bank loans	2019-2021	7.75-11.25%	8.62-11.75%	6,946	3,568
Unsecured bank loans	2021-2021	8.11-8.11%	–	3,609	–
Unsecured bank loans*	2019-2020	8.27-8.27%	–	3,180	–
Unsecured bank loans	2021-2021	Key rate of CB RF+0.58%	–	3,002	–
Unsecured bank loans	2020-2020	7.49%	–	2,001	–
Unsecured bank loans	2021-2021	8.10%	–	700	–
Unsecured bank loans	2019-2020	10.99-11.00%	11.75%	400	400
Unsecured bank loans	2019-2019	11.00%	11.50%	230	230
Unsecured loans	2019-2026	0.00-3.00%	0.00-3.00%	223	297
Unsecured bank loans	2020-2020	10.00%	–	200	–
Unsecured loans	2019	Key rate of CB RF	–	31	–
Unsecured bank loans	2019	12.5-15.5%	15.50%	2	1
Unsecured bank loans	2018	–	Key rate of CB RF +0.00-0.44%	–	3,103
Unsecured bank loans*	2018	–	Key rate of CB RF +0.80%	–	1,845
Unsecured bank loans*	2018	–	Key rate of CB RF +0.00%	–	501
Unsecured bank loans	2018	–	11.75%	–	200
Unsecured bank loans	2018	–	15.00%	–	9
				238,559	**223,698**

(in millions of Russian rubles, unless otherwise stated)

		Effective interest rate		Carrying value	
	Year of maturity	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Bonds					
Unsecured bonds	2022-2048	(CPI**-100%) +1.00% – (CPI -100%) + 2.50%	(CPI**-100%) +1.00% – (CPI -100%) + 2.50%	110,732	110,756
Unsecured bonds	2019-2022	8.30-10.30%	8.30-10.30%	43,907	43,872
Unsecured bonds	2045-2050	(CPI -100%) + 1.00%	(CPI -100%) + 1.00%	40,294	40,263
Unsecured bonds	2021-2052	7.60-9.35%	7.60-9.35%	36,424	26,259
Unsecured bonds	2019-2028	7.40-9.00%	7.40-9.00%	22,782	43,839
Unsecured bonds	2020	0.10-8.25%	0.10-8.25%	18,204	18,200
Unsecured bonds	2019	8.45%	8.45%	17,943	17,943
Unsecured bonds	2019-2025	11.25%	11.25%	10,117	10,114
Unsecured bonds	2019-2045	10.29%	10.29%	6,046	6,044
Unsecured bonds	2019-2022	8.15%	8.15%	5,192	5,192
Unsecured bonds	2019-2026	9.15%	9.15%	5,157	5,155
Unsecured bonds	2019-2026	9.15%	9.15%	5,157	5,155
Unsecured bonds	2021	6.95%	–	5,071	–
Unsecured bonds	2019-2024	–	–	361	401
				327,387	**333,193**
Financial lease liabilities		10.14-42.31%	9.50-42.31%	**1,952**	**984**
Promissory notes*	on demand	0.00%	0.00%	**359**	**359**
Total debt				**568,257**	**558,234**

* State-controlled entities

** Consumer price index – CPI

As at 31 December 2018 and 31 December 2017, loans and borrowings are denominated in roubles.

The Group has not entered into any hedging arrangements with respect to interest rate exposures. Information about the Group's exposure to interest rate risk is disclosed in Note 28.

(in millions of Russian rubles, unless otherwise stated)

Financial lease liabilities by repayment term are disclosed below:

	31 December 2018		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**
Less than one year	702	235	467
Between one and five years	2,572	1,634	938
More than five years	1,233	686	547
	4,507	**2,555**	**1,952**

	31 December 2017		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**
Less than one year	497	97	400
Between one and five years	608	223	385
More than five years	249	50	199
	1,354	**370**	**984**

The financial lease liabilities are secured by leased assets.

(in millions of Russian rubles, unless otherwise stated)

24. Changes in liabilities arising 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**
	Total	**Non-current**	**Current**				
At 1 January 2017	**552,155**	**471,125**	**81,030**	**5,585**	**1,146**	**156**	**559,042**
Net cash flows	(70)	70,943	(71,013)	–	(275)	(9,642)	(9,987)
Interests paid (cash flow from operating activities, for reference)	–	–	–	(45,024)	(140)	–	(45,164)
Acquisition - finance lease	–	–	–	–	71	–	71
Discounting, net	62	62	–	–	–	–	62
Interest and dividends payable accruals	–	–	–	26,690	140	9,763	35,593
Interest capitalized	–	–	–	17,856	–	–	17,856
Change in classification	–	(35,745)	35,745	–	–	–	–
Other non-cash movements, net	21	21	–	(25)	42	69	107
At 31 December 2017	**552,168**	**506,406**	**45,762**	**5,082**	**984**	**346**	**558,580**
At 1 January 2018	**552,168**	**506,406**	**45 762**	**5,082**	**984**	**346**	**558 580**
Net cash flows	9,362	37,667	(28,305)	–	(145)	(12,684)	(3,476)
Interests paid (cash flow from operating activities, for reference)	–	–	–	(39,457)	(250)	–	(39,707)
Acquisition - finance lease	–	–	–	–	1,117	–	1,117
Discounting, net	46	2	44	–	–	–	46
Interest and dividends payable accruals	–	–	–	23,747	250	12,903	36,900
Interest capitalized	–	–	–	15,444	–	–	15,444
Change in classification	–	(64,596)	64,596	–	–	–	
Other non-cash movements, net	19	25	(6)	(106)	(4)	59	(32)
At 31 December 2018	**561,595**	**479,504**	**82,091**	**4,710**	**1,952**	**624**	**568,881**

(in millions of Russian rubles, unless otherwise stated)

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 3 Ocotber 2018 President of the Russian Federation signed the Federal Law *«About modification of separate legal act of the Russian Federation concerning payment and pensions assignment».* The law becomes effective from 1 January 2019 and stipulates gradual increase of a retirement age.

As at 31 December 2018 the net amount of pension liabilities is recorded taking into account the impact of change in pension legislation.

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

	31 December 2018	31 December 2017
Present value of post-employment benefits obligation	21,934	31,181
Present value of other long-term employee benefit obligation	1,658	1,536
Total present value of employee benefit obligation	**23,592**	**32,717**

Change in the value of assets related to employee benefit obligations:

	Year ended 31 December 2018	Year ended 31 December 2017
Value of assets at 1 January	**6,709**	**6,708**
Return on plan assets	20	444
Employer contributions	1,763	2,319
Other movements in the accounts	18	174
Payment of remuneration	(2,294)	(2,936)
Value of assets at 31 December	**6,216**	**6,709**

Assets related to pension plans and defined benefit plans are administrated by non-state pension funds NPF Otkritie, Professionalny and Gazfond - Pensionnie nakoplenia. 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.

Movements in the present value of defined benefit liabilities:

(in millions of Russian rubles, unless otherwise stated)

	Year ended 31 December 2018		Year ended 31 December 2017	
	Post-employment benefits obligation	**Other long-term employee benefit obligation**	**Post-employment benefits obligation**	**Other long-term employee benefit obligation**
Defined benefit plan obligations as at 1 January	**31,181**	**1,536**	**27,208**	**1,217**
Current service cost	1,130	80	1,463	111
Past service cost	(7,106)	68	126	(23)
Interest expense	1,989	104	2,031	87
Remeasurement arising from:				
– Actuarial gain arising from demographic assumptions	(323)	(13)	(895)	(4)
– Actuarial (gain)/loss arising from financial assumptions	(3,909)	(188)	2,686	135
– Actuarial loss arising from experience adjustment	1,851	214	1,989	170
Contributions to the plan	(2,879)	(143)	(3,427)	(157)
Defined benefit plan obligations as at 31 December	**21,934**	**1,658**	**31,181**	**1,536**

(Expenses)/income recognized in profit or loss for the period:

	Year ended 31 December 2018	**Year ended 31 December 2019**
Employees service cost	(5,750)	1,677
Remeasurement of other long-term employee benefit obligation	13	301
Interest expenses	2,093	2,118
Total (expenses)/income recognized in profit or loss	**(3,644)**	**4,096**

Amounts recognized in other comprehensive income for the period:

	Year ended 31 December 2018	**Year ended 31 December 2017**
Actuarial gain arising from demographic assumptions	(323)	(895)
Actuarial (gain)/loss arising from financial assumptions	(3,909)	2,686
Actuarial loss arising from experience adjustment	1,851	1,989
Total actuarial (gain)/loss recognized in other comprehensive income	**(2,381)**	**3,780**

(in millions of Russian rubles, unless otherwise stated)

Movements in remeasurement of employee benefit obligations in other comprehensive income during the year are as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Remeasurements at 1 January	**14,688**	**10,908**
Movement of remeasurements	(2,381)	3,780
Remeasurements at 31 December	**12,307**	**14,688**

The significant 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	57
Average level of staff movement	6.4%	6.7%

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/decrease by 0.5%	Decrease/increase by 6.2%
Future salary growth	Increase/decrease by 0.5%	Increase/decrease by 5.1%
Future growth of benefits (inflation)	Increase/decrease by 0.5%	Increase/decrease by 1.3%
Level of staff movement	Increase/decrease by 10%	Decrease/increase by 2.2%
Mortality level	Increase/decrease by 10%	Decrease/increase by 1.3%

	31 December 2018	31 December 2017
Defined benefit liability	(23,592)	(32,717)
Assets related to the employee benefit plans	6,216	6,709
Total	**(17,376)**	**(26,008)**

Expected payments under the defined long-term employee benefit plans to employees in 2019 are RUB 2,527 million, including:

- RUB 2,379 million under the defined benefit plans, including non-state pension schemes;
- RUB 148 million under the other long-term employee benefit schemes.

(in millions of Russian rubles, unless otherwise stated)

26. Trade and other payables

	31 December 2018	31 December 2017 (restated)
Non-current accounts payable		
Trade payables	15,849	14,651
Other payables	1,976	587
Total financial liabilities	**17,825**	**15,238**
Advances from customers	26,221	24,602
	44,046	**39,840**
Current accounts payable		
Trade payables	158,241	136,357
Other payables and accrued expenses	22,397	16,124
Payables to employees	21,306	19,872
Dividends payable	624	346
Total financial liabilities	**202,568**	**172,699**
Advances from customers	68,832	71,264
	271,400	**243,963**
Taxes payable		
Value-added tax	11,422	9,170
Property tax	7,085	5,304
Social security contributions	3,975	3,476
Other taxes payable	1,242	1,177
	23,724	**19,127**
	295,124	**263,090**

As at 31 December 2018 and 31 December 2017 long-term trade accounts payable mainly relate to contracts for the purchase of property, plant and equipment in instalments.

As at 31 December 2018 and 31 December 2017 advances from customers mainly include advances from technological connection services to electricity gird networks.

The Group's exposure to liquidity risk related to payables is disclosed in Note 28.

27. Provisions

	2018	2017
Balance at 1 January	**10,561**	**14,305**
Increase for the year	8,847	11,876
Decrease due to reversal of provisions	(3,845)	(6,767)
Provisions used	(4,662)	(8,853)
Balance at 31 December	**10,901**	**10,561**

Provisions relate mainly to legal proceedings and claims against the Group in the day-to-day terms of business.

(in millions of Russian rubles, unless otherwise stated)

28. Financial risk and capital management

The Group's ordinary financial and business activities expose it to a variety of financial risks, including but not limited to the following: market risk (foreign exchange risk, interest rate risks related to changes in the fair value of the interest rate and the cash flow interest rate, and price risk), credit risk, and liquidity risk. Such risks give rise to the fluctuations of profit, reserves and equity and cash flows from one period to another.

The Group's financial management policy aims to minimise or eliminate possible negative consequences of the risks for the financial results of the Group. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

a) Credit risk

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

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group monitors existing debt on a regular basis and takes steps to collect the debt and to mitigate losses.

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 establishes an allowance for impairment that represents its estimate of anticipated losses with respect to receivables that relate to individually significant exposures.

(ii) 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	–	67,024
Financial assets measured at fair value through profit or loss	431	–
Financial assets measured at fair value through other comprehensive income	37,922	–
Loans given (less allowance for expected credit losses/allowance for impairment)	578	303
Trade and other receivables (less allowance for expected credit losses/ allowance for impairment)	239,284	199,013
Cash and cash equivalents	84,056	102,054
Bank deposits	50,074	2,798
	412,345	**371,192**

(in millions of Russian rubles, unless otherwise stated)

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	31 December 2018	**31 December 2017**
North-West region	12,572	12,735
Central region	117,846	109,716
Ural and Volga region	31,155	26,623
South region	22,684	21,523
Siberian region	10,948	12,856
Other regions	104	60
	195,309	**183,513**

The Group's ten most significant debtors account for RUB 116,799 million of the trade receivables carrying amount at 31 December 2018 (at 31 December 2017: RUB 100,556 million).

Impairment losses of trade and other receivables

The aging of trade and other receivables is provided below:

	31 December 2018		**31 December 2017**	
	Gross	**Impairment**	**Gross**	**Impairment**
Not past due	202,900	(21,548)	159,525	(5,244)
Past due less than 3 months	21,152	(3,489)	20,452	(4,303)
Past due more than 3 months and less than 6 months	12,139	(5,760)	11,618	(6,123)
Past due more than 6 months and less than 1 year	27,898	(15,050)	19,123	(9,783)
Past due more than 1 year	96,519	(75,477)	89,384	(75,636)
	360,608	**(121,324)**	**300,102**	**(101,089)**

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

The movement oт allowance for expected credit losses of trade and other receivables was as follows:

	2018	**2017**
Balance at 1 January	**(101,089)**	**(89,495)**
Increase for the period	(40,769)	(36,881)
Allowance utilized	5,585	4,565
Decrease due to reversal	14,949	20,722
Balance at 31 December	**(121,324)**	**(101,089)**

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 risking damage to 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 589,516 million (31 December 2017: RUB 437,473 million). The Group has opportunity to attract additional financing within the corresponding limits, including for the purpose of execution of the short-term liabilities.

(in millions of Russian rubles, unless otherwise stated)

Information about the contractual maturities of financial liabilities, including estimated interest payments, is provided below:

31 December 2018	**Carrying amount**	**Contractual cash flows**	**0-1 years**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Loans and borrowings	238,559	273,158	58,615	95,078	115,824	2,488	972	181
Bonds	327,387	577,687	55,773	70,671	35,362	56,197	26,841	332,843
Promissory notes	359	359	359	–	–	–	–	–
Finance lease liabilities	1,952	4,507	702	683	606	724	559	1,233
Trade and other payables	220,393	221,630	206,070	5,678	5,844	1,053	1,227	1,758
	788,650	**1,077,341**	**321,519**	**172,110**	**157,636**	**60,462**	**29,599**	**336,015**

31 December 2017 (restated)	**Carrying amount**	**Contractual cash flows**	**0-1 years**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Loans and borrowings	223,698	268,644	41,312	103,176	95,595	11,495	16,393	673
Bonds	333,193	583,057	44,327	53,055	66,795	33,477	55,765	329,638
Promissory notes	359	359	359	–	–	–	–	–
Finance lease liabilities	984	1,353	496	178	164	149	117	249
Trade and other payables	187,937	193,098	173,857	4,006	4,862	5,834	919	3,620
	746,171	**1,046,511**	**260,351**	**160,415**	**167,416**	**50,955**	**73,194**	**334,180**

c) Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates, prices of goods and equity prices that will affect the Group's financial results or the value of its financial instruments owned. 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, and as such financial results are insignificantly impacted by changes in exchange rates.

(ii) Interest rate risk

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

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.

Cash flow sensitivity analysis for financial instruments with floating interest rate

As at 31 December 2018 the Group's financial liabilities at floating interest rate amounted to RUB 156,600 million (31 December 2017: RUB 156,444 million). A reasonably possible change of 100 basis points in interest rates would have increased (decreased) equity and profit or loss (net of taxes) for 2018 by RUB 1,253 million (2017: RUB 1,252 million). This analysis assumes that all other variables remain constant and interest expenses are not capitalized.

(iii) Price risk

Equity price risk arises from available-for-sale equity securities. The Management of the Group monitors its investment portfolio based on market indices. Significant investments within the portfolio are managed on an individual basis and all buy and sell decisions are taken by the management of the Group. As at 31 December 2018, available-for-sale financial assets exposed to equity price risk amounted to RUB 37,804 million (31 December 2017: RUB 66,415 million). If equity prices had been 10% higher (lower), with all other variables held constant, the other comprehensive income would increase (decrease) by RUB 3,780 million.

(in millions of Russian rubles, unless otherwise stated)

d) 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**
Other financial assets measured at amortized cost	16	50,401	52,422	–	–	52,422
Financial assets measured at fair value through profit or loss	16	431	431	–	–	431
Financial assets measured at fair value through other comprehensive income	16	37,922	37,922	37,804	–	118
Current and non-current loans and borrowings	23	(568,257)	(563,641)	(103,251)	(319,133)	(141,257)
Total:		**(479,503)**	**(472,866)**	**(65,447)**	**(319,133)**	**(88,286)**

	Note	31 December 2017		Level of fair value hierarchy		
		Carrying amount	**Fair value**	**1**	**2**	**3**
Available-for-sale financial assets	16	67,024	67,024	66,298	–	726
Financial assets held to maturity	16	3,039	6,495	–	–	6,495
Current and non-current loans and borrowings	23	(558,234)	(552,494)	(114,057)	(297,113)	(141,324)
Total:		**(488,171)**	**(478,975)**	**(47,759)**	**(297,113)**	**(134,103)**

The interest rate used to discount the expected future cash flows for long-term and short-term loans borrowings for the purpose of determining the fair value disclosed as at 31 December 2018 was 7.35 – 9.27% (as at 31 December 2017: 7.90 – 9.80%).

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

(in millions of Russian rubles, unless otherwise stated)

The reconciliation of the carrying amount of financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income at the beginning and end of the reporting period is provided in the table below:

	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income
At 1 January 2018	**609**	**66,415**
Selling	–	(30,160)
Change in fair value recognized in other comprehensive income	–	1,667
Change in fair value recognized in profit or loss	(178)	–
At 31 December 2018	**431**	**37,922**

e) 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.

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.

The Group's debt-to-equity ratio was as follows:

	Carrying amount	
	31 December 2018	**31 December 2017 (restated)**
Total liabilities	1,023,670	976,643
Less: cash and cash equivalents	(84,056)	(102,054)
Net debt	**939,614**	**874,589**
Equity	1,494,962	1,369,793
Debt-to-equity ratio	**62.85%**	**63.85%**

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 256,644 million, including VAT (as at 31 December 2017: RUB 261,598 million 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 the financial position of the Group in 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 and customs legislation is subject to varying interpretations regarding the operations and activities of the Group.

Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by the relevant regional and federal authorities. Russian tax administration is gradually strengthening. In particular there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties.
Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of decision to perform tax review. Under certain circumstances reviews may cover longer periods.

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

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, as tax audits for compliance with the new transfer pricing rules have recently begun.

However, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect on these consolidated financial statements.

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

As at 31 December 2018 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

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 the consolidated financial statements.

d) Environmental matters

The Group has been operating in the electric transmission industry in the Russian Federation for many years. The legislation on environmental protection in the Russian Federation continues to develop, the duties of the authorized state bodies to monitor its compliance are reviewed. Potential liabilities arising as a result of a change in interpretation of existing regulations, civil litigation or changes in legislation cannot be estimated under the 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.

(in millions of Russian rubles, unless otherwise stated)

e) Guarantees

As at 31 December 2018 the Company acts as a guarantor to Infrastructural Investments-3 LLC for the performance of its subsidiaries' obligations under lease agreements. The total amount of the guarantee is RUB 11,556 million.

31. Operating leases

The Group leases a number of land plots owned by local governments under operating leases. Lease agreements were entered into in prior periods and consist of land plots on which power lines, equipment for electricity transmission and other assets are located. The above lease agreements are usually signed for a period of 1 to 49 years and may be extended for a longer period.

Non-cancellable operating lease rentals are payable as follows:

	31 December 2018	31 December 2017 (restated)
Less than one year	4,825	4,391
Between one and five years	12,605	10,696
More than five years	47,115	47,468
	64,545	**62,555**

Operating lease expenses for the year ended 31 December 2018 amounted to RUB 7,163 million were included in operating expenses (for the year ended 31 December 2017: RUB 6,266 million).

32. Related party transactions

a) Control relationships

The Russian Federation holds the majority of the voting shares of the Company. It is the ultimate controlling party of the Group.

b) Transactions with the key management personnel

In order to prepare these consolidated financial statements, the key management personnel are members of the Management Board and the Board of Directors of PJSC "ROSSETI" and general directors (sole executive body) of subsidiaries engaged in transmission and distribution of electric power through electric grids.

The remuneration for key management personnel consists of the salary stipulated by the employment contract, non-monetary benefits, bonuses determined based on the results for the period, and other payments. Remuneration or compensation is not payable to members of the Board of Directors who are government employees.

The amounts of the remuneration to the key management personnel, disclosed in the table, are recognized as an expense related to the 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 to employees	777	765
Post-employment benefits	(20)	10
Total	**757**	**775**

As of 31 December 2018, the carrying value of defined benefit plan, defined contribution plan and other post-employment benefit plans reported in the consolidated statement of financial position includes liabilities related to the key management personnel for RUB 57 million (31 December 2017: RUB 77 million).

c) 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 36% (for the year ended 31 December 2017: 44%) of total Group revenues, including 38% (for the year ended 31 December 2017: 45%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for government-related entities for the year ended 31 December 2018 constitute 34% (for the year ended 31 December 2017: 33%) of total electricity transmission costs.

For the year ended 31 December 2018 interest expenses on government-related banks loans amounted to RUB 13,632 million (for the nine months ended 31 December 20178: RUB 17,839 million).

As at 31 December 2018 cash and cash equivalents held in government-related banks amounted to RUB 65,812 million (as at 31 December 2017: RUB 82,506 million).

As at 31 December 2018 deposits with an original maturity of more than three months placed in government-related banks amounted to RUB 45,991 million (as at 31 December 2017: RUB 38 million).

Loans and borrowings received from state-controlled entities are disclosed in Note 23.

33. Assets held for sale

On 26 December 2018, as a part of UNEG asset consolidation process the Group has concluded the exchange contract with JSC "Far Eastern Energy Management Company" (government-controlled entity). The Group exchanges property, plant and equipment with the carrying value of RUB 16,081 million as at 31 December 2018, accounts receivable with the carrying value of RUB 5,386 million as at 31 December 2018 and cash amounted to RUB 6,648 million and to be paid by instalments up to 2024 for UNEG property plant and equipment appraised by independent appraiser and valued in the amount of RUB 34,564 million. The exchange has been completed on 1 January 2019.

34. Events after the reporting period

On 13 March 2019 the Group fully re-deemed loan participation notes amounted RUB 17,943 million.