The regulation on the Company's Accounting Policy for preparing accounting statements in accordance with Russian Accounting Standards (RAS) was aligned with the statutory accounting requirements and also subject to tax and civil legislation of the Russian Federation.

IDGC of the South organises and maintains accounting records, prepares accounting statements in line with Federal Law No. 402-FZ of December 6, 2011 "On Accounting"; Regulations on maintaining accounting records and accounting statements in the Russian Federation approved by Order No. 34n of the Ministry of Finance of Russia dated July 29, 1998; PBU 1/2008 Accounting Regulation "Accounting Policy of an Enterprise" approved by Order No. 106n of the Ministry of Finance of Russia dated October 6, 2008; the Chart of Accounts approved by Order No. 94n of the Ministry of Finance of Russia dated October 31, 2000; RAS Uniform Corporate Accounting Principles for the Federal Grid Group (UCAP) approved by Order No. 182 of PJSC ROSSETI dated December 29, 2017; by Order No. 957 of IDGC of the South dated December 29, 2017 "On the Accounting Policy of IDGC of the South for 2018", and other relevant regulatory documents

The regulation on the Company's Accounting Policy is based on the following assumptions:

Going concern assumption;
Economic entity assumption;
Consistency assumption;
Accrual assumption.
The Company shall take inventory of assets and liabilities in accordance with Art. 11 of Federal Law No. 402-FZ dated December 6, 2011 "On Accounting" and the Methodological

Guidelines for the Inventory of Assets and Financial Liabilities approved by Order No. 49 of the Ministry of Finance of Russia dated June 13, 1995 with a view to ensuring the accuracy of accounting data and accounting statements.

Fixed asset accounting shall be in accordance with PBU 6/01 approved by Order No. 26n of the Ministry of Finance of Russia dated March 30, 2001.

Fixed assets are recognised for accounting purposes at their initial cost determined by the method of receipt (acquisition in return for a fee, creation using own resources (construction), gratuitous receipt, etc.).

Assets meeting the conditions for classifying them as fixed assets with a value not exceeding RUB 40,000 per unit are recognised in accounting and accounting statements as business inventories, written off to process costs (costs of sale) as they are released into production and operation.

The Company uses the straight-line depreciation of fixed assets.

No provisions or repair pools are created for the repair of fixed assets.

Revaluation of fixed assets is not undertaken.

Leased fixed assets are shown under 01 line Fixed Assets, but are separated for the purpose of analytical accounting.

Accounting for the Company's intangible assets complies with the Accounting Regulations "Accounting for Intangible Assets" (PBU 14/2007) approved by Order No. 153n of the Ministry of Finance of Russia dated December 27, 2007.

Revaluation of intangible assets is not undertaken.

The Company depreciates all types of intangible assets on a straight-line basis.

Accounting for the Company's Research and Development (R&D) costs complies with the Accounting Regulations "Accounting for R&D Costs" (PBU 17/02) approved by Order No. 115n of the Ministry of Finance of Russia dated November 19, 2002. The Company writes off R&D costs on a straight-line basis. The writing-off period of R&D costs that gave a positive result is determined for each job, based on the expected period of use of the results obtained, during which a company can receive economic benefits (income), but not more than five years.

As financial investments, the Company recognises assets that do not have a tangible form and are capable of bringing economic benefits (income) in the future in the form of interest, dividends, or an increase in their value (as the difference between the sale price (repayment) and purchase price) as a result of the exchange, use in repayment of obligations, increasing the current market value.

Financial investments, which can be used to determine the current market value in accordance with the established procedure, are recorded in the financial statements at the end of each reporting quarter at the current market value by adjusting their cost estimate to the previous reporting date.

Financial investments, which can not be used to determine the current market value, are recorded at their initial cost.

If there is a steady decline in the value of financial investments, not used to determine the market value, which is measured by comparing the book value of financial investments with their estimated value, the Company sets up a respective depreciation reserve.

Accounting of business inventories complies with PBU 5/01 approved by Order No. 44n of the Ministry of Finance of the Russia dated June 9, 2001, with subsequent amendments and additions.

Business inventories for accounting purposes are estimated against the method for receipt (acquisition in return for a fee, manufactured using own resources, gratuitous receipt, etc.). The actual cost of materials purchased for a fee is the sum of the Company's actual costs of acquisition less the value added tax and other recoverable taxes.

A unit of accounting for inventories is the stock number.

The cost of special clothing with a service life of over 12 months is repaid on a straight-line basis by reference to the useful life determined in accordance with the codes and standards. The Company writes off the cost of special clothing from the month it is handed over into service.

Inventories written off to production, sold to outside parties, retiring on other grounds, including internal movement between branches and within a branch, are estimated at the average cost of each inventory type in the context of warehouses and storage sites.

The actual cost of materials is on average estimated by determining the actual cost of the material at the time of its issue (moving average estimate).

Capital reserves are created by the Company out of its profit on the basis of documents of association and decisions of the founders (shareholders).

Section III of the balance sheet (“Capital and Reserves”) in the line “Revaluation of Non-current Assets” reflects the amount of increase in the value of non-current assets as a result of their revaluation transferred on the opening balance sheet when the Company was reorganised in the form of a merger.

The Company recognises estimated liabilities when meeting the conditions of recognition in accordance with PBU 8/2010 approved by Order No. 167n of the Ministry of Finance of Russia dated December 13, 2010 as against the following obligations:

court proceedings that were not completed at the reporting date, with the Company acting as a plaintiff or defendant;
disagreements with the tax authorities on budget payments that were not resolved at the reporting date;
the restructuring of the Company, the sale or termination of any activity of the Company;
remunerations paid out to employees;
remunerations paid out to members of the Board of Directors
obligations on disagreements with electricity sales organisations;
obligations on disagreements with territorial grid organisations;
other similar obligations.
For assessing the consequences, all the above circumstances are analysed if their consequences exceed RUB 500,000.

The Company divides expenses into expenses from core activities and other expenses.

Expenses for core activities are the costs associated with the manufacture and sale of products, the acquisition and sale of goods, the costs associated with the production of works, the provision of services involved in core activities of the Company.

Costs incurred by the Company in the reporting period, but related to the following reporting periods, are recorded in the balance sheet in accordance with the terms of asset recognition established by the accounting regulatory acts and are to be written off pursuant to the depreciation procedure established for this type of assets.

Current expenses of the Company's executive office less absorbed costs are recognised as management costs.

Selling expenses are recognised by the Company in the financial statements if they occur, with the exception of selling expenses associated with energy sales activities. Selling expenses associated with energy sales (acting as a guaranteeing supplier) are included in the financial statements in line 2210 of the Income Statement.

Other earnings are shown in the Income Statement less expenses related to these gains when the relevant accounting rules stipulate or do not prohibit such reflection of income; revenues and related expenses arising from the same or similar economic event that is not significant for financial characteristics of the Company.

In line with PBU 7/98 “Events After the Reporting Date”, the Company reflects in the financial statements the events after the reporting date that had or may have an impact on the Company’s financial standing, cash flow or performance and that occurred between the reporting date and the date of signing of financial statements for the reporting year.

Events after the reporting date are reflected in the financial statements by updating data on the relevant assets, liabilities, capital, income and expenses of the Company with disclosure of respective information in the Notes to the Balance Sheet and the Income Statement.

The Company calculates and pays away taxes and fees required under the Laws on taxes and fees of the Russian Federation and its constituent entities, as well as legislative acts of local governments on taxes and fees.

Deferred taxes are accounted for by the Company as required by PBU 18/02 “Profit Tax Accounting” approved by Order No. 114n of the Ministry of Finance of Russia dated November 19, 2002.

The Accounting Policy of the Company is amended subject to alternation of applicable laws and (or) regulatory legal acts on accounting and also when an organisation adopts new accounting methods.

Any change in the Accounting Policy is approved by the Company's managerial documentation.

In 2018, there were no significant changes in the Accounting Policy for tax purposes.

Information on the Accounting Policy under International Financial Reporting Standards (IFRS)

The regulation on the Company's Accounting Policy for compiling consolidated financial statements in line with International Financial Reporting Standards (IFRS) stipulates the provisions of the Accounting Policy of IDGC of the South and its subsidiaries as required by IFRS. IDGC of the South's Group (hereinafter - the Group) means IDGC of the South and its subsidiaries and affiliates.

Group's IFRS Accounting Policy reflects the specific aspects of international financial reporting standards as applied by the Group and is used in context and in conjunction with the relevant standards and provisions of IFRS.

In line with the IFRS provisions, the purpose of financial statements is to provide information on the financial status, performance results and cash flows of the Group, which would be useful for users of financial statements when making economic decisions.

IFRS establishes requirements for recognition, measurement, presentation, and disclosure of information relating to transactions and events that are important for the understanding of financial statements. The Group's Management determines and adopts an IFRS policy so that the financial statements comply with all the requirements of each applicable IFRS standard (interpretation).

Without specific IFRS requirements, the Group's Management adopt its professional judgments and draws up accounting provisions based on the general requirements for the qualitative reporting characteristics established by the IASB Framework for the Preparation and Presentation of Financial Statements. When making judgments, the Group's Management also accepts common industry practices and the provisions of other reporting standards applicable to the Group's operations if they are consistent with IFRS requirements.

The Group systematically applies IFRS accounting policies from period to period for each category of transactions or events, except cases when IFRS standard or interpretation requires or permits the allocation of a group of transactions, for which other accounting policies are more appropriate. In the latter case, the corresponding new accounting policy will be consistently applied for each such group of transactions.