

PJSC “FGC UES”

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED 31 DECEMBER 2020

AND INDEPENDENT AUDITOR’S REPORT

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Independent auditor's report

To the Shareholders and Board of Directors of
Public Joint-Stock Company
"Federal Grid Company of Unified Energy System"

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company "Federal Grid Company of Unified Energy System" and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for 2020, 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 2020 and its consolidated financial performance and its consolidated cash flows for 2020 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' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Key audit matter

How our audit addressed the key audit matter

Impairment of non-current assets

Due to the existence of impairment indicators in respect of non-current assets as of 31 December 2020, the Group performed impairment testing. The value-in-use of property, plant and equipment forming a significant share of the Group's non-current assets, as of 31 December 2020, was determined by the projected cash flow method.

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

Information on the results of the impairment analysis of non-current assets is disclosed by the Group in Note 6 to the consolidated financial statements.

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

Allowance for expected credit losses on trade and other receivables

The allowance for expected credit losses on trade and other receivables was one of the most significant matters for our audit due to the material balances of receivables as of 31 December 2020, as well as due to the fact that management's assessment of the possible recoverability of these receivables is based on assumptions, in particular, on the predicted solvency of the Group's customers.

Information on the allowance for expected credit losses on receivables is disclosed in Notes 11 and 29 to the consolidated financial statements.

We analyzed the Group's accounting policy on receivables with respect to the allowance for expected credit losses.

We considered the calculation of expected credit losses performed by the Group's management, which is based on credit losses experience adjusted for projected factors specified for the Group's customers.

As part of our audit procedures, we also assessed the assumptions used by Group's management, as well as analysis of credit risk and financial performance of counterparties, analysis of receivables payments, ageing structure and overdue receivables and assessed the applicable levels of allowance for expected credit losses.

We also assessed the information on allowance for expected credit losses disclosed in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<i>Recognition, measurement and disclosure of provisions and contingent liabilities</i>	
Recognition, measurement and disclosure of provisions and contingent liabilities concerning legal issues require significant judgment. Due to significance of provisions and contingent liabilities and difficulties in estimating their consequences, it was one of the matters of most significance in our audit.	Our audit procedures included review of legal claims and court decisions, discussion of potential outcomes of contingent liabilities with the Group's management and the legal department personnel and analysis of provisions' amounts adequacy. We also analyzed the relevant disclosures in the consolidated financial statements.
Information on provisions and contingent liabilities is disclosed in Notes 22 and 28 to the consolidated financial statements.	

Other information included in Annual report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The partner in charge of the audit resulting in this independent auditor's report is T.L. Okolotina.



T.L. Okolotina
Partner
Ernst & Young LLC

25 March 2021

Details of the audited entity

Name: Public Joint-Stock Company "Federal Grid Company of Unified Energy System"
Record made in the State Register of Legal Entities on 20 August 2002, State Registration Number 1024701893336.
Address: Russia 117630, Moscow, Akademika Chelomeya street, 5A.

Details of the auditor

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

PJSC "FGC UES"

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

	Notes	31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,069,114	1,024,901
Right-of-use assets	7	14,216	12,719
Intangible assets	8	7,684	6,609
Investments in associates and joint ventures	9	1,481	1,296
Other non-current financial assets	10	62,476	45,711
Deferred income tax assets	17	781	275
Trade and other accounts receivable	11	67,614	72,084
Advances given and other non-current assets	12	2,361	2,107
Total non-current assets		1,225,727	1,165,702
Current assets			
Cash and cash equivalents	13	30,096	37,077
Other financial assets	14	16,643	25,903
Trade and other accounts receivable	11	39,147	41,709
Income tax prepayments		1,357	93
Inventories	15	17,526	16,968
Advances given and other current assets	12	9,349	2,576
		114,118	124,326
Assets held for sale		313	313
Total current assets		114,431	124,639
TOTAL ASSETS		1,340,158	1,290,341
EQUITY AND LIABILITIES			
Equity			
Share capital: Ordinary shares	16	637,333	637,333
Treasury shares	16	(4,719)	(4,719)
Share premium		10,501	10,501
Reserves	16	32,755	30,937
Retained earnings		274,948	227,558
Equity attributable to shareholders of FGC UES		950,818	901,610
Non-controlling interests		168	174
Total equity		950,986	901,784
Non-current liabilities			
Deferred income tax liabilities	17	57,339	46,871
Non-current debt	18	219,850	208,343
Non-current trade and other accounts payable	21	5,863	14,121
Non-current advances received		13,612	10,230
Government grants		753	811
Retirement benefit obligations	19	7,531	6,955
Total non-current liabilities		304,948	287,331
Current liabilities			
Dividends payable	16	335	11,388
Current debt and current portion of non-current debt	18, 20	23,769	31,444
Trade and other accounts payable	21	42,155	41,580
Advances received		10,099	8,872
Taxes, other than on income payable		4,167	4,265
Provisions	22	3,642	1,202
Current income tax payable		57	2,475
Total current liabilities		84,224	101,226
Total liabilities		389,172	388,557
TOTAL EQUITY AND LIABILITIES		1,340,158	1,290,341

Authorised for issue and signed on behalf of the management 25 March 2021

Director General of PJSC "ROSSETI"

The management company of PJSC "FGC UES"

Head of Accounting and Financial Reporting – Chief Accountant

A.V. Ryumin

D.V. Nagovitsyn

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

PJSC “FGC UES”

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

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Revenues	23	237,304	249,611
Other operating income	23	4,860	6,291
Operating expenses	24	(160,124)	(155,282)
Gain on disposal of assets	31	-	10,444
Reversal/(accrual) of allowance for expected credit losses	11	246	(1,624)
Impairment of property, plant and equipment, net	6	(12,549)	(6,726)
Operating profit		69,737	102,714
Finance income	25	13,099	13,796
Finance costs	26	(7,232)	(6,896)
Disposal of an associate	9	-	(62)
Share of profit of associates and joint ventures (net of income tax)	9	142	144
Profit before income tax		75,746	109,696
Income tax expense	17	(16,356)	(23,058)
Profit for the period		59,390	86,638
Other comprehensive income/(loss)			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Change in fair value of financial investments	10	2,593	9,921
Remeasurements of retirement benefit obligations	19	(526)	(876)
Income tax relating to items that will not be reclassified	17	(292)	(1,378)
Total items that will not be reclassified to profit or loss		1,775	7,667
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Foreign currency translation difference	9	43	(228)
Total items that are or may be reclassified to profit or loss		43	(228)
Other comprehensive income for the period, net of income tax		1,818	7,439
Total comprehensive income for the period		61,208	94,077
Profit attributable to:			
Shareholders of FGC UES	27	59,379	86,598
Non-controlling interests		11	40
Total comprehensive income attributable to:			
Shareholders of FGC UES		61,197	94,037
Non-controlling interests		11	40
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	27	0.047	0.069

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

PJSC “FGC UES”

Consolidated Statement of Cash Flows

(in millions of Russian Rouble unless otherwise stated)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		75,746	109,696
<i>Adjustments:</i>			
Depreciation of property, plant and equipment	24	38,514	35,564
Depreciation of right-of-use assets	7	1,090	899
Loss on disposal of property, plant and equipment	24	1,561	1,094
Amortisation of intangible assets	24	1,360	1,405
Impairment of property, plant and equipment, net	6	12,549	6,726
Gain on disposal of assets	32	-	(10,444)
Share of profit of associates and joint ventures, net of income tax	9	(142)	(144)
(Reversal)/accrual of allowance for expected credit losses	11	(246)	1,624
Accrual of provisions	22, 24	2,350	863
Disposal of an associate	9	-	62
Finance income	25	(13,099)	(13,796)
Finance costs	26	7,232	6,896
Other non-cash transactions		(333)	(132)
Total impact of adjustments		50,836	30,617
Decrease in non-current trade and other accounts receivable		11,515	845
Increase in non-current advances given and other non-current assets		(423)	(936)
Decrease in non-current accounts payable		(2,453)	(5,027)
Increase in non-current advances from customers		3,533	7,824
Cash flows from operating activities before changes in working capital and provisions		138,754	143,019
<i>Changes in working capital:</i>			
Decrease in trade and other accounts receivable		2,719	7,865
(Increase)/decrease in advances given and other current assets		(6,794)	1,727
(Increase)/decrease in inventories		(205)	362
(Decrease)/increase in trade and other payables		(2,900)	52
Use of provisions		(966)	(344)
Increase/(decrease) in advances from customers		660	(7,841)
Cash flow from operating activities before payment of income tax		131,268	144,840
Income tax paid		(10,390)	(8,606)
Net cash flows generated by operating activities		120,878	136,234
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(89,885)	(92,315)
Proceeds from disposal of property, plant and equipment		51	484
Purchase of intangible assets		(2,450)	(2,194)
Redemption of promissory notes		66	10
Placement of bank deposits		(44,157)	(30,554)
Redemption of bank deposits		53,288	8,830
Dividends received		1,578	1,463
Loans given		(105)	(5)
Repayment of loans given		105	23
Purchase of other financial assets		(14,151)	-
Proceeds from sale of financial assets		-	32,141
Interest received		4,447	3,048
Net cash flows used in investing activities		(91,213)	(79,069)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from current and non-current borrowings	18	30,000	22
Repayment of current and non-current borrowings	18	(27,415)	(19,443)
Repayment of principal portion of lease liabilities	18	(1,192)	(783)
Dividends paid	16	(23,042)	(20,205)
Acquisition of non-controlling interests		-	(74)
Interest paid on lease agreements	18	(1,405)	(1,217)
Interest paid	18	(13,592)	(16,006)
Net cash flows used in financing activities		(36,646)	(57,706)
Net decrease in cash and cash equivalents		(6,981)	(541)
Cash and cash equivalents at the beginning of the period	13	37,077	37,618
Cash and cash equivalents at the end of the period	13	30,096	37,077

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

PJSC “FGC UES”

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

	Notes	Attributable to shareholders of FGC UES					Non-controlling interests	Total equity
		Share capital	Share premium	Treasury shares	Reserves	Retained earnings		
As at 1 January 2020		637,333	10,501	(4,719)	30,937	227,558	174	901,784
Total comprehensive income for the period								
Profit for the period		-	-	-	-	59,379	11	59,390
<i>Other comprehensive income/(loss), net of related income tax</i>								
Change in fair value of financial investments, net of income tax	10, 16	-	-	-	2,244	-	-	2,244
Remeasurements of retirement benefit obligations, net of income tax	16, 19	-	-	-	(469)	-	-	(469)
Foreign currency translation difference	9, 16	-	-	-	43	-	-	43
<i>Total other comprehensive income</i>		-	-	-	1,818	-	-	1,818
Total comprehensive income for the period		-	-	-	1,818	59,379	11	61,208
Dividends	16	-	-	-	-	(11,989)	(17)	(12,006)
As at 31 December 2020		637,333	10,501	(4,719)	32,755	274,948	168	950,986

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

PJSC “FGC UES”

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

(in millions of Russian Rubles unless otherwise stated)

	Notes	Attributable to shareholders of FGC UES					Non-controlling interests	Total equity	
		Share capital	Share premium	Treasury shares	Reserves	Retained earnings			Total
As at 1 January 2019		637,333	10,501	(4,719)	25,167	170,699	838,981	181	839,162
Total comprehensive income for the period									
Profit for the period		-	-	-	-	86,598	86,598	40	86,638
<i>Other comprehensive income/(loss), net of related income tax</i>									
Change in fair value of financial investments, net of income tax	10, 16	-	-	-	8,555	-	8,555	-	8,555
Remeasurements of retirement benefit obligations, net of income tax	16, 19	-	-	-	(888)	-	(888)	-	(888)
Foreign currency translation difference	9, 16	-	-	-	(228)	-	(228)	-	(228)
<i>Total other comprehensive income</i>		-	-	-	7,439	-	7,439	-	7,439
Total comprehensive income for the period		-	-	-	7,439	86,598	94,037	40	94,077
Transfer of accumulated revaluation reserve at disposal of financial investments	10	-	-	-	(1,669)	1,669	-	-	-
Dividends	16	-	-	-	-	(31,380)	(31,380)	(1)	(31,381)
Acquisition of non-controlling interests	4	-	-	-	-	(28)	(28)	(46)	(74)
As at 31 December 2019		637,333	10,501	(4,719)	30,937	227,558	901,610	174	901,784

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

PJSC “FGC UES”

Notes to the Consolidated Financial Statements

(in millions of Russian Rouble unless otherwise stated)

Note 1. PJSC “FGC UES” and its operations

Public Joint-Stock Company “Federal Grid Company of Unified Energy System” (“FGC UES” or the “Company”) was established in June 2002 for the purpose of operating and managing the electricity transmission grid infrastructure of the Russian Unified National Electric Grid (the “UNEG”).

FGC UES and its subsidiaries (the “Group”) act as the natural monopoly operator for the UNEG. The Group’s principal operating activities consist of providing electricity transmission services, providing connection to the electricity grid, maintaining the electricity grid system, technical supervision of grid facilities and investment activities in the development of the UNEG. The majority of the Group’s revenues are generated via tariffs for electricity transmission, which are approved by the Russian Federal Antimonopoly Service (“FAS”) based on the Regulatory Asset Base (“RAB”) regulation.

On 14 June 2013 the Government of the Russian Federation (the “RF”) transferred its stake in FGC UES to PJSC “ROSSETI” (former OJSC “IDGC Holding”), the holding company of an electricity distribution group, controlled by the Government of the RF. As at 31 December 2020, FGC UES was 80.13% owned and controlled by PJSC “ROSSETI”. The remaining shares are traded on the Moscow Stock Exchange and as Global Depository Receipts on the London Stock Exchange.

On 15 May 2020 the Annual General Shareholders’ Meeting of the Company was taken the decision to transfer the powers of the sole executive body of FGC UES to a management organisation, namely PJSC “ROSSETI” (minutes No. 24 dated May 15, 2020).

The registered office of the Company is located at 5A Akademika Chelomeya Street, Moscow 117630, Russian Federation.

Relationships with the state. The Government of the RF is the ultimate controlling party of FGC UES. The Government directly affects the Group's operations via regulation over tariff by the FAS and its investment program is subject to approval by both the FAS and the Ministry of Energy. The Government's economic, social and other policies could have a material impact on the Group’s operations

The Group’s business environment. The Group operates primarily in the Russian Federation and hence is exposed to risks related to the Russian economy and political market environments. The economy of the Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory system is continuing to evolve and is subject to varying interpretations, and changes, which can occur frequently. The ongoing political tension and international sanctions against certain Russian companies and individuals still adversely impact the Russian economy.

The pandemic of coronavirus (COVID-19) in 2020 has caused a financial and economic tension in the world markets, lower consumption expenditure and business activities. A drop in demand on oil, natural gas and crude products have caused a fall in hydrocarbon world prices. The stock exchange, currency and commodity markets have shown a significant volatility since March 2020.

Many countries as well as the Russian Federation have imposed quarantine measures. Social distancing and isolation measures have resulted in discontinued operations in retail, transport, travel and tourism, foodservice and many other areas.

The impact of the pandemic on economics in countries individually and globally has had no historical analogies ever when governments took measures to save the economy. Various forecasts of changes in the macroeconomic indicators both in the short- and long-term horizon, the extent of impact of the pandemic on businesses including the estimation how long the crisis and recovery from it will last display different views.

The Group considers the influence of the events on the Group's operations as limited taking into consideration the following factors:

- systemic nature and position of the industry where the Group operates to ensure uninterrupted energy and power supply to users;
- state regulation of tariffs on the primary operational activities which allows to make forecasts within the approved tariffs on the Group's services;
- the means and extent of use of the Group's production assets have not changed;
- absence of currency risk (the majority of the Group's revenues and expenditures as well as monetary assets and liabilities are denominated in Russian Ruble (“RR”));

PJSC “FGC UES”

Notes to the Consolidated Financial Statements

(in millions of Russian Rouble unless otherwise stated)

Note 1. PJSC “FGC UES” and its operations (continued)

- absence of direct adverse effect on the main operational activities of the Group from the regulatory changes aimed to prevent the spread of COVID-19.

Global economic activity has begun a gradual recovery during the second quarter following the partial removals of restrictions aimed to prevent the epidemic spread, as well as a partial recovery in benchmark crude oil prices following the new OPEC+ production agreement reached and the compliance to the target cuts. This recovery has continued throughout the second half of 2020. Nevertheless, the scale and duration of these events remain uncertain and may continue to influence future earnings, cash flows and financial position of the Group.

The Group continues to monitor and assess the situation and take appropriate action such as:

- cooperate with the federal and regional authorities to prevent the spread of coronavirus and take all required measures to ensure safety, health protection of its employees and contractors;
- conduct measures to ensure stable electricity supply, realize investment projects and financial stability of the Group;
- monitor forward-looking and actual information about the pandemic impact on the economy of the Russian Federation and on the business activities of the Group's main counterparties;
- incorporate such forward-looking and actual information together with estimation of its degree of reliability and representation into the assessment of the possible influence on the changing micro- and macroeconomic conditions on the Group's financial position and performance.

Note 2. Basis of preparation

Statement of compliance

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

Each entity of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Russian Accounting Standards (hereinafter – RAS).

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

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 and financial assets measured at fair value through other comprehensive income.

Functional and presentation currency

The Russian Rouble (“RR”) is functional currency for FGC UES and its subsidiaries and the currency in which these Consolidated Financial Statements are presented. All financial information presented in RR have been rounded to the nearest million, unless otherwise stated.

New accounting developments

The Group first-time adopted certain standards and amendments which related to the Group's operations and become effective for annual periods beginning on or after 1 January 2020. The application of these standards and interpretations did not have a material impact on these consolidated financial statements of the Group.

Amendments to IFRS 3 Business Combination.

These amendments revise the definition of a business with the aim to make its application less complicated. In addition, they introduce an optional “concentration test” that, if met, eliminates the need for further assessment. Under this concentration test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business.

Conceptual framework for financial reporting.

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

Note 2. Basis of preparation (continued)

Amendments to IAS 1 and IAS 8, Definition of Material.

These amendments specify the definition of “material” and its application by including recommendations on the definition that were previously presented in other IFRSs and align the definition across the Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Amendments to IFRS 16 "Lease Assignments Related to the Covid-19 Pandemic»

Amendments to IFRS 16 "Lease Assignments Related to the Covid-19 Pandemic". These amendments provide for an exemption for lessees from applying the requirements of IFRS 16 in terms of accounting for lease modifications in the case of lease assignments that arise as a direct consequence of the Covid-19 pandemic. As a practical simplification, the lessee may decide not to analyze whether the lease assignment granted by the lessor in connection with the Covid-19 pandemic is a modification of the lease agreement. The lessee who makes such a decision must account for any change in lease payments resulting from a lease assignment related to the Covid-19 pandemic, in the same way that this change would be accounted for under IFRS 16 if it were not any modification of the lease agreement.

Certain new standards, amendments and interpretations have been issued but are not effective for the reporting period of the Group's consolidated financial statements.

The Group plans to adopt these pronouncements when they become effective; they are not expected to have a significant impact on the Group's Consolidated Financial Statements.

- Amendments to IAS 1 “Classification of Liabilities as Short-term or Long-term”
- Amendments to IAS 37 “Onerous Contracts – Contract Performance Costs”
- Amendments to IAS 16 “Property, Plant and Equipment: Proceeds before Intended Use”
- Amendments to IFRS 3 “References to the Conceptual framework”
- Amendment to IFRS 9 “Financial Instruments” - commission fee for the “10% test” in the event of derecognition of financial liabilities
- Amendment to IFRS 1 “First-Time Adoption of International Financial Reporting Standards” – a subsidiary applying International Financial Reporting Standards for the first time
- IFRS 17 “Insurance Contracts”
- Amendment to IAS 41 “Agriculture” - Taxation in the measurement of fair value
- Amendments to IAS 1 “Presentation of financial statements”
- Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”.

Changes in presentation. Reclassification of comparative data

Some items in the comparative financial statements were reclassified to comply with the current period presentation. All reclassifications are immaterial.

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:

PJSC “FGC UES”

Notes to the Consolidated Financial Statements

(in millions of Russian Rouble unless otherwise stated)

Note 2. Basis of preparation (continued)

Carrying value of property, plant and equipment. 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 unfavorable impact on the Group’s business.

When measuring value in use, management assesses estimated cash flows from assets or groups of assets (cash generating units) and calculates an acceptable discount rate for the present value of these cash flows. For more detailed information see note 6 «Property, plant and equipment».

Determining the lease term under contracts with an option to extend the lease or an option to terminate the lease - the Group as the lessee.

The Group determines the lease term as the non-cancellable period of a lease together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain no to exercise that option. When making an assumption whether the Group is reasonably certain to exercise the option to extend the lease or the option to terminate the lease for the purpose of determining the lease term, the Group takes into consideration the factors as follows:

- if the leased item is special purpose;
- location of the item;
- a practical possibility for the Group and lessor to choose another contractor (asset);
- costs related to termination the lease and to enter into a new (replacement) agreement;
- existence of significant improvements to leased items.

Impairment of accounts receivable. Allowance for expected credit losses of accounts receivable is based on management assumption of debt recovery made for each debtor individually. For the purposes of assessing credit losses, the Group consistently takes into account all reasonable and verifiable information on past events, current and projected events that is available without 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.

Retirement benefit obligations. The costs of the defined benefit pension plan and its related costs are determined using actuarial valuations. Actuarial valuations involve using 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 recognized 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.

Note 3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements.

Principles of consolidation

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.

Note 3. Summary of significant accounting policies (continued)

Business combination

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 recognised 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 recognised 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.

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

Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined prospectively from the date on which business combination between entities under common control occurred. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in the consolidated financial statements. Any consideration for the acquisition is accounted for in the consolidated financial statements as an adjustment to retained earnings within equity.

Investments in associates (equity accounted investees)

Associates are such 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.

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.

Note 3. Summary of significant accounting policies (continued)

Foreign currency

Monetary assets and liabilities denominated in foreign currency at the reporting date are translated to RR 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 is recognised in profit or loss.

Financial assets

The Group classifies financial assets as follows: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, financial assets measured at fair value through profit or loss. The classification depends on the business model for managing financial assets and the contractual characteristics of cash flows.

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

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

- trade and other receivables that meet the definition of financial assets in case the Group does not intend to sell them immediately or in the nearest future;
- bank deposits, that do not meet the criteria of cash equivalents;
- promissory notes and bonds not held for trading;
- loans given;
- cash and cash equivalents.

For financial assets classified as measured at amortised cost, an allowance for expected credit losses (hereinafter – ECL) is made.

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

The Group treated the following equity instruments of other companies as financial assets measured at fair value through other comprehensive income:

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

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

Impairment of financial assets

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.

The Group uses a simplified approach to estimating an allowance for expected credit losses – an estimate of an amount equal to the expected credit losses for the entire term of trade receivables or contractual assets that arise as a result of transactions within the scope of IFRS 15 *Revenue from Contracts with Customers* (including those containing a significant financing component) and lease receivables.

For other financial assets classified as at amortised cost loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since initial recognition.

The estimated allowance for expected credit losses on a financial instrument is estimated at each reporting date at the amount equal to the expected credit losses for the entire period if the credit risk for the financial instrument has increased significantly since initial recognition, taking into account all reasonable and verifiable information, including forward-looking information.

Note 3. Summary of significant accounting policies (continued)

As indicators of significant deterioration in credit risk the Group considers the actual or anticipated difficulties of the Issuer or of a debtor's asset, the actual or expected breach of a contract, the expected renegotiation of the contract due to financial difficulties of the debtor at a disadvantage for the Group the terms on which it would disagree in other circumstances.

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

A credit impairment loss on a financial asset is accounted by recognizing an estimated allowance for impairment. For a financial asset measured at amortised cost, the amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the initial effective interest rate.

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

Financial liabilities

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

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

- loans and borrowing (debt)
- trade and other payables

Loans and borrowing are initially recognized at fair value taking into account transaction costs that are directly related to raising these funds. Fair value is determined based on prevailing market interest rates for similar instruments if it differs significantly from the transaction price. In subsequent periods borrowings are carried at amortised cost using the effective interest rate method; any difference between the fair value of funds received (net of transaction costs) and the amount due is recorded in profit or loss as interest expense over the entire period of the liability to repay the borrowed funds.

Borrowing costs are charged in the reporting period in which they were incurred if they were not related to the acquisition or construction of qualified assets. Borrowing costs related to the acquisition or construction of assets that take a significant amount of time to prepare for use (qualifying assets) are capitalized as part of the asset's value.

Capitalization is performed when the Group:

- incurs the costs of qualified assets,
- incurs borrowing costs and,
- conducts activities related to preparing assets for use or sale.

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

Accounts payable are accrued starting the moment the counterparty fulfills its obligations under the agreement. Accounts payable are recognized at fair value and subsequently accounted at amortised cost using the effective interest rate method.

Note 3. Summary of significant accounting policies (continued)**Property, plant and equipment**

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and any subsequent accumulated impairment losses, where required.

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 as separate items (major components) of property, plant and equipment.

The cost of improvement and reconstruction is capitalized with a simultaneous write-off of replaced items. Cost of repair and maintenance is expensed when they occur. The gain or loss on disposal of an item of property, plant and equipment is recognised within profit or loss when they occur.

Depreciation on property, plant and equipment is calculated on a straight-line basis when it is available for use.

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 useful lives, in years, of assets by type of facility are as follows:

	Useful lives, years
Land and buildings	50-80
Electric power transmission grids	20-50
Substations	15-30
Other	5-50

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use.

The carrying amount is reduced to the recoverable amount and the impairment loss is recognised as current period loss. An impairment loss recognised for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Intangible assets

All of the Group's intangible assets have definite useful lives and primarily include capitalised computer software and licences. Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

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

After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful lives. At each reporting date the management assesses whether there is any indication of impairment of intangible assets. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

Note 3. Summary of significant accounting policies (continued)

Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. An agreement is, or contains, a lease if it conveys the right to control the use of an identified asset for a period in exchange for consideration.

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

The lease liability is initially measured at the present value of the lease payments that are not paid on inception of the lease and subsequently measured at amortized cost in the form of interest in the finance costs line in the consolidated statement of profit or loss and other comprehensive income. Lease liabilities are presented in the Consolidated Statement of financial position under Current and Non-current Borrowings lines.

The Group recognises lease payments under short-term contracts as an expense on a straight-line basis over the lease term.

Regarding a separate lease agreement, the decision may be made on the qualification of the agreement as a lease with the low cost of an asset. Lease payments under such an agreement will be recognized as an expense on a straight-line basis over the lease term.

For leases of land plots under electric grid facilities with an indefinite period of time or with a contract term of not more than 1 year with the possibility of annual renewal, the Group determines the term of the contract using the useful life of fixed assets located on leased land plots as basic criteria.

For leases of electric grid facilities with an indefinite term or with a contract term of not more than 1 year with the possibility of annual renewal, the Group determines the term of the contract using the useful life of its own fixed assets with similar technical characteristics as basic criteria.

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.

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.

Inventories aimed to maintain works on prevention and elimination of accidents (emergency situations) in electric grids (sectorial emergency reserve) are recognised within the item Inventories.

Value-added tax

Output value added tax related to sales is payable to 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. As part of advances given and other assets are recognised (on a net basis) the amounts of VAT accrued from advances received and advances given, as well as VAT recoverable and prepayment for VAT. Amounts of VAT payable to the budget are disclosed separately as part of current liabilities. Where allowance for the expected credit losses has been made for receivables, the allowance loss is recorded for the gross amount of the debtor, including VAT.

Note 3. Summary of significant accounting policies (continued)

Pension and post-employment benefits

In the normal course of business the Group makes mandatory social security contributions to the Pension Fund of the RF on behalf of its employees. These contributions are expensed when incurred and included in employee benefit expenses and payroll taxes in profit or loss.

In addition, the Group maintains a number of post-employment and compensation long-term benefit plans which are defined benefit in nature. These plans include life pension, lump sum upon retirement, financial support after retirement, jubilee and death benefits and cover majority of the Group's employees. Under the pension plan amount of pension benefits that an employee will receive after retirement depends on his date of birth, number of years of service, position, salary and presence of awards. The Group settles its liability to provide life pension benefits through a non-state pension fund. The assets held in the non-state pension fund are recognised within other non current assets. Other benefits, apart from life pension payable via the non-state pension fund, are provided for when they are due directly by the Group.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Russian government bonds that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit or loss.

Income tax

Income tax expense is comprised of current and deferred income 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 and 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; and
- 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.

Note 3. Summary of significant accounting policies (continued)

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.

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.

Share capital

Ordinary shares with discretionary dividends are classified as equity upon completion of share issue and registration of the issue in the Federal Financial Markets Service of the RF. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Treasury shares

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's shareholders until the shares are cancelled or reissued or disposed. Where such shares are subsequently reissued or disposed, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's shareholders. Treasury shares are recorded at weighted average cost. Gains or losses resulting from subsequent sales of shares are recorded in the consolidated statement of changes in equity, net of associated costs including taxation.

Dividends

Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared (approved by shareholders) before or on the end of the reporting period. Dividends are disclosed when they are declared after the end of the reporting period, but before the consolidated financial statements are authorised for issue.

Revenue from Contracts with Customers

The Group recognizes revenue when (or as) it satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. When (or as) a performance obligation is satisfied, the Group recognizes as revenue the amount which the Group expects to be entitled for in exchange for transferring promised assets to a customer excluding VAT.

Transmission fee

Transmission fees are recognised during the period (billing month) and are measured using the output method (cost of transferred electricity and power volumes). The tariffs for the distribution of electricity through the UNEG are approved by the Federal executive authority for state regulation of tariffs (the FAS).

Electricity sales

Production of electricity in forced mode is made at prices that are approved by the Federal executive authority for state regulation of tariffs. Electrical power supply to territorially isolated energy systems is made at prices that are set by executive authorities of constituent entities of the Russian Federation for state regulation of tariffs.

Sale of electricity is recognised over the time (billing month) and is measured using the output method (cost of transferred electricity and power volumes).

Note 3. Summary of significant accounting policies (continued)

Technological connection services

Revenue from the services for technological connection to the electric grid is a non-refundable fee for connecting consumers to the electric grids. The Group transfers control of a service at a point in time (when the consumer is connected to the electric grid or, for certain types of customers - when the Group ensures possibility for the consumer to be connected to the electric grid) and, therefore, satisfies a performance obligation at a point in time.

The payment for technological connection is based on an individual project; standard tariffs, peak capacity unit tariffs, payment formula for technological connection are approved by the regional energy commission (department for prices and tariffs of relevant regions) and do not depend on revenue from services on electricity transmission. Payment to technological connection to the unified national (All-Russia) grids is approved by the FAS.

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 are no any other performance 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.

Construction services

Revenue from construction services are recognised over time as the Group creates or enhances an assets that is controlled by the customer and those assets has no alternative use to the entity and the Group has an enforceable right to payment for performance completed to date.

Other revenue

Revenue from rendering other services (technical, repair and maintenance service, consulting, organizational and technical services, communication and IT services, other services) and revenue from other sales is recognised when the customer obtains control over the asset.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivable

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). The accounting policies for recognition of trade and other receivables are given in section Financial Assets.

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”.

Advances received are primarily a deferred income for the future connection services and construction contracts. Advances received from buyers and customers are analyzed by the Group for the presence of a financial component. If there is a gap of time of more than 1 year between the receipt of advances from customers and transfer of the promised goods and services for reasons other than providing financing to the counterparty (under contracts for technological connection to electric grids), interest expense is not recognised. Such advances are recorded at the fair value of assets received by the Group from buyers and customers in advance.

Finance income and cost

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.

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Note 3. Summary of significant accounting policies (continued)

Finance costs are comprised of interest expense on borrowings, lease liabilities, 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.

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.

Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating ordinary shares outstanding during the reporting period.

Measurement of fair values

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 recognises transfers between levels of the fair value hierarchy during the reporting period when the change has occurred.

The Group considers the point of time when transfers between and for certain levels are recognised when an event or change in circumstances occurs.

Note 4. Principal subsidiaries

The principal subsidiaries as at 31 December 2020 and 31 December 2019 are presented below:

Name	31 December 2020		31 December 2019	
	Ownership, %	Voting, %	Ownership, %	Voting, %
Transmission companies:				
JSC “The Kuban trunk grids”	100.0	100.0	100.0	100.0
OJSC “The Tomsk trunk grids”	90.5	100.0	90.5	100.0
Other companies				
JSC “Mobile gas-turbine electricity plants”	100.0	100.0	100.0	100.0
JSC “Research and development centre of FGC UES”	100.0	100.0	100.0	100.0
JSC “Specialised electricity transmission service company of the UNEG”	100.0	100.0	100.0	100.0
JSC “Engineering and construction management centre of Unified Energy System”	100.0	100.0	100.0	100.0

Transmission companies. JSC “The Kuban trunk grids” and OJSC “The Tomsk trunk grids” own the UNEG assets which are maintained and operated by the Company.

JSC “Mobile gas-turbine electricity plants”. The primary activity of the company is generating and sale of electricity provided by mobile gas-turbine electricity plants used in power deficient points of the power system or in peak periods as temporary source of additional capacity.

JSC “Research and development centre of FGC UES” is a research and development project institution in the sphere of electric power.

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Note 4. Principal subsidiaries (continued)

JSC “*Specialised electricity transmission service company of the UNEG*”. The main activities of this company are technical inspection, maintenance and regular and emergency repairs of power grids and other electric power facilities of the UNEG.

JSC “*Engineering and construction management centre of Unified Energy System*”. The main activity of this company is functioning as a customer-developer in capital construction projects associated with the reconstruction and technical modernisation of electricity supply facilities and infrastructure.

Note 5. Balances and transactions with related parties

Government-related entities.

Within the current operations the Group performs transactions with other government-related entities. Such transactions are performed at regulated tariffs either at market prices or market interest rates.

Taxes are accrued and settled in accordance with the Russian tax legislation.

During the years ended 31 December 2020 and 31 December 2019 the Group had the following significant transactions with government-related entities:

	Year ended 31 December 2020	Year ended 31 December 2019
Transmission revenue	172,256	174,611
Electricity sales	733	744
Construction services	3,216	871
Technological connection services	5,517	17,063
Dividend income	1,578	1,463
Interest income on loans, promissory notes, bank deposits and cash in bank	3,132	2,380
Net reversal of allowance for expected credit losses	507	189
Purchased electricity for production needs	(7,529)	(6,770)
Short-term leases	(108)	(1,799)

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Note 5. Balances and transactions with related parties (continued)

Significant balances with government-related entities are presented below:

	31 December 2020	31 December 2019
Non-current assets		
Other non-current financial assets	61,807	45,216
Advances to construction companies and suppliers of property, plant and equipment (included in construction in progress)	539	610
Trade and other accounts receivable (net of allowance for expected credit losses of RR 177 million as at 31 December 2020 and RR 160 million as at 31 December 2019)	67,017	69,779
Advances given and other non-current assets	26	8
Current assets		
Cash and cash equivalents	25,075	31,035
Other financial assets	6,528	25,718
Trade and other accounts receivable (net of allowance for expected credit losses of RR 4,886 million as at 31 December 2020 and RR 5,425 million as at 31 December 2019)	30,963	35,552
Advances given and other current assets (net of allowance for impairment of RR nil million as at 31 December 2020 and RR 73 million as at 31 December 2019)	153	75
Non-current liabilities		
Non-current debt	(9,462)	(6,287)
Trade and other accounts payable	(3,227)	(3,015)
Advances received	(10,131)	(8,020)
Current liabilities		
Current debt and current portion of non-current debt	(596)	(490)
Dividends payable	(335)	(2,389)
Trade and other accounts payable	(1,836)	(3,933)
Advances received	(7,312)	(5,810)

Liabilities related to the exchange contract with JSC “Far Eastern Energy Management Company” (Note 31) are included in non-current trade and other accounts payable.

As at 31 December 2020 the Group had undrawn committed financing facilities with government-related banks of RR 60,021 million (31 December 2019: RR 65,000 million).

Parent company. During the years ended 31 December 2020 and 31 December 2019 the Group had the following significant transactions with the parent company of FGC UES - PJSC “ROSSETI”:

	Year ended 31 December 2020	Year ended 31 December 2019
Revenues	326	350
Operating expenses	(841)	(714)

Significant balances with the parent company are presented below:

	31 December 2020	31 December 2019
Short-term trade and other receivables	116	-
Financial investments into shares	669	495
Bonds	10,000	-
Short-term trade and other payables	(139)	(408)
Dividends payable	-	(8,999)

For the year ended 31 December 2020, the Group accrued a remuneration in the amount of RR 579 million in accordance with the agreement on the transfer of authority of the sole executive body FGC UES to PJSC “ROSSETI”.

Directors’ compensation. Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year. Fees, compensation or allowances, are not paid to the members of the Board of Directors who are government employees.

For the year ended 31 December 2020, the members of the Board of Directors were paid with remuneration of RR 8 million (for the year ended 31 December 2019: RR 10 million) with insurance charges.

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Note 5. Balances and transactions with related parties (continued)

The remuneration to the members of the Management Board includes salary, non-monetary compensations and bonuses. The remuneration paid to the Management Board (exclusive of insurance charges to social funds) as disclosed in the table below is the remuneration accrued during the relative period.

	Year ended 31 December 2020	Year ended 31 December 2019
Short-term compensation, including salary and bonuses	194	325
Termination benefits	43	9
Post-employment benefits and other long-term benefits	(40)	(25)
Total	197	309

Note 6. Property, plant and equipment

	Land and Buildings	Power trans- mission grids	Substations	Construction in progress	Other	Total
Cost						
Balance as at 1 January 2020	34,155	661,862	765,911	258,654	93,979	1,814,561
Additions	-	21	215	93,871	3,009	97,116
Transfers	2,129	60,560	42,457	(109,611)	4,465	-
Disposals	-	(269)	(1,847)	(1,834)	(1,934)	(5,884)
Balance as at 31 December 2020	36,284	722,174	806,736	241,080	99,519	1,905,793
Accumulated depreciation and impairment						
Balance as at 1 January 2020	(8,210)	(300,492)	(382,871)	(43,951)	(54,136)	(789,660)
Depreciation charge	(467)	(11,471)	(21,162)	-	(5,414)	(38,514)
Impairment	(157)	(4,949)	(4,673)	(2,453)	(317)	(12,549)
Transfers	(101)	(2,046)	(2,209)	4,561	(205)	-
Disposals	-	211	1,684	512	1,637	4,044
Balance as at 31 December 2020	(8,935)	(318,747)	(409,231)	(41,331)	(58,435)	(836,679)
Net book value as at 1 January 2020	25,945	361,370	383,040	214,703	39,843	1,024,901
Net book value as at 31 December 2020	27,349	403,427	397,505	199,749	41,084	1,069,114

	Land and Buildings	Power trans- mission grids	Substations	Construction in progress	Other	Total
Cost						
Balance as at 1 January 2019	31,809	604,748	725,527	248,566	81,873	1,692,523
Additions	12	27,578	7,300	93,197	4,501	132,588
Transfers	2,369	30,273	34,689	(76,068)	8,737	-
Reclassification to assets held for sale	-	-	-	(335)	-	(335)
Disposals	(35)	(737)	(1,605)	(6,706)	(1,132)	(10,215)
Balance as at 31 December 2019	34,155	661,862	765,911	258,654	93,979	1,814,561
Accumulated depreciation and impairment						
Balance as at 1 January 2019	(7,617)	(285,998)	(355,758)	(56,434)	(49,919)	(755,726)
Depreciation charge	(448)	(10,474)	(20,307)	-	(4,335)	(35,564)
Impairment	(96)	(3,025)	(3,065)	(330)	(210)	(6,726)
Reclassification to assets held for sale	-	-	-	22	-	22
Transfers	(57)	(1,623)	(5,330)	7,813	(803)	-
Disposals	8	628	1,589	4,978	1,131	8,334
Balance as at 31 December 2019	(8,210)	(300,492)	(382,871)	(43,951)	(54,136)	(789,660)
Net book value as at 1 January 2019	24,192	318,750	369,769	192,132	31,954	936,797
Net book value as at 31 December 2019	25,945	361,370	383,040	214,703	39,843	1,024,901

Note 6. Property, plant and equipment (continued)

Borrowing costs of RR 8,687 million for the year ended 31 December 2020 were capitalised (for the year ended 31 December 2019: RR 11,143 million). A capitalisation rate of 4.65% was used for the year ended 31 December 2020 (for the year ended 31 December 2019: 6.01%).

Construction in progress is represented by the carrying amount of property, plant and equipment that has not yet been put into operation and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2020 such advances amounted to RR 14,620 million (as at 31 December 2019: RR 17,657 million).

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment. Land plots are classified together with items of property, plant and equipment located on them.

Impairment of property, plant and equipment

The Group recognises the transmission segment (Note 30) as one cash generating unit.

The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently the recoverable amount of property, plant and equipment was primarily determined as value-in-use using discounted cashflows method.

The Group performed the impairment test of non-current assets as at 31 December 2020.

The following key assumptions were used in making the cash flow projections of Transmission segment:

- Forecast period is determined as 10 years – from 2021 to 2030 (for the year ended 31 December 2019: from 2020 to 2029).
- The nominal discount rate of 9.60% (31 December 2019: 9.68%) for the impairment test purposes was determined based on the weighted average cost of capital, before income tax.
- Revenue projections are based on following assumptions:
 - Approved Regulatory Asset Base tariff for 2021-2024 (31 December 2019: 2020) were determined with use of return on investment method;
 - Key parameters for tariff-setting (rates of return for “old” and “new” capital (10%); normal useful live for calculation of return on capital (35 years); Net Working Capital to revenue ratio (8%) (31 December 2019: 7.9%);
 - Increase of operating expenses at a compound annual growth rate of 3% (31 December 2019: 3%) that is determined with reference to expected inflation rate in the Russian Federation and takes into account planned economy on controllable costs;
 - Fixed volume of contracted capacity from 2027 onwards.
- Terminal value was determined based on Gordon perpetuity growth model with terminal growth rate of 3% (31 December 2019: 3%) (in line with long-term tariff forecast for grid companies published by the Ministry of Economic Development).

The recoverable amount of non-current assets of the transmission segment was RR 1,066,622 million as at 31 December 2020 (as at 31 December 2019: RR 1,022,384 million).

For the year ended 31 December 2020 as a result of impairment test an impairment loss was recognised in the amount of RR 12,549 million (for the year ended 31 December 2019 – RR 8,384 million).

The sensitivity of the recoverable amount of property, plant and equipment included in the Transmission segment to changes in the key principal assumptions is as follows:

	Year ended 31 December 2020		Year ended 31 December 2019	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5% change)	(8.5%)	10.2%	(8.4%)	10.1%
Terminal growth rate (1% change)	14.4%	(9.9%)	14.0%	(9.8%)
Tariff growth rate (3% change)	8.5%	(8.5%)	8.2%	(8.2%)

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Note 6. Property, plant and equipment (continued)

For the year ended 31 December 2020, no reversal of the impairment loss on certain items of property, plant and equipment and construction in progress which had been earlier recognised was recognised (for the year ended 31 December 2019, the reversal of the earlier recognised impairment loss on certain items of property, plant and equipment and construction in progress amounted to RR 2,264 million).

For the year ended 31 December 2020, the impairment loss on certain items of construction in progress was not recognised (for the year ended 31 December 2019: RR 606 million).

Leased assets. As at 31 December 2020 the carrying value of property, plant and equipment leased out under operating lease was RR 9,124 million (as at 31 December 2019: RR 9,754 million).

Note 7. Right-of-use assets

	Land and buildings	Power trans- mission grids	Substations	Other	Total	Lease liabilities
Balance as at 1 January 2020	9,378	768	1,229	1,344	12,719	12,824
Additions	2,823	-	-	71	2,894	2,894
Depreciation charged to profit or loss	(719)	(15)	(209)	(147)	(1,090)	-
Depreciation charged to construction in progress	(307)	-	-	-	(307)	-
Interest expense	-	-	-	-	-	1,405
Payments	-	-	-	-	-	(2,597)
Balance as at 31 December 2020	11,175	753	1,020	1,268	14,216	14,526

	Land and buildings	Power trans- mission grids	Substations	Other	Total	Lease liabilities
Balance as at 1 January 2019	8,347	783	1,428	1,063	11,621	11,350
Additions	1,896	1	20	340	2,257	2,257
Depreciation charged to profit or loss	(605)	(16)	(219)	(59)	(899)	-
Depreciation charged to construction in progress	(260)	-	-	-	(260)	-
Interest expense	-	-	-	-	-	1,217
Payments	-	-	-	-	-	(2,000)
Balance as at 31 December 2019	9,378	768	1,229	1,344	12,719	12,824

For the purposes of the impairment test, right-of-use specialized assets (including leased land and leased specialized properties) are attributed to CGU assets in the same way as own non-current assets. The value in use of the right-of-use assets is determined using the discounted cash flow method. Information on the impairment test conducted as at 31 December 2020 is disclosed in Note 6.

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Note 8. Intangible assets

	Software	Other intangible assets	Total
Cost as at 1 January 2020	13,456	5,941	19,397
Accumulated amortisation	(9,778)	(3,010)	(12,788)
Carrying value as at 1 January 2020	3,678	2,931	6,609
Additions	1,361	1,089	2,450
Disposals – cost	(4)	(13)	(17)
Disposals - accumulated amortisation	-	2	2
Amortisation charge	(775)	(585)	(1,360)
Carrying value as at 31 December 2020	4,260	3,424	7,684
Cost as at 31 December 2020	14,813	7,017	21,830
Accumulated amortisation	(10,553)	(3,593)	(14,146)
Carrying value as at 31 December 2020	4,260	3,424	7,684

	Software	Other intangible assets	Total
Cost as at 1 January 2019	12,195	6,020	18,215
Accumulated amortisation	(8,811)	(2,766)	(11,577)
Carrying value as at 1 January 2019	3,384	3,254	6,638
Additions	1,445	750	2,195
Transfers	122	(122)	-
Transfers to property, plant and equipment	(139)	(524)	(663)
Disposals – cost	(167)	(183)	(350)
Disposals - accumulated amortisation	162	32	194
Amortisation charge	(1,129)	(276)	(1,405)
Carrying value as at 31 December 2019	3,678	2,931	6,609
Cost as at 31 December 2019	13,456	5,941	19,397
Accumulated amortisation	(9,778)	(3,010)	(12,788)
Carrying value as at 31 December 2019	3,678	2,931	6,609

The software consists of several IT applications and related licences. Software includes development costs of RR 731 million as at 31 December 2020 (as at 31 December 2019: RR 1,861 million).

Note 9. Investments in associates and joint ventures

As at 31 December 2020, the investments in associates and joint ventures comprise an investment in joint venture JSC UES «SakRusEnergo» of RR 1,481 million (as at 31 December 2019: RR 1,296 million).

The movements in the carrying value of investments in associates and joint ventures are as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Carrying value as at 1 January	1,296	1,442
Share of profit of associates and joint ventures	142	144
Disposal of an associate	-	(62)
Translation difference	43	(228)
Carrying value as at 31 December	1,481	1,296

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Note 10. Other non-current financial assets

	Year ended 31 December 2020	Year ended 31 December 2019
Financial assets measured at fair value through other comprehensive income		
Financial investments into shares	48,305	45,711
Financial assets measured at amortised cost		
Deposits (JSC "Rosselkhozbank")	10,020	-
Federal loan bonds (OFZ) of the Russian Federation	4,151	-
Total	62,476	45,711

Valuation of financial investments into shares of PJSC “INTER RAO UES” and PJSC “ROSSETI” is made on a recurring basis using quoted market prices (Level 1 inputs) at the end of each reporting period.

	1 January 2020	Change in fair value	31 December 2020
PJSC “INTER RAO UES”	45,105	2,420	47,525
PJSC “ROSSETI”	495	173	669
Other	111	-	111
Total	45,711	2,593	48,305

	1 January 2019	Change in fair value	Disposals	31 December 2019
PJSC “INTER RAO UES”	37,419	9,852	(2,166)	45,105
PJSC “ROSSETI”	426	69	-	495
Other	111	-	-	111
Total	37,956	9,921	(2,166)	45,711

Note 11. Trade and other accounts receivable

	31 December 2020	31 December 2019
Non-current trade and other receivables		
Trade receivables (net of allowance for expected credit losses of RR 18 million as at 31 December 2020 and RR 207 million as at 31 December 2019)	64,943	71,685
Other receivables (net of allowance for expected credit losses of RR 223 million as at 31 December 2020 and RR 77 million as at 31 December 2019)	2,514	170
Promissory notes	157	229
Total non-current trade and other receivables	67,614	72,084

	31 December 2020	31 December 2019
Current trade and other receivables		
Trade receivables (net of allowance for expected credit losses of RR 7,350 million as at 31 December 2020 and RR 7,836 million as at 31 December 2019)	36,138	38,393
Other receivables (net of allowance for expected credit losses of RR 5,988 million as at 31 December 2020 and RR 5,937 million as at 31 December 2019)	2,908	3,254
Promissory notes	101	62
Total current trade and other receivables	39,147	41,709

Non-current trade receivables mainly relate to the contracts of technological connection services that imply payment deferral and restructured receivable balances for transmission services that are expected to be settled within the period exceeding 12 months from the period end.

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Note 11. Trade and other receivables (continued)

As at 31 December 2020 non-current trade receivables in the amount of RR 61,293 million (as at 31 December 2019: RR 69,166 million) relate to the contracts of technological connection, being paid in equal semi-annual installments with an interest accrued on the actual outstanding balances at the rate of 6% per annum. Fair value of consideration receivable for these contracts at the date of initial recognition has been determined using present value technique based on estimated future cash flows and the discount rates of 6.91–9.63%.

As at 31 December 2020 non-current trade receivables in the amount of RR 3,245 million (as at 31 December 2019: RR 733 million) represent restructured balances for transmission services receivable from related parties for which debt restructuring agreements were signed in 2016-2020 with a payment in 2021–2023 years and an interest rate varying from the Central bank of the RF key interest rate to 11%.

As at 31 December 2020 the fair value of non-current trade and other receivables amounted to RR 73,380 million (as at 31 December 2019: RR 71,860 million). The fair value (Level 3) of non-current trade and other receivables has been determined using present value technique based on estimated future cash flows and the discount rates of 6.08–6.53% (as at 31 December 2019: 6.91–9.17%).

The movements of the allowance for expected credit losses are shown below:

Year ended	Non-current		Current		Total
	Trade receivables	Other receivables	Trade receivables	Other receivables	
31 December 2020					
As at 1 January	207	77	7,836	5,937	14,057
Allowance accrual	11	166	378	360	915
Allowance reversal	-	-	(1,044)	(117)	(1,161)
Debt written-off	-	-	(21)	(211)	(232)
Transfers	(200)	(20)	201	19	-
As at 31 December	18	223	7,350	5,988	13,579

Year ended	Non-current		Current		Total
	Trade receivables	Other receivables	Trade receivables	Other receivables	
31 December 2019					
As at 1 January	24	64	10,725	4,250	15,063
Allowance accrual	200	20	1,035	1,899	3,154
Allowance reversal	(17)	(7)	(1,374)	(133)	(1,531)
Debt written-off	-	-	(2,550)	(79)	(2,629)
As at 31 December	207	77	7,836	5,937	14,057

The aging analysis of the trade and other receivables is presented in the table below:

	31 December 2020	31 December 2019
Not overdue	32,421	33,408
Past due:		
Less than 3 months	1,625	2,602
3 to 6 months	1,447	2,081
6 to 12 months	1,811	1,881
More than 1 year	1,742	1,675
Total	39,046	41,647

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Note 12. Advances given and other assets

	31 December 2020	31 December 2019
Long-term advances given and other non-current assets		
Advances given	26	8
VAT recoverable	1,843	1,696
Other non-current assets	492	403
Total long-term advances given and other non-current assets	2,361	2,107
Short-term advances given and other current assets		
Advances given (net of impairment of RR 388 million as at 31 December 2020 and RR 474 million as at 31 December 2019)	4,986	1,811
VAT recoverable	4,041	654
Tax prepayments, other than income tax	322	111
Total short-term advances given and other non-current assets	9,349	2,576

Note 13. Cash and cash equivalents

	31 December 2020	31 December 2019
Cash at bank and in hand	24,761	15,531
Cash equivalents	5,335	21,546
Total cash and cash equivalents	30,096	37,077

Cash at bank and in hand	Rating	Rating agency	31 December 2020	31 December 2019
JSC “Gazprombank”	BB+	Standard & Poor's	15,401	6,350
PJSC “Sberbank”	BBB	Fitch Ratings	4,107	1,788
Federal Treasury Department	-	-	3,000	442
JSC “Alfa-Bank”	Ba1	Moody's	1,347	1,165
PJSC “VTB Bank”	BBB-	Standard & Poor's	448	2,803
PJSC “RNCB Bank”	ruA	Expert RA	394	2,548
PJSC “Bank “ROSSIYA”	ruAA	Expert RA	54	421
Cash in hand			10	14
Total cash at bank and in hand			24,761	15,531

Cash equivalents mainly include short-term investments in bank deposits:

Bank deposits	Interest rate	Rating	Rating agency	31 December 2020	31 December 2019
JSC					
“Russian regional development bank”	4.17-5.95%	AA (RU)	Acra	3,600	3,606
JSC “Gazprombank”	3.50-6.00%	BB+	Standard & Poor's	1,015	16,222
PJSC “VTB Bank”	3.65-5.80%	BBB-	Standard & Poor's	416	422
PJSC “Sberbank”	2.25-5.00%	BBB	Fitch Ratings	229	460
JSC “Rosselkhozbank”	4.00%	BBB-	Fitch Ratings	65	-
JSC “Alfa-Bank”	6.05%	Ba1	Moody's	-	667
Total bank deposits				5,325	21,377

As at 31 December 2020 cash and cash equivalents include amounts denominated in foreign currency totalling RR 97 million (as at 31 December 2019: RR 78 million).

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Note 14. Other financial assets

	Interest rate	Rating	Rating agency	31 December 2020	31 December 2019
Bank deposits					
JSC “Gazprombank”	4.32-5.27%	BB+	Standard & Poor's	6,446	-
JSC "Rosselkhozbank"	6.50-7.20%	BBB-	Fitch Ratings	-	15,228
PJSC “VTB Bank”	5.82-7.35%	BBB-	Standard & Poor's	-	10,490
JSC “Alfa-Bank”	5.85%	Ba1	Moody's	-	71
Total bank deposits				6,446	25,789
PJSC “ROSSETI” bonds				10,084	-
Loans given				113	114
Total other financial assets				16,643	25,903

The Group's exposure to financial risks and fair values of other financial assets are disclosed in Note 29 "Financial Instruments and Financial Risks".

There were no bank deposits denominated in foreign currency as at 31 December 2020 and 31 December 2019.

Note 15. Inventories

	31 December 2020	31 December 2019
Raw materials and suppliers (net of allowance for impairment of RR 229 million as at 31 December 2020 and RR 305 million as at 31 December 2019)	11,936	11,340
Work in progress	534	622
Other inventories	5,056	5,006
Total inventories	17,526	16,968

As at 31 December 2020 and 31 December 2019 the Group had no inventories pledged as security under loan and other agreements.

Note 16. Equity

Share capital

	Number of shares issued and fully paid, psc.		Share capital	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Ordinary shares	1,274,665,323,063	1,274,665,323,063	637,333	637,333

As at 31 December 2020 the authorised share capital comprised 1,346,805,824 thousand ordinary shares with a nominal value of RR 0.5 per share.

Treasury shares. As at 31 December 2020 the Group held through a subsidiary 13,727,165 thousand ordinary shares in treasury at the total cost of RR 4,719 million (as at 31 December 2019: RR 4,719 million).

Reserves. Reserves included Revaluation reserve for financial investments, foreign currency translation reserve and remeasurement reserve for retirement benefit obligations. The Foreign currency translation reserve relates to the exchange differences arising on translation of net assets of a foreign associate.

Reserves comprised the following:

	31 December 2020	31 December 2019
Revaluation reserve for financial investments (Note 10)	36,222	33,978
Remeasurement reserve for retirement benefit obligations (Note 19)	(3,783)	(3,314)
Foreign currency translation reserve (Note 9)	316	273
Total reserves	32,755	30,937

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Note 16. Equity (continued)

Reserves for the year ended 31 December 2020 (net of tax):

	Revaluation reserve for financial investments (Note 10)	Remeasure- ment reserve for retirement benefit obligations (Note 19)	Foreign currency translation reserve (Note 9)	Total reserves
As at 1 January 2020	33,978	(3,314)	273	30,937
Change in fair value of financial investments	2,244	-	-	2,244
Remeasurements of retirement benefit obligations	-	(469)	-	(469)
Foreign currency translation difference	-	-	43	43
As at 31 December 2020	36,222	(3,783)	316	32,755

Reserves for the year ended 31 December 2019 (net of tax):

	Revaluation reserve for financial investments (Note 10)	Remeasure- ment reserve for retirement benefit obligations (Note 19)	Foreign currency translation reserve (Note 9)	Total reserves
As at 1 January 2019	27,092	(2,426)	501	25,167
Change in fair value of financial investments	8,555	-	-	8,555
Sale of financial investments	(1,669)	-	-	(1,669)
Remeasurements of retirement benefit obligations	-	(888)	-	(888)
Foreign currency translation difference	-	-	(228)	(228)
As at 31 December 2019	33,978	(3,314)	273	30,937

Dividends. The source of payment of dividends is the net profit of FGC UES as determined in accordance with the regulations applicable in the Russian Federation.

The General Shareholders Meeting of 15 May 2020 approved distribution of dividends for 2019 of RR 12,102 million, or RR 0.009494338212 per ordinary share.

The Extraordinary General Shareholders Meeting of 30 December 2019 approved distribution of dividends for the nine months of 2019 of RR 11,229 million, or RR 0.00880960765 per ordinary share. The total dividends for 2019 amounted to RR 23,331 million.

The General Shareholders Meeting of 26 June 2019 approved distribution of dividends for 2018 of RR 20,449 million, or RR 0.016042926012 per ordinary share.

Note 17. Income tax

Income tax expense comprises the following:

	Year ended 31 December 2020	Year ended 31 December 2019
Current income tax charge	(6,686)	(7,219)
Deferred income tax charge	(9,670)	(15,839)
Total income tax expense	(16,356)	(23,058)

During the years ended 31 December 2020 and 31 December 2019 the Company and its principal subsidiaries were subject to tax rate of 20 percent on taxable profit.

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Note 17. Income tax (continued)

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

	Year ended 31 December 2020	Year ended 31 December 2019
Profit before income tax	75,746	109,696
Theoretical income tax charge at the statutory tax rate of 20 percent	(15,149)	(21,939)
Tax effect of items which are not deductible for taxation purposes	(1,483)	(1,165)
Movement in unrecognised deferred tax assets	276	46
Total income tax expense	(16,356)	(23,058)

Deferred income tax. As at 31 December 2020 and as at 31 December 2019 deferred income tax assets and liabilities were measured at 20 percent, the rates expected to be applicable when the asset or liability will reverse, except for deferred income tax assets and liabilities related to financial investments which are measured at 13 percent (31 December 2019: 13 percent).

Deferred income tax assets and liabilities for the year ended 31 December 2020:

	Movements for the year			
	1 January 2020	Recognised in profit or loss	Recognised in other compre- hensive income	31 December 2020
Deferred income tax liabilities				
Property, plant and equipment	52,479	10,833	-	63,312
Right-of-use assets	2,543	300	-	2,843
Intangible assets	-	674	-	674
Financial investments	3,556	-	349	3,905
Other (including asset held for sale)	1,190	(1,156)	-	34
<i>Less: deferred tax liabilities offset</i>	(12,897)	(532)	-	(13,429)
Total deferred income tax liabilities	46,871	10,119	349	57,339
Deferred income tax assets				
Property, plant and equipment	(970)	77	-	(893)
Long-term promissory notes	(4,066)	73	-	(3,993)
Accounts receivable and prepayments	(4,320)	(996)	-	(5,316)
Intangible assets	(311)	311	-	-
Retirement benefit obligation	(357)	37	(57)	(377)
Current and non-current debt	(2,565)	(340)	-	(2,905)
Trade and other accounts payable	(1,159)	671	-	(488)
Provisions	(240)	(478)	-	(718)
Other	(360)	(127)	-	(487)
Tax losses	(654)	67	-	(587)
<i>Less: deferred tax assets offset</i>	12,897	532	-	13,429
Unrecognised deferred tax assets	1,830	(276)	-	1,554
Total deferred income tax assets	(275)	(449)	(57)	(781)
Deferred income tax liabilities, net	46,596	9,670	292	56,558

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Note 17. Income tax (continued)

Deferred income tax assets and liabilities for the year ended 31 December 2019:

	1 January 2019	Movements for the year		31 December 2019
		Recognised in profit or loss	Recognised in other compre- hensive income	
Deferred income tax liabilities				
Property, plant and equipment	34,757	17,722	-	52,479
Right-of-use assets	-	2,543	-	2,543
Investments in associates and joint ventures	13	(13)	-	-
Financial investments	2,190	-	1,366	3,556
Other	986	141	-	1,127
Asset held for sale	4,293	(4,230)	-	63
<i>Less: deferred tax liabilities offset</i>	(12,653)	(244)		(12,897)
Total deferred income tax liabilities	29,586	15,919	1,366	46,871
Deferred income tax assets				
Property, plant and equipment	(1,056)	86	-	(970)
Long-term promissory notes	(4,074)	8	-	(4,066)
Accounts receivable and prepayments	(6,678)	2,358	-	(4,320)
Intangible assets	(325)	14	-	(311)
Retirement benefit obligation	(397)	28	12	(357)
Current and non-current debt	(42)	(2,523)	-	(2,565)
Trade and other accounts payable	(1,184)	25	-	(1,159)
Provisions	(137)	(103)	-	(240)
Other	(174)	(186)	-	(360)
Tax losses	(669)	15	-	(654)
<i>Less: deferred tax assets offset</i>	12,653	244		12,897
Unrecognised deferred tax assets	1,876	(46)	-	1,830
Total deferred income tax assets	(207)	(80)	12	(275)
Deferred income tax liabilities, net	29,379	15,839	1,378	46,596

The Group makes certain estimates and assumptions when determining future taxable income and an amount of possible tax deductions and also when determining the capacity of certain Group' loss-making subsidiaries to gain taxable income which is sufficient to utilise tax deductions, and the period when these tax deductions can be utilised. As at 31 December 2020, the unrecognised deferred tax assets that include tax losses carried forward and deferred tax assets on temporary differences for such subsidiaries amounted to RR 1,544 million (as at 31 December 2019: RR 1,830 million).

Note 18. Non-current debt

	Effective interest rate	Due	31 December 2020	31 December 2019
Interest-bearing non-convertible bonds:				
with fixed rates	5.00-9.35%	2021-2052	77,762	75,476
with variable rates	CPI+1-2.5%	2022-2047	151,171	151,278
Non-bank borrowings	0.1-3%	2025-2026	160	209
Lease liabilities	7.07-10.38%	2021-2069	14,526	12,824
Total debt			243,619	239,787
Less: current portion of non-current bonds			(22,514)	(30,335)
Less: current portion of non-bank borrowings			(5)	(6)
Less: current portion of lease liabilities			(1,250)	(1,103)
Total non-current debt			219,850	208,343

All debt instruments are denominated in RR.

Reconciliation between carrying and fair values of financial liabilities is presented below. Fair value of level 1 bonds are determined based on quoted market prices at the Moscow Stock Exchange and the Irish Stock Exchange.

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Note 18. Non-current debt (continued)

		31 December 2020		31 December 2019	
	Level	Fair value	Carrying value	Fair value	Carrying value
Non-convertible bonds with fixed rates (including current portion of bonds)	1	79,365	77,762	76,284	75,476
Non-convertible bonds with variable rates	1	10,005	10,234	9,930	10,319
Total debt classified into fair value hierarchy level 1		89,370	87,996	86,214	85,795

Certified interest-bearing non-convertible bonds with variable rates classified into fair value hierarchy level 3 represent non-quoted non-convertible bearer bonds with variable rate aligned to inflation with a premium of 1%, which is a unique instrument with specific market. Hence, the management believes carrying amount of these instruments approximates its fair value.

Reconciliation of changes in liabilities to cash flows arising from financing activities is presented below.

	Non-current debt	Current debt and current portion of non-current debt	Lease liabilities	Dividend payable
Balance at 1 January 2020	196,622	30,341	12,824	11,388
Changes from financing cash flows				
Proceeds from borrowings	30,000	-	-	-
Repayment of borrowings	-	(27,415)	-	-
New leases	-	-	2,894	-
Payment of lease liabilities	-	-	(1,192)	-
Interest paid	-	(13,040)	(1,405)	-
Dividends paid	-	-	-	(23,042)
Total changes from financing cash flows	30,000	(40,455)	297	(23,042)
Reclassification	(20,048)	20,048	-	-
Other changes				
Capitalised borrowing costs	-	8,410	276	-
Interest expense	-	4,175	1,129	-
Dividends accrued	-	-	-	11,989
Total other changes	-	12,585	1,405	11,989
Balance at 31 December 2020	206,574	22,519	14,526	335

	Non-current debt	Current debt and current portion of non-current debt	Lease liabilities	Dividend payable
Balance at 1 January 2019	224,463	22,137	11,350	213
Changes from financing cash flows				
Proceeds from borrowings	-	22	-	-
Repayment of borrowings	(14)	(19,429)	-	-
New leases	-	-	2,257	-
Payment of lease liabilities	-	-	(783)	-
Interest paid	-	(15,196)	(1,217)	-
Dividends paid	-	-	-	(20,205)
Total changes from financing cash flows	(14)	(34,603)	257	(20,205)
Reclassification	(27,827)	27,827	-	-
Other changes				
Capitalised borrowing costs	-	10,881	262	-
Interest expense	-	4,099	955	-
Dividends accrued	-	-	-	31,380
Total other changes	-	14,980	1,217	31,380
Balance at 31 December 2019	196,622	30,341	12,824	11,388

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Notes to the Consolidated Financial Statements

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Note 19. Retirement benefit obligations

The Group’s post-employment benefits policy includes the employee pension scheme and other various post-employment, retirement and jubilee payments. The post-employment and retirement benefit system is a defined benefit program as part of which every participating employee receives benefits calculated in accordance with certain formula or rules. The program’s core element is the corporate pension scheme implemented by the Group in cooperation with the Non-State Pension Fund of Electric Power Industry.

The Group also pays various other long-term post-employment benefits, including lump sum benefits in case of death of employees or former employees receiving pensions, lump sum benefits upon retirement and in connection with jubilees.

Additionally, financial aid in the form of defined benefits is provided to former employees who have state, industry or corporate awards. Such financial aid is provided both to employees entitled and not entitled to non-state pensions.

The most recent actuarial valuation was performed as at 31 December 2020.

The tables below provide information about benefit obligations and actuarial assumptions as at 31 December 2020 and 31 December 2019.

The amounts recognised in the Consolidated Statement of Financial Position are determined as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Present value of defined benefit obligation	7,087	6,501
Present value of other long-term employee benefit obligation	444	454
Total net defined benefit liability	7,531	6,955

The movement in the net defined benefit obligation over the year is as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Defined benefit obligations at 1 January	6,955	5,950
Included in profit or loss		
Current service cost	321	248
Past service cost	(179)	(147)
Interest expense	424	466
	566	567
Included in other comprehensive income		
Remeasurements:		
Loss/(gain) from change in demographic assumptions	340	(107)
Loss from change in financial assumptions	136	1,461
Experience loss/(gain)	22	(472)
	498	882
Benefits paid	(487)	(444)
Defined benefit obligations at 31 December	7,532	6,955

Amounts recognised in profit or loss:

	Year ended 31 December 2020	Year ended 31 December 2019
Service cost	142	101
Remeasurements of other long-term employee benefit obligations	(29)	6
Interest expense	424	466
Total	537	573

Amounts recognised in other comprehensive income:

	Year ended 31 December 2020	Year ended 31 December 2019
Loss/(gain) from change in demographic assumptions	323	(104)
Loss from change in financial assumptions	121	1,401
Experience loss/(gain)	82	(421)
Total	526	876

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Note 19. Retirement benefit obligations (continued)

The movement of remeasurements in other comprehensive income are as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
At 1 January	3,936	3,060
Remeasurements	526	876
At 31 December	4,462	3,936

The key actuarial assumptions are as follows:

Financial actuarial assumptions:	Year ended 31 December 2020	Year ended 31 December 2019
Discount rate (nominal)	6.60%	6.50%
Inflation rate	4.00%	4.00%
Future salary increases (nominal)	4.50%	4.00%

Financial assumptions are based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The average duration period of the Group obligations is 13 years.

Demographic actuarial assumptions:

	Year ended 31 December 2020	Year ended 31 December 2019
Expected retirement age		
Male	65	65
Female	60	60
Employee turnover	4.8%	5.0%
Mortality table	2017 adjusted	2017 adjusted

The sensitivity of the defined benefit obligation to changes in the key assumptions as at 31 December 2020 is as follows:

	Change in assumption	Impact on defined benefit liability
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 5.76%
Future salary increases (nominal)	Increase/decrease by 0.5%	Increase/decrease by 3.17%
Future inflation (nominal)	Increase/decrease by 0.5%	Increase/decrease by 2.75%
Employee turnover	Increase/decrease by 10%	Decrease/increase by 2.39%
Mortality level	Increase/decrease by 10%	Decrease/increase by 1.44%

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

Note 20. Current debt and current portion of non-current debt

	31 December 2020	31 December 2019
Current portion of non-current debt (Note 18)	23,769	31,444
Total current debt and current portion of non-current debt	23,769	31,444

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Note 21. Trade and other payables

	31 December 2020	31 December 2019
Non-current trade and other accounts payable		
Accounts payable to construction companies and suppliers of property, plant and equipment	5,160	13,077
Trade payables	703	1,044
Total long-term trade and other payables	5,863	14,121
Current trade and other accounts payable		
Accounts payable to construction companies and suppliers of property, plant and equipment	27,897	23,585
Trade payables	9,539	12,375
Accounts payable to employees	3,189	2,982
Other creditors	1,530	2,638
Total	42,155	41,580

As at 31 December 2020 non-current accounts payable to construction companies and suppliers of property, plant and equipment includes RR 161 million (as at 31 December 2019: RR 3,176 million) of guarantee deposits made to suppliers of property, plant and equipment refundable in 2022–2037. Fair value of consideration payable for these deposits at the date of initial recognition has been determined using present value technique based on estimated future cash flows and the discount rates of 4.95–5.68%.

As at 31 December non-current accounts payable to construction companies and suppliers of property, plant and equipment includes RR 1,773 million (as at 31 December 2019: RR 7,988 million) related to purchase of property, plant and equipment. Amounts are payable in installments in 2022–2025. Fair value of consideration payable at the date of initial recognition has been determined using present value technique based on estimated future cash flows and the discount rate of 8.75%.

As at 31 December 2020 fair value of non-current trade and other payables amounted to RR 6,262 million (as at 31 December 2019: RR 14,569 million). The fair value (Level 3) of non-current trade and other payables has been determined using present value technique based on estimated future cash flows and the discount rate of 5.22% (31 December 2019: 5.48%).

Note 22. Provisions

	Year ended 31 December 2020	Year ended 31 December 2019
Carrying amount at 1 January	1,202	683
Charge for the year	3,678	1,118
Unused amounts reversed	(272)	(255)
Use of provision	(966)	(344)
Carrying amount at 31 December	3,642	1,202

Provisions relate mainly to legal proceedings and claims against the Group in the ordinary course of business.

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Note 23. Revenues and other operating income

	Year ended 31 December 2020	Year ended 31 December 2019
Transmission fee	221,849	222,382
Technological connection services	5,670	17,190
Construction services	3,155	4,391
Grids repair and maintenance services	2,133	1,780
Electricity sales	1,749	1,676
Communication services	792	777
Design works	478	388
Research and development services	256	140
Other revenues	184	7
Total revenue from contracts with customers	236,266	248,731
Rental income	1,038	880
Total revenue	237,304	249,611

Other operating income

	Year ended 31 December 2020	Year ended 31 December 2019
Penalties and fines receivable	3,198	5,452
Insurance compensation	667	339
Other income	995	500
Total other operating income	4,860	6,291

Note 24. Operating expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Depreciation of property, plant and equipment	38,514	35,564
Purchased electricity for production needs	36,777	37,737
Employee benefit expenses and payroll taxes	32,940	32,066
Taxes, other than on income	13,619	13,426
Other materials	4,521	4,412
Repairs and maintenance	3,835	3,885
Electricity grids usage fee	3,264	1,969
Electricity transit	2,639	1,807
Subcontract works for construction contracts	2,614	3,132
Provisions	2,350	863
Business trips and transportation expenses	2,217	2,391
Consulting, legal and auditing services	1,995	1,783
Security services	1,601	1,615
Loss on disposal/(sale) of property, plant and equipment	1,561	1,094
Other subcontract works	1,402	1,441
Amortisation of intangible assets	1,360	1,405
Information system maintenance	1,173	1,014
Depreciation of right-of-use assets	1,090	899
Insurance	946	955
Utilities and maintenance of buildings	881	882
Telecommunication service	483	520
Rent	366	2,482
Materials for construction contracts	262	165
Fuel for mobile gas-turbine electricity plants	202	68
Other expenses	3,512	3,707
Total	160,124	155,282

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Note 24. Operating expenses (continued)

Employee benefit expenses and payroll taxes include the following:

	Year ended 31 December 2020	Year ended 31 December 2019
Wages and salaries	25,905	25,250
Social security contributions to the Pension Fund	5,032	4,864
Social security contributions to other state non-budgetary funds	1,890	1,845
Pension costs – defined benefit plans	113	107
Total employee benefit expenses and payroll taxes	32,940	32,066

Note 25. Finance income

	Year ended 31 December 2020	Year ended 31 December 2019
Unwinding of discount on financial assets	7,151	8,656
Interest income on bank deposits and cash on bank accounts	4,245	3,276
Dividend income	1,578	1,463
Foreign currency exchange differences	34	22
Other finance income	91	379
Total finance income	13,099	13,796

Note 26. Finance costs

	Year ended 31 December 2020	Year ended 31 December 2019
Interest expenses on financial liabilities measured at amortized cost	13,108	15,776
Interest expense on lease contracts	1,405	1,217
Net interest expense on defined benefit liability	424	466
Foreign currency exchange differences	307	115
Other finance costs	674	465
Total finance costs	15,918	18,039
Less capitalised interest expenses on borrowings related to qualifying assets (Note 6)	(8,686)	(11,143)
Total finance costs recognised in profit or loss	7,232	6,896

Note 27. Earnings per share

	Year ended 31 December 2020	Year ended 31 December 2019
Weighted average number of ordinary shares (million of shares)	1,260,938	1,260,938
Profit attributable to shareholders of FGC UES (million of RR)	59,379	86,598
Earnings per share – basic and diluted (in RR)	0.047	0.069

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal to the basic earnings per share.

Note 28. Contingencies and commitments

Insurance. The Group has unified requirements in respect of the volume of insurance coverage, reliability of insurance companies and 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.

Note 28. Contingencies, commitments and operating risks (continued)

Legal proceedings. In the normal course of business, the Group entities may be a party to certain legal proceedings. As at 31 December 2020 claims made by suppliers of property, plant and equipment and other counterparties to the Group amounted to RR 5,036 million.

For the year ended 31 December 2019, as pursuant to the court rulings of the Moscow Arbitration Court for case No A40-45189/2018 and for case No A40-173223/2018 which have entered into legal force, the Group recognised income from settlement of the liabilities of suppliers with means of cash received under the guarantees provided by PJSC “Bank Otkritie Financial Corporation” (as a reversal of the earlier recognised impairment loss on certain items of the property, plant and equipment and construction in progress). On 13 January 2021, the Moscow Arbitration Court made a decision to case No A40-108510/20-90-785 on dismissal of an action from PJSC “Bank Otkritie Financial Corporation” against the Company on cost recovery of RR 2,258 million since the Claimant has failed to prove the Company's actions as wrongful. Therefore, there are no grounds to allow the claim of the Claimant. The case was sent to the appeals court on 18 February 2021. In the management's opinion, the probability of unfavourable final decision of the litigation for the Group is not high.

Management believes the likelihood of negative outcome for the Group and the respective outflow of financial resources to settle such claims, if any, is not probable and, consequently, no provision has been made in these financial statements.

Tax contingency. Russian tax 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.

The Russian tax authorities are entitled to charge additional tax and penalty in accordance with procedures set forth by transfer pricing regulations (TPR) in case prices/return in controlled transactions differ from the those on the market. The list of controlled transactions comprises mainly transactions between related parties.

Since 1 January 2019, control over transfer prices for the major domestic Russian transactions has been cancelled. However, exemption from control over prices can be applied to certain domestic transactions only. At this, in case of additional tax charge, a correlative adjustment mechanism can be used to tax liabilities if certain legal requirements are met. Intra-group transactions that have been beyond the control of TPR since 2019 may, however, can be subject to inspection from territorial tax authorities with regard to unjustified tax income and the TRP principles can be applied to determine the additional tax payable. The federal executive body responsible for control and supervision over taxes and charges can inspect prices/return in controlled transactions and, if disagreeing with the Group's prices applied in the transactions, can charge additional tax unless the Group can justify the marketing nature of pricing in the transaction with documents on transfer pricing that are in compliance with the legal regulations.

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 Group's management does not exclude the risk of resources outflow and its impact can not be sufficiently estimated.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax positions will be sustained.

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.

Capital commitments related to construction of property, plant and equipment. Future capital expenditures for which contracts have been signed amount to RR 139,314 million as at 31 December 2020 (as at 31 December 2019: RR 120,227 million) including VAT.

Note 29. Financial instruments and financial risks

Financial risk factors. 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 risk 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. The Group could use derivative financial instruments from time to time for such purposes as part of its risk management strategy.

(a) Market risk

(i) Foreign exchange risk. The majority of the Group's revenues and expenditures, monetary assets and liabilities are nominated in RR. Changes in exchange rates do not have a significant impact on the Group's revenue and expenditures.

(ii) Interest rate risk. Changes in interest rates mainly affect loans and borrowings, as they change either their fair value (for loans and borrowings with a fixed rate) or future cash flows (for loans and loans with a floating rate). The management of the Group does not adhere to any established rules in determining the relationship between loans and borrowings at fixed and floating rates. At the same time, at the time of attracting new loans, management, based on its judgment, decides whether the rate, fixed or floating, will be most beneficial for the Group for the entire settlement period until the debt repayment period.

(iii) Price risk. Equity price risk arises from financial investments. Management of the Group monitors its investment portfolio based on market indices. Material 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 2020, the total amount of financial investments into shares exposed to the market risk equals RR 48,194 million (as at 31 December 2020: RR 45,600 million). If equity prices at that date had been 10% higher (lower), with all other variables held constant, the Group's other comprehensive income would increase (decrease) by RR 4,819 million.

(b) Credit risk.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge a contractual obligation in full and on time. Credit risk is mainly associated with the Group's receivables, bank deposits, cash and cash equivalents. The carrying amount of financial assets represents the maximum amount exposed to credit risk.

As at 31 December 2020 the amount of financial assets, which were exposed to credit risk, was as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Non-current trade and other receivables (Note 11)	67,614	72,084
Non-current bank deposits (Note 10)	10,020	-
Federal bonds of the RF (Note 10)	4,151	-
Current trade and other receivables (Note 11)	39,147	41,709
Current bank deposits (Note 14)	6,445	25,789
Loans given (Note 14)	10,197	114
Cash and cash equivalents (Note 13)	30,096	37,077
Total	167,670	176,773

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

The Group's debtors are quite similar in the level of creditworthiness and credit risk concentration, primarily comprised of large, reputable customers. The key customers are subsidiaries of the parent company PJSC "Rosseti" (grid distribution companies), retail suppliers of electric energy, certain large private consumers.

Given the structure of the Group's debtors, the Group's exposure to credit risk mainly depends on the individual characteristics of each counterparty. The Group creates an allowance for expected credit losses on trade and other receivables, the estimated value of which is determined on the basis of the model of expected credit losses, weighted by the degree of probability of default, and can be adjusted both up and down. To this end, the Group analyzes the creditworthiness of counterparties, the dynamics of debt repayment, takes into account changes in the terms of payment, the availability of third-party guarantees, bank guarantees, current general economic conditions. Although the repayment of receivables is subject to economic and other factors, the Group believes that there is no significant risk of losses in excess of the created allowance.

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Note 29. Financial instruments and financial risks (continued)

(c) Liquidity risk.

Management of liquidity risk involves maintaining sufficient cash and the availability of financial resources by attracting 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, 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.

The amount of free limit on open but unused credit lines of the Group was RR 100,021 million at 31 December 2020 (31 December 2019: RR 106,500 million). The Group has opportunity to attract additional financing within the corresponding limits, including for the purpose of execution of short-term liabilities.

The table below analyses the Group’s financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including estimated interest payments.

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
As at 31 December 2020					
Non-current and current debt and interest payable (Notes 18, 20)	35,551	30,368	55,317	310,426	431,662
Lease liabilities (Notes 18, 20)	2,343	2,119	4,453	52,413	61,328
Dividends payable	335	-	-	-	335
Trade and other accounts payable (Note 21)	42,401	471	5,254	1,862	49,988
Total as at 31 December 2020	80,630	32,958	65,024	364,701	543,313
As at 31 December 2019					
Non-current and current debt and interest payable (Notes 18, 20)	39,039	31,075	61,051	293,681	424,846
Lease liabilities (Notes 18, 20)	2,215	1,972	4,741	43,376	52,304
Dividends payable	11,388	-	-	-	11,388
Trade and other accounts payable (Note 21)	41,580	8,183	657	5,382	55,802
Total as at 31 December 2019	94,222	41,230	66,449	342,439	544,340

Capital management

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

The Group monitors the structure and return on equity using coefficients calculated on the basis of the consolidated financial statements in accordance with IFRS, management statements and statements prepared in accordance with RAS. The Group analyses the dynamics of the indicators of total debt and net debt, the structure of debt, as well as the ratio of equity and debt capital. The Group manages its debt position by implementing a credit policy aimed at improving financial stability, optimizing its debt portfolio and building long-term relationships with debt capital market participants. To manage the debt position, the Group applies limits, including the categories of financial leverage, debt coverage, and debt service coverage. The initial data for calculating the limits are the RAS reporting indicators.

Fair value. Management believes that the fair value of financial assets and liabilities carried at amortised cost is not significantly different from their carrying amounts (unless otherwise stated in the Notes to these Consolidated Financial Statements). The carrying value of short-term trade payables and trade receivables less allowance for expected credit losses is assumed to approximate their fair value due to their short-term nature. The financial instruments of the Group carried at fair value represent financial investments (Note 10). The fair value of the financial investments is determined by the quoted prices (Level 1 inputs) in active markets. There are no significant unobservable inputs used in measuring fair values of financial assets and liabilities.

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Note 29. Financial instruments and financial risks (continued)

Carrying value of financial instruments by categories:

	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial liabilities measured at amortised cost	Total
31 December 2020				
Financial assets				
Other non-current financial assets (Note 10)	14,171	48,305	-	62,476
Non-current trade and other receivables (Note 11)	67,614	-	-	67,614
Current trade and other receivables (Note 11)	39,147	-	-	39,147
Cash and cash equivalents (Note 13)	30,096	-	-	30,096
Other financial assets (Note 14)	16,643	-	-	16,643
Total financial assets	167,671	48,305	-	215,976
Financial liabilities				
Non-current debt (Note 18)	-	-	219,850	219,850
Non-current trade and other payables (Note 21)	-	-	5,863	5,863
Dividends payable	-	-	335	335
Current debt and current portion of non-current debt (Note 20)	-	-	23,769	23,769
Current trade and other payables (Note 21)	-	-	42,155	42,155
Total financial liabilities	-	-	291,972	291,972

	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial liabilities measured at amortised cost	Total
31 December 2019				
Financial assets				
Other non-current financial assets (Note 10)	-	45,711	-	45,711
Non-current trade and other receivables (Note 11)	72,084	-	-	72,084
Current trade and other receivables (Note 11)	41,709	-	-	41,709
Cash and cash equivalents (Note 13)	37,077	-	-	37,077
Other financial assets (Note 14)	25,903	-	-	25,903
Total financial assets	176,773	45,711	-	222,484
Financial liabilities				
Non-current debt (Note 18)	-	-	208,343	208,343
Non-current trade and other payables (Note 21)	-	-	14,121	14,121
Dividends payable	-	-	11,388	11,388
Current debt and current portion of non-current debt (Note 20)	-	-	31,444	31,444
Current trade and other payables (Note 21)	-	-	41,580	41,580
Total financial liabilities	-	-	306,876	306,876

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Notes to the Consolidated Financial Statements

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Note 30. Segment information

The Group operates within one operating segment. The Group’s single primary activity is provision of electricity transmission services within the Russian Federation which is represented as Transmission segment.

The Board of Directors of the Company has been determined as chief operating decision maker (the “CODM”) of the Group which generally analyses information relating to Transmission segment. The Board of Directors does not evaluate financial information of other components of the Group to allocate resources or assess performance and does not determine these components as segments. The key indicator of the transmission segment performance is return on equity ratio (ROE). Accordingly, the measure of transmission segment profit or loss analysed by the CODM is net profit of segment based on the statutory financial statements prepared according to RAS. The other information provided to the CODM is also based on statutory financial statements prepared according to RAS.

	Transmission segment – based on statutory financial statements prepared according to RAS	
	Year ended 31 December 2020	Year ended 31 December 2019
Revenue from external customers	231,691	243,848
Intercompany revenue	378	376
Total revenue	232,069	244,224
Depreciation and amortisation	79,016	79,205
Interest income	11,339	10,310
Interest expenses	4,730	4,941
Current income tax	6,574	6,679
Profit for the year	40,034	57,836
Capital expenditure	104,005	134,442
	31 December 2020	31 December 2019
Total reportable segment assets	1,578,076	1,543,924
Total reportable segment liabilities	432,631	421,167
	Year ended 31 December 2020	Year ended 31 December 2019
Total revenue from segment (RAS)	232,069	244,224
Reclassification between revenue and other operating income	(1,002)	(1,487)
Non-segmental revenue	6,344	8,489
Elimination of intercompany revenue	(378)	(376)
Recognition of revenue from connection services based on fair value	-	(832)
Revenue adjustments	271	(407)
Total revenue (IFRS)	237,304	249,611

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Notes to the Consolidated Financial Statements

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Note 30. Segment information (continued)

	Year ended 31 December 2020	Year ended 31 December 2019
Profit for the year (RAS)	40,034	57,836
Property, plant and equipment		
Adjustment to the carrying value of property, plant and equipment	38,662	42,190
Gain on disposal of assets	-	10,444
Impairment of property, plant and equipment	(12,549)	(6,726)
Financial instruments		
Re-measurement of financial investments through other comprehensive income	(2,715)	(10,351)
Discounting of long-term trade and other receivables	1,752	3,296
Discounting of long-term trade and other payables	(493)	(71)
Discounting of promissory notes	34	32
Consolidation		
Impairment of investments in subsidiaries	2,063	(11)
Other		
Adjustment to allowance for expected credit losses	(275)	(2,154)
Right-of-use assets	(481)	(760)
Accrual of retirement benefit obligations	64	(230)
Non-recognised revenue and other income	364	(430)
Write-off of research and development costs to expenses	58	70
Share of profit of associates and joint ventures	142	144
Disposal of associate	-	(62)
Adjustment to provisions	-	52
Deferred income tax adjustment	(6,387)	(5,389)
Other adjustments	596	(88)
Non-segmental other operating loss	(1,479)	(1,154)
Profit for the year (IFRS)	59,390	86,638

	31 December 2020	31 December 2019
Total reportable segment liabilities (RAS)	432,631	421,167
Netting of VAT recoverable and payable	(3,265)	(5,653)
Accrual of retirement benefit obligations	7,175	6,561
Adjustment to recognise lease liabilities	12,991	11,028
Deferred tax liabilities adjustment	(39,755)	(23,614)
Accrual of payables recognised in another accounting period	(25)	(112)
Discounting of long-term trade and other payables	(1,119)	(1,612)
Other adjustments	(37)	-
Non-segmental liabilities	17,911	14,080
Elimination of intercompany balances	(37,335)	(33,288)
Total liabilities (IFRS)	389,172	388,557

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Note 31. Segment information (continued)

	31 December 2020	31 December 2019
Total reportable segment assets (RAS)	1,578,076	1,543,924
Property, plant and equipment		
Adjustment to the carrying value of property, plant and equipment	66,637	58,212
Impairment of property, plant and equipment, net	(283,608)	(282,302)
Financial instruments		
Adjustment to cost of investments in associates	779	595
Adjustment to cost of financial investments	(38)	84
Discounting of promissory notes	(182)	(215)
Discounting of long-term trade and other receivables	(7,235)	(6,379)
Consolidation		
Reversal of impairment of investments in subsidiaries	10,775	8,712
Reversal of impairment of promissory notes	18,825	18,826
Unrealised profit adjustment	(10,931)	(10,015)
Elimination of investments in subsidiaries	(25,657)	(25,657)
Elimination of intercompany balances	(39,268)	(33,292)
Other		
Adjustment to recognise right-of-use assets	11,678	10,191
Non-recognised revenue and other income	(12,806)	(9,002)
Write-off of research and development costs to expenses	(1,345)	(2,082)
Adjustment to allowance for expected credit losses	12,180	9,309
Deferred income tax assets adjustment	(105)	(1,811)
Netting of VAT recoverable and payable	(3,265)	(5,653)
Other adjustments	(172)	(5,031)
Non-segmental assets	25,820	21,927
Total assets (IFRS)	1,340,158	1,290,341

The major customers of the Group are government-related entities. The amounts of revenue from such entities are disclosed in Note 5. The Group has no other major customers with the revenue over 10 percent of the Group revenue.

Note 31. Gain on disposal of assets

On 26 December 2018, as a part of the UNEG asset consolidation process, the Group concluded the exchange contract with JSC “Far Eastern Energy Management Company” (government-controlled entity). The Group transferred property, plant and equipment, accounts receivable, and a promise to pay cash in installments up to 2024 in exchange for UNEG property plant and equipment. The exchange was completed on 1 January 2019.

For the year ended 31 December 2019, the Group recognised gain on disposal of the assets amounted to RR 10,444 million in the consolidated statement of profit and loss and other comprehensive income.