OGK-2

OGK-2 GROUP
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS (IFRS)
FOR THE YEAR ENDED 31 DECEMBER 2017

Translation from the Russian original

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Notes to Consolidated Financial Statements

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Translation from the Russian original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC "OGK-2"

Opinion

We have audited the consolidated financial statements of JSC "OGK-2" (the Company) (OGRN 1052600002180, Bld. 1, Letter A, 66 Peterburgskoe Shosse, St. Peterburg, 196140) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements for the year ended 31 December 2017, which comprise a summary of significant accounting policies and other explanatory information.

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 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the 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. 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.

Estimation of allowance for doubtful debts

We paid special attention to the issue of determining the allowance for doubtful debts because the appraisal process is complex and requires the management to make significant judgments.

Our audit procedures for management's assessment of impairment of accounts receivable included a review of the analysis of the probability of debt repayment by management, taking into account the assessment of the counterparty's solvency and the deterioration occurring at the reporting date, subsequent payment after the balance sheet date, availability of security for payment and its quality and other factors , considered by the management, as well as analysis of the receivables turnover, results of which were used, including for verify the analysis of the probability of debt repayment conducted by management, and review of reasonableness of information on impairment of accounts receivable disclosed in Note 10 to the consolidated financial statements.

As a result of the conducted procedures, we did not find any significant inconsistencies.

Assessment of impairment of property, plant and equipment

At each reporting date Group assesses whether there is any indication of impairment of property, plant and equipment. This annual impairment test was significant to our audit because the impairment test procedure is a complex process that involves management's use of significant judgments and is based on assumptions that are influenced by projected future market and economic conditions that are inherently are indeterminate.

Our audit procedures included, but not be limited to, the involvement of an valuation expert to assist us in assessing the assumptions and methodology used by the Group. We also focused our audit procedures on the adequacy of the Group's disclosure of assumptions to which the results of the impairment test are the most sensitive and have the most significant effect on the determination of the recoverable amount of property, plant and equipment. In the course of our audit, we also received and verified the existence of plans for the completion and further use of the objects of unfinished capital investments (planning and survey works and equipment for installation) that were not moving for a long period; studied the results of the stock take procedures of objects of incomplete capital investments; have checked the accuracy of writing off on the financial result the value of objects for which there are no plans exist for completion and further use of such objects.

The results of the impairment test are presented in Note 6 in the consolidated financial statements.

As a result of the conducted procedures, we did not find any significant inconsistencies.

Other Information

General Director (management) is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. 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.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

General Director (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.

Those charged with governance 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Translation from the Russian original

From the matters communicated with those charged with governance, 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 translation is true and correct.

The engagement partner on the audit resulting in this independent auditor's report is A.B. Baliakin

Audit company:
BDO Unicon Aktsionernoe Obshchestvo
Main State Registration Number: 1037739271701
11/1, 125 Warshavskoye Shosse, Moscow, 117587, Russia
Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association)
Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: 11603059593

5 March 2018

OGK-2 Group
Consolidated Statement of Financial Position as at 31 December 2017
(in thousands of Russian Roubles unless noted otherwise)

	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	6	184,267,282	184,799,186
Intangible assets	7	718,174	932,533
Deferred income tax assets	13	357,168	188,778
Other non-current assets	8	908,728	923,858
Total non-current assets		**186,251,352**	**186,844,355**
Current assets			
Cash and cash equivalents	9	5,140,926	4,538,684
Trade and other receivables	10	13,472,830	15,628,777
Inventories	11	11,129,570	9,277,515
Income tax prepayments		65,106	118,705
Total current assets		**29,808,432**	**29,563,681**
TOTAL ASSETS		**216,059,784**	**216,408,036**
EQUITY AND LIABILITIES			
Equity			
Share capital	12		
Ordinary shares		40,057,009	40,057,009
Treasury shares		(3,821,383)	(3,961,865)
Share premium		28,378,693	28,378,693
Retained earnings and other reserves		56,398,279	50,317,063
Equity attributable to the shareholders of JSC "OGK-2"		**121,012,598**	**114,790,900**
Total equity		**121,012,598**	**114,790,900**
Non-current liabilities			
Deferred income tax liabilities	13	12,192,821	10,303,385
Non-current debt	14	57,891,843	34,590,389
Retirement benefit obligations	15	1,820,404	2,207,546
Restoration provision	16	1,075,463	955,964
Other long-term liabilities	17	561,975	3,865,670
Total non-current liabilities		**73,542,506**	**51,922,954**
Current liabilities			
Current debt and current portion of non-current debt	18	1,443,237	32,459,634
Trade and other payables	19	18,404,720	14,642,616
Other taxes payable	20	1,577,399	2,235,599
Restoration provision	16	79,324	356,333
Total current liabilities		**21,504,680**	**49,694,182**
Total liabilities		**95,047,186**	**101,617,136**
TOTAL EQUITY AND LIABILITIES		**216,059,784**	**216,408,036**

General Director — S.A. Ananyev

Chief Accountant — L.V. Klisch

2 March 2018

Российская Федерация, Ставропольский край, Изобильненский район, поселок Солнечнодольск * 356128 * Публичное акционерное общество «Вторая генерирующая компания оптового рынка электроэнергии» * ОГК-2

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 50

OGK-2 Group
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2017
(in thousands of Russian Roubles unless noted otherwise)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Revenues	21	141,307,552	134,397,876
Operating expenses	22	(125,261,209)	(124,528,569)
Other operating expenses		(494,989)	(480,062)
Operating profit		**15,551,354**	**9,389,245**
Finance income	23	731,604	1,472,498
Finance costs	24	(6,135,244)	(5,894,702)
Profit before income tax		**10,147,714**	**4,967,041**
Income tax charge	13	(2,946,853)	(1,914,452)
Profit for the year		**7,200,861**	**3,052,589**
Other comprehensive loss:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of retirement benefit obligation, net of tax	13,15	(145,879)	(118,619)
Total comprehensive income for the year		**7,054,982**	**2,933,970**
Profit / (loss) for the year attributable to:			
Shareholders of JSC "OGK-2"		7,200,861	3,169,470
Non-controlling interest		-	(116,881)
		7,200,861	**3,052,589**
Total comprehensive income / (loss) for the year attributable to:			
Shareholders of JSC "OGK-2"		7,054,982	3,050,851
Non-controlling interest		-	(116,881)
		7,054,982	**2,933,970**
Earnings per ordinary share attributable to the shareholders of JSC "OGK-2" – basic and diluted (in Russian Roubles)	25	**0.07**	**0.03**

General Director S.A. Ananyev

Chief Accountant L.V. Kiisch

2 March 2018

Российская Федерация, Ставропольский край, Изобильненский район, поселок Солнечнодольск, Публичное акционерное общество «Вторая генерирующая компания оптового рынка электроэнергии»

ОГК-2

(in thousands of Russian Roubles unless noted otherwise)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**10,147,714**	**4,967,041**
Adjustments to reconcile profit before income tax to net cash provided by operations:			
Depreciation of property, plant and equipment	22	11,046,585	9,302,768
Amortisation of intangible assets	22	218,837	231,702
Reversal of property, plant and equipment impairment	6, 22	(851,829)	(335,930)
Charge of provision for impairment of trade and other receivables	22	3,597,008	3,123,145
Charge of provision for inventory obsolescence	22	204,028	7,730
Finance income	23	(731,604)	(1,472,498)
Finance costs	24	6,135,244	5,894,702
Non-state pensions and other long-term benefits	22	(500,909)	78,700
Loss on disposal of assets, net	22	963,742	1,013,010
Other non-cash items		35,311	38,290
Operating cash flows before working capital changes and income tax paid		**30,264,127**	**22,848,660**
Working capital changes:			
Increase in trade and other receivables		(2,561,577)	(2,906,073)
(Increase) / decrease in inventories		(1,399,235)	1,036,502
Increase in trade and other payables		355,229	614,049
(Decrease) / increase in taxes payable, other than income tax		(654,696)	1,484,052
Decrease in retirement benefit obligations		(94,044)	(150,813)
Income tax (paid) / returned		(1,169,193)	1,339,393
Net cash generated from operating activities		**24,740,611**	**24,265,770**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(10,081,417)	(14,813,215)
Proceeds from sale of property, plant and equipment		19,899	50,512
Purchase of intangible assets		(157,783)	(53,193)
Repayment of loans issued		-	100,000
Interest received		431,792	651,561
Net cash used in investing activities		**(9,787,509)**	**(14,064,335)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings	18	-	16,000,000
Proceeds from long-term borrowings	14	45,710,000	6,510,000
Repayment of short-term borrowings	18	(32,100,000)	(28,310,572)
Repayment of long-term borrowings	14	(21,369,500)	(87,674)
Interest paid	18	(5,688,980)	(6,576,146)
Payments under finance lease	18	(5,235)	(35,677)
Dividend paid to shareholders of JSC "OGK-2"		(869,438)	(596,790)
Net cash used in financing activities		**(14,323,153)**	**(13,096,859)**
Net increase/ (decrease) in cash and cash equivalents		**629,949**	**(2,895,424)**
Effect of exchange rate changes on cash and cash equivalents		**(27,707)**	**(110,261)**
Cash and cash equivalents at the beginning of the year	9	**4,538,684**	**7,544,369**
Cash and cash equivalents at the end of the year	9	**5,140,926**	**4,538,684**

General Director S.A. Ananyev

Chief Accountant L.V. Klisch

2 March 2018

(in thousands of Russian Roubles unless noted otherwise)

	Share capital	Treasury shares	Share premium	Retained earnings and other reserves	Equity attributable to the shareholders of JSC "OGK-2"	Non-controlling interest	Total equity
At 1 January 2016	**40,057,009**	**(4,150,598)**	**28,378,693**	**48,832,446**	**113,117,550**	**2,083,512**	**115,201,062**
Profit / (loss) for the year	-	-	-	3,169,470	3,169,470	(116,881)	3,052,589
Remeasurements of retirement benefit obligations, net of tax	-	-	-	(118,619)	(118,619)	-	(118,619)
Total comprehensive income / (expense) for the year	-	-	-	*3,050,851*	*3,050,851*	*(116,881)*	*2,933,970*
Dividends (Note 12)	-	-	-	(600,346)	(600,346)	-	(600,346)
Acquisition of businesses under common control (Note 12)	-	-	-	(817,757)	(817,757)	(1,966,631)	(2,784,388)
Payment of remuneration (Note 12)	-	188,733	-	(148,131)	40,602	-	40,602
At 31 December 2016	**40,057,009**	**(3,961,865)**	**28,378,693**	**50,317,063**	**114,790,900**	**-**	**114,790,900**
At 1 January 2017	**40,057,009**	**(3,961,865)**	**28,378,693**	**50,317,063**	**114,790,900**	**-**	**114,790,900**
Profit / for the year	-	-	-	7,200,861	7,200,861	-	7,200,861
Remeasurements of retirement benefit obligations, net of tax	-	-	-	(145,879)	(145,879)	-	(145,879)
Total comprehensive income for the year	-	-	-	*7,054,982*	*7,054,982*	-	*7,054,982*
Dividends (Note 12)	-	-	-	(874,173)	(874,173)	-	(874,173)
Payment of remuneration (Note 12)	-	134,904	-	(99,593)	35,311	-	35,311
Other transactions	-	5,578	-	-	5,578	-	5,578
At 31 December 2017	**40,057,009**	**(3,821,383)**	**28,378,693**	**56,398,279**	**121,012,598**	**-**	**121,012,598**

General Director S.A. Ananyev

Chief Accountant L.V. Klisch

2 March 2018

Российская Федерация, Ставропольский край, Изобильненский район, поселок Солнечнодольск * 356128 * Публичное акционерное общество «Вторая генерирующая компания оптового рынка электроэнергии» * ОГК-2

(in thousands of Russian Roubles unless noted otherwise)

Note 1. The Group and its operations

Public Joint Stock Company (till 24 June 2015 - Open Joint Stock Company) "The Second Generating Company of the Wholesale Electric Power Market" (JSC "OGK-2", or the "Company") was established on 9 March 2005 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

The primary activities of the Company are generation of electric power, heat power and chemically purified water. The Company consists of the following power stations (plants): Troitskaya GRES, Stavropolskaya GRES, Pskovskaya GRES, Serovskaya GRES, Surgutskaya GRES-1, Kirishskaya GRES, Ryazanskaya GRES, Novochercasskaya GRES, Krasnoyarskaya GRES-2, Cherepovetskaya GRES, Groznenskaya TES. Moreover, the Company rents Adlerskaya TES station under operating lease agreement.

The Company is registered by the Izobilnensk District Inspectorate of the RF Ministry of Taxation of Stavropol Region.

The Company's office is located at 66-1, lit. A, Peterburgskoye Highway, 196140, Saint Petersburg, Russian Federation.

JSC "OGK-2" and its following subsidiaries form the OGK-2 Group (the "Group"):

	% owned	
	31 December 2017	31 December 2016
LLC "OGK-2 Finance"	100%	100%
LLC "Centr 112"	100%	100%
LLC "OGK-Investproekt"	100%	100%

On March 2016 the Company acquired 45% of the capital of LLC "OGK-Investproekt" from MOSENERGO (another company of GAZPROM Group), share in capital was increased up to 100%. As a result of acquisition share of non-controlling interest in LLC "OGK-Investproekt" decreased from 45% to 0%. LLC "OGK-Investproekt" is provider of construction services.

Financial information about LLC "OGK-Investproekt" non-controlling interest is presented in Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity. LLC "OGK-Investproekt" did not pay dividends in the year ended 31 December 2017 and 31 December 2016 for years ended 31 December 2016 and 31 December 2015.

Operating environment of the Group. 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 frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 27). During 2017 the Russian economy continued to be negatively impacted by international sanctions against certain Russian companies and individuals.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

Relations with the state and current regulation. JSC "OGK-2" is part of the GAZPROM Group (www.gazprom.ru), which includes PJSC "GAZPROM" and its subsidiaries. PJSC "Centerenergyholding" owns 73.42% of the shares of JSC "OGK-2" as at 31 December 2017 (as at 31 December 2016: 73.42%).

GAZPROM Group, in its turn, is controlled by the Russian Federation, therefore, the Russian Government is the ultimate controlling party of the Group as at 31 December 2017 and 31 December 2016.

The Group's customer base includes a large number of entities controlled by or related to the State. The list of the Group's major fuel suppliers includes subsidiaries of PJSC "GAZPROM".

The government of the Russian Federation directly affects the Group's operations through regulations of wholesale sales of electricity (capacity) and retail sales of heat exercised by the Federal Antimonopoly Service ("FAS") and the tariffs regulation executive authorities. JSC "System Operator of the United Power System" ("SO UPS"), which is controlled by the Russian Federation represented by the Federal executive body for state property management, regulates operations of generating assets of the Group.

As described in Note 27, the government's economic, social and other policies could have material effects on the operations of the Group.

Note 2. Basis of preparation

Statement of compliance. These consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), adopted in accordance with the requirements of legislation of Russian Federation, and related interpretations adopted by the International Accounting Standards Board ("IASB").

The Company and each subsidiary of the Company individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Russian Accounting Rules ("RAR"). The accompanying financial statements are based on the statutory records adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Basis of measurement. The financial statements are prepared on the historical cost basis except financial instruments measured at fair value at initial recognition and revaluation of financial investments classified as available-for-sale.

Functional and presentation currency. The national currency of the Russian Federation is the Russian Rouble ("RR"), which is the functional currency of the Company and its subsidiaries and the currency in which these financial statements are presented. All financial information presented in RR has been rounded to the nearest thousand, unless otherwise stated.

Critical accounting estimates and assumptions. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment provision for trade and other receivables

The impairment provision for trade and other receivables is based on the Group's assessment of whether the collectability of specific customer accounts worsened compared to prior estimates. If there is deterioration/impairment in a major customer's creditworthiness or actual defaults are higher/lower than the estimates, the actual results could differ from these estimates. See effect of these critical accounting estimates and assumptions in Note 10.

Impairment of property, plant and equipment

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, 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 difference is recognised as an expense (impairment loss) in the consolidated statement of comprehensive income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 6. As described in Notes 1 and 27, the Government's economic, social and other policies could have material effects on the operations of the Group.

Useful lives of property, plant and equipment

The estimation of the useful lives of an items of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates. See effect of these critical accounting estimates and assumptions in Note 6, useful lives are presented in Note 4.

Tax contingencies

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently (Note 27). Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in these consolidated financial statements.

Restoration provision

The Group reviews its decommissioning liability, representing site restoration provisions, at each reporting date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur. See effect of these critical accounting estimates and assumptions in Note 16.

Classification of lease agreement as finance and operating lease

Management applies judgement to determine whether all the significant risks and rewards associated with leased assets are transferred to the Group. Management consider all circumstances that individually or in the aggregate would normally lead to a lease being classified as a finance lease: transfer of ownership at the end of the lease term; bargain purchase option; lease term is for the major part of the leased asset useful life even if ownership is not transferred; present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased assets; leased assets are of specialised nature and can be used only by the Group. Changes in any of these conditions may result in reclassifying the lease in the future. The lease of Adlerskaya TES station is classified as operating lease by the Group based on the analysis of terms of lease agreement and all of the facts and circumstances.

Note 3. New accounting developments

The following amendments to standards and interpretations became effective from 1 January 2017 but did not have any material impact on the Group's consolidated financial statements:

• *"Disclosure Initiative"* – Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017);

• *"Recognition of Deferred Tax Assets for Unrealised Losses"* – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017);

• *Annual Improvements to IFRSs (2014 – 2016 Cycle): IFRS 12 Disclosure of interests in other entities* – Amendments to IFRS 12 (effective for annual periods beginning on or after 1 January 2017).

Certain new standards, amendments to standards and interpretations, approved for application in the Russian Federation, have been issued that are mandatory for the annual reporting periods of the Group beginning on or after 1 January 2018 or later, and which the Group has not early adopted:

• IFRS 15 *"Revenue from Contracts with Customers"* (mandatorily effective for periods beginning on or after 1 January 2018);

• IFRS 9 *"Financial Instruments"* (mandatorily effective for periods beginning on or after 1 January 2018); IFRS 16 *"Leases"* (mandatorily effective for periods beginning on or after 1 January 2019);

• IFRS 17 *"Insurance Contracts"* (effective for annual periods beginning on or after 1 January 2021);

• IFRIC 22 *"Foreign Currency Translations and Advance Consideration"* (effective for annual periods beginning on or after 1 January 2018);

• IFRIC 23 *"Uncertainty over Income Tax Position"* (effective for annual periods beginning on or after 1 January 2019);

• *"Classification and Measurement of Share-based payment Transactions"* - Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018);

• *"Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"* - Amendments to IFRS 4 (effective for annual periods beginning on or after 1 January 2018);

• *"Transfers of Investment Property"* - Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018);

• *Annual Improvements to IFRS Standards 2014-2016 cycle dealing with matters in IFRS 1 First-time Adoption and IAS 28 Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2018);

• *"Prepayment Features with Negative Compensation"* - Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019);

• *"Long-term Interests in Associates and Joint Ventures"* - Amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019).

The Group is currently assessing the impact of the new standards, amendments to standards and interpretations on its consolidated financial statements.

Note 4. Summary of significant accounting policies

Principles of consolidation. The consolidated financial statements comprise the financial statements of the Company and those entities whose operations are controlled by the Company.

A) Subsidiaries

Subsidiaries are those investees that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination, excluding acquired from parties under common control, measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

B) Transactions eliminated on consolidation

Intercompany balances and transactions and any unrealized gains arising from intercompany transactions, are eliminated in preparing these consolidated financial statements; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Transfers of businesses from parties under common control. The Group was formed by the combination of a number of businesses under common control. Contributions to share capital of shares in subsidiaries (businesses) from parties under common control are accounted for using predecessors basis of accounting. Business combinations arising from transfers of control interests in entities that are under common control are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities of the subsidiaries transferred under common control are accounted for at the predecessor entity's carrying amounts. Because of the consequent use of the predecessor basis of accounting, the principal component of the net equity recognised for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Any difference between the carrying amount of net assets and the nominal value of share capital contributed and share premium is accounted for in these consolidated financial statements as retained earnings.

Foreign currency. Monetary assets and liabilities, held by the Group and denominated in foreign currencies at the reporting date, are translated into RR at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of the monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

The official Russian Rouble to US dollar exchange rates as determined by the Central Bank of the Russian Federation were 57.6002 and 60.6569 as at 31 December 2017 and 31 December 2016, respectively. The official RR to EURO exchange rates as determined by the Central Bank of the Russian Federation were 68.8668 and 63.8111 as at 31 December 2017 and 31 December 2016, respectively.

(in thousands of Russian Roubles unless noted otherwise)

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

Property, plant and equipment. Following the predecessor basis of accounting in business combinations property, plant and equipment were recognized at the carrying value determined in accordance with IFRS by the predecessors. Property, plant and equipment include assets under construction for future use as property, plant and equipment.

Property, plant and equipment are stated at depreciated cost less impairment. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, 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 difference is recognised as an expense (impairment loss) in the consolidated statement of comprehensive income. An impairment loss recognised in prior years is reversed if there has been an increase in the estimated fair value or value in use used to determine an asset's recoverable amount.

Renewals and improvements are capitalised and the assets replaced are retired. The cost of repair and routine maintenance is expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in the consolidated statement of comprehensive income as incurred.

Social assets are not capitalised as they are not expected to result in future economic benefits to the Group. Costs associated with a fulfilment of the Group's social responsibilities are expensed as incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated remaining useful lives. Assets under construction are not depreciated.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period.

The remaining useful lives, in years, are as follows:

Classes of property, plant and equipment	31 December 2017	31 December 2016
Production buildings	19-49	20-50
Constructions	6-34	7-35
Energy machinery and equipment	12-38	13-39
Other machinery and equipment	1-28	2-29
Other	1-12	1-13

Purchases of property, plant and equipment are shown net of VAT within investing activities in consolidated statement of cash flows.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

The Group classified assets and liabilities on the basis of an appropriate level of hierarchy of fair value as it is stated above (Note 28).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. The Group classifies its financial assets into the following categories: loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition depending on the purpose of purchase and nature of the instrument.

(a) Loans and receivables. Loans and receivables are non-derivarive financial assets with fixed or determinable payment terms, which are not quoted on an active market. These assets are included into the current assets except when the maturity is greater than 12 months after the reporting date. These assets are classified as non-current assets.

(b) Available-for-sale investments. Available-for-sale financial assets include investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Initial recognition of financial instruments. All financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions involving a similar instrument or by a valuation technique whose inputs include data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive a dividend is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Cash and cash equivalents. Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

Trade and other receivables. Trade and other receivables are recorded inclusive of value added taxes. Financial trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. In practice, the entity has estimated that the nominal amount of trade and other receivables approximates the fair value at inception. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate for similar borrowers. The carrying amount of the asset is reduced through the use of an impairment provision account, and the amount of the loss is recognised in the consolidated statement of comprehensive income within operating expenses. When a receivable is uncollectible, it is written off against the impairment provision account for receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statement of comprehensive income.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Derecognition of non-derivative financial liabilities. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings and trade and other payables.

Trade and other payables and accrued charges. Trade and other payables are stated inclusive of value added tax. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. If trade and other payables are restructured and the discounted present value of the cash flows under the restructured terms discounted using the original effective interest rate differs by more than ten percent from the discounted present value of the remaining cash flows of the original financial liability, then the fair value of the restructured payable is measured as the discounted present value of the cash flows under the restructured terms. In this case the amount of the discount is credited to the consolidated statement of comprehensive income (finance costs) as a gain on restructuring, and the non-current portion of the discounted payable is classified as other non-current liabilities. The discount is amortized as interest expense.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. 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 the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, 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 owners.

Debt. Debt is recognized initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortized cost using the effective yield method; any difference between the fair value at initial recognition (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the debt obligation.

Capitalization of borrowing costs. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset. Other borrowing costs are recognised as an expense using the effective interest method.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

The commencement date for capitalisation is when (i) the Group incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Interest payments capitalised as part of the cost of an assets are classified as cash outflows from financing activities.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present legal or constructive obligation as a result of past events, the payment is probable and reliable estimates can be made.

Value added tax on purchases and sales (VAT). Output VAT related to sales is payable to tax authorities on the earlier of (a) receipt of advance from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable by each taxpayer of the Group against output VAT upon receipt of goods or services and the respective VAT invoice. Input VAT from advances paid to suppliers after 1 January 2009 is recoverable upon advance payment provided the receipt of respective VAT invoice.

The tax authorities permit the settlement of VAT on net basis. VAT related to sales and purchases is recognized in the statement of financial position at nominal value on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

In the consolidated statement of cash flows purchase of property, plant and equipment and proceeds from sale of property, plant and equipment are presented without VAT.

Inventories. Inventories are valued at the lower of net realizable value and weighed average acquisition cost. Write-down is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

Intangible assets. 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.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. Maintenance costs associated with computer software are expensed when incurred. Capitalised computer software is amortised on a straight line basis over estimated remaining useful lives.

Intangible assets are reviewed for impairment whenever the events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The remaining useful lives, in years, are as follows:

Classes of intangible assets	31 December 2017	31 December 2016
SAP software	1-9	1-10
Other intangibles	1-10	1-11

Income tax. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current period. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxes other than on income are recorded within operating expenses.

Deferred tax is provided using the balance sheet liability method for the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit or loss. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

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

Prepayments / Advances paid. Prepayments / advances paid are carried at cost less provision for impairment. A prepayment / advance paid is classified as non-current when the goods or services relating to the prepayment / advance paid are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments / advances paid to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Advances paid to capital contractors and to acquire intangible assets are included into carrying amount of construction in progress balance of property, plant and equipment and intangible assets balance, respectively, excluding related input VAT. Input VAT from the advances paid to capital contractors and to acquire intangible assets is included into carrying amount of other non-current assets if expected date of input VAT recovery after one year. If input VAT recovery is expected within one year, it is recognized as trade and other receivables. The input VAT is stated at its nominal value. Other prepayments / advances paid offset when the goods or services relating to the prepayments / advances are received. If there is an indication that the assets, goods or services relating to a prepayment / advances paid will not be received, the carrying value of the prepayment advance paid is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Restoration provision. Estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of the item when an item is acquired. Changes in the measurement of an existing asset retirement obligation result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate. These changes adjust the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in profit or loss.

The Group has an obligation to restore the surface of ash dumps when they are full, including obligation to dismantling the constructions located on the territory of the ash dump (Note 16).

Finance leases. Where the Group is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of future finance charges, are included in debts. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to the statement of comprehensive income over the lease period using the effective interest method.

Operating leases. Management applies judgment in determining whether to account for lease agreements as finance or operating leases. In the application of this judgment, management makes assessment of various factors including which party carries the risks and rewards of ownership, the extent of the lease term and whether early termination clauses can be exercised by the counterparties to the lease.

Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income.

Pension, post-employment and other long-term benefits. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses in the consolidated statement of comprehensive income.

Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the reporting date. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related retirement benefit obligations.

Remeasurements of the net defined benefit liability comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions. Remeasurements are recognised immediately in other comprehensive income. Remeasurements for other long-term benefits are recognised immediately in profit and loss.

A past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment. Past service cost is recognised immediately as soon as the pension plan conditions are changed. A curtailment of pension plan occurs when there is a significant reduction in the number of employees covered by the plan. A curtailment gain or loss gives rise to past service cost and as such it is recognised when it occurs.

Share-based payments. The General Meeting of Company's Shareholders may decide to pay additional remuneration to members of the Board of Directors for their performance in the form of treasury shares held by the Company. Additional remuneration by treasury shares is paid based on the market value of the shares being their weighted average price which is calculated by the securities market operator (stock exchange) based on the organized trade results on the date of payment.

Revenue recognition. Revenue is recognized on the delivery of electricity, capacity, heat and provision of other services during the period. Revenues from sales of non-utility goods are recognised at the point of transfer of risks and rewards of ownership of the goods.

Revenues are measured at the fair value of consideration received or receivable. Revenue amounts are represented exclusive of value added tax.

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker.

The primary activity of the Group is production of electric and heat power and capacity. Operating segments are operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the operating decision-making body which is represented by the Company's Management Board. The Management Board of the Company controls and allocates economic resources of the Group between segments and evaluates segment's operating efficiency. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The Group discloses seven reporting segments. Other segments are included in other operating segments based on quantitive criteria.

Earnings per share. The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

Note 5. Related Parties

Information on transactions and balances with related parties is presented below. All transactions were made in Russian Federation and in Russian Roubles. Transactions with related parties have been made mostly on the same terms and conditions as similar operations with the parties external to the Group. Prices for natural gas and heat are based on tariffs set by FAS, prices for electricity and capacity are based on tariffs set by FAS and also based on competitive take-off on the wholesale electricity (capacity) market. Loans and borrowings are granted at market rates. Bank deposits are invested at market rates.

(in thousands of Russian Roubles unless noted otherwise)

Transactions with GAZPROM Group and its associates

Transactions with GAZPROM Group and its associates were as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Sales of electricity and capacity	3,187,872	1,718,072
Other sales	190,094	211,232
Interest income	121,040	427,265
Other operating income	116,679	57,201
Purchases of gas	37,370,572	40,052,953
Other purchases	8,248,290	8,497,567
Other expenses	102,539	39,701
Acquisition of property, plant and equipment	4,536,077	4,306,223
including capitalized borrowing costs from related parties	385,486	1,318,777
Purchases of materials	1,548,025	839,539
Purchases of intangible assets	100,590	22,707
Interest expense under finance lease agreements	4,882	1,567
Interest expense on loans	3,701,567	3,307,897
Proceeds from borrowings	29,600,000	16,000,000
Repayment of borrowings (excluding interest)	37,359,500	21,877,674

The Group has not entered into transactions with PJSC "Centerenergyholding" for the years ended 31 December 2017 and 31 December 2016.

Balances with GAZPROM Group and its associates were as follows:

	31 December 2017	31 December 2016
Long-term loans issued (Note 8)	131,101	118,550
Cash and cash equivalents (Note 9)	3,973,595	3,900,796
Trade and other receivables	1,041,976	1,928,008
Provision for impairment of trade and other receivables	(7,732)	-
Advances for property, plant and equipment (net of VAT)	341,457	432,246
Promissory notes Bank GPB (JSC) (Note 10) (nominal value of promissory notes is RR 0 thousand as at 31 December 2017 and RR 20,000 thousand as at 31 December 2016)	-	19,305
Debt (Note 14,18)	35,101,718	42,829,126
Trade and other payables	10,807,732	9,556,527

As at 31 December 2017 the Group has capital commitments to GAZPROM Group (including VAT) and its associates of RR 9,401,445 thousand (as at 31 December 2016: RR 811,969 thousand).

Operating lease rentals to GAZPROM Group are payable as follows:

	31 December 2017	31 December 2016
Not later than one year	2,528,479	1,506,726
Later than one year and not later than five years	662,372	-
Total	**3,190,851**	**1,506,726**

(in thousands of Russian Roubles unless noted otherwise)

Transactions with state-controlled entities and its associates other than GAZPROM Group

In the normal course of business the Group enters into transactions with other entities under Government control (in addition to transactions with GAZPROM Group), including sales of electricity and capacity, heat, purchases of electricity and capacity resources, services and other transactions. These transactions (except for sales of electricity and capacity, electricity transit, building and construction works and loans received) are not significant either individually or collectively.

Significant transactions with the state-controlled entities were as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Sales of electricity and capacity	20,839,892	15,710,143
Other sales	2,940,137	1,256,134
Other operation income	917,379	55,292
Charge of provision for impairment of trade receivables (sales of electricity and capacity)	1,810,412	2,182,717
Reversal of provision for impairment of trade receivables (sales of electricity and capacity)	(391,387)	(368,908)
Interest income on cash and cash equivalents	289,659	176,356
Electricity transit (Note 22)	1,993,656	1,694,730
Acquisition of property, plant and equipment	146,523	5,383,011
including capitalized borrowing costs from related parties	139,996	444,205
Interest expense on loans	948,577	1,107,626
Proceeds from borrowings	16,110,000	6,510,000
Repayment of borrowings (excluding interest)	16,110,000	2,870,664

Significant balances with the state-controlled entities were as follows:

	31 December 2017	31 December 2016
Trade and other receivables, gross	10,773,650	8,467,635
Provision for impairment of trade and other receivables	(6,693,771)	(5,208,594)
Cash and cash equivalents (Note 9)	542,377	562,283
Trade and other payables	847,212	2,104,717
Debt (Note 14,18)	14,119,203	14,112,378

As at 31 December 2017 the Group has capital commitments to state-controlled entities (including VAT) of RR 1,148,754 thousand (as at 31 December 2016: RR 1,152,194 thousand).

Operating lease rentals to state-controlled entities are payable as follows:

	31 December 2017	31 December 2016
Not later than one year	69,960	73,281
Later than one year and not later than five years	271,392	284,637
Later than five years and not later than ten years	336,979	350,590
Later than ten years	2,308,363	2,472,579
Total	**2,986,694**	**3,181,087**

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with Joint-stock company "Financial Settling Center" (JSC "FSC"). Current financial settlement system of JSC "FSC" does not provide the final counterparty with automated information about transactions and settlement balances with end consumers. Government-related entities, GAZPROM Group and its subsidiaries may also act as counterparties.

(in thousands of Russian Roubles unless noted otherwise)

The Group had the following significant transactions with JSC "FSC":

	Year ended 31 December 2017	Year ended 31 December 2016
Sales of electricity	64,034,408	69,894,931
Purchases of electricity	11,900,863	11,024,899
Other income	3,361	7,277
Other expenses	21,032	21,524

The Group had the following significant balances with JSC "FSC":

	31 December 2017	31 December 2016
Trade and other receivables	2,370,953	3,187,914
Trade and other payables	592,376	654,314

Transactions with key management

Compensation is paid to members of the Management Board of the Company for their services in full time management positions. The compensation is made up of a contractual salary and a performance bonus depending on results for the period according to Russian statutory financial results of the Company. The compensation is approved by the Board of Directors. Discretionary bonuses are also payable to members of the Management Board, which are approved by the Chairman of the Management Board according to his perception of the value of their contribution.

Fees, compensation or allowances to the members of the Board of Directors for attending Board meetings are paid depending on results for the year.

Total remuneration accrued to the members of the Board of Directors and Management Board is presented below:

	Year ended 31 December 2017		Year ended 31 December 2016	
	Expenses	Accrued liabilities	Expenses	Accrued liabilities
Remuneration	84,786	3,331	122,069	6,486
Additional remuneration paid by treasury shares (Note 12)	35,311	-	40,602	-
Social funds contribution	18,853	-	19,464	-
Medical insurance	3,260	-	3,227	-
Retirement benefit obligations	2,377	15,254	1,448	17,884

Transactions with other related parties

Transactions with other related parties represent transactions with the non-state pension funds ("NPF"). For the year ended 31 December 2017 the Group made contributions of RR 77,477 thousand to NPF Electroenergetiki and NPF GAZFOND (for the year ended 31 December 2016: RR 118,549 thousand).

(in thousands of Russian Roubles unless noted otherwise)

Note 6. Property, plant and equipment

	Production buildings	Construc-tions	Energy machinery and equipment	Other machinery and equipment	Other	Construction in progress	Total
Cost							
Opening balance as at 1 January 2017	**58,497,690**	**36,112,087**	**103,412,077**	**39,716,012**	**2,331,679**	**23,608,759**	**263,678,304**
Additions	-	34,192	690	166,416	50,437	11,199,744	11,451,479
Transfer	2,024,484	937,651	4,377,268	1,329,181	845,105	(9,513,689)	-
Disposals	(27,124)	(146,710)	(1,287,648)	(248,171)	(83,182)	(1,959,915)	(3,752,750)
Closing balance as at 31 December 2017	**60,495,050**	**36,937,220**	**106,502,387**	**40,963,438**	**3,144,039**	**23,334,899**	**271,377,033**
Accumulated depreciation (including impairment)							
Opening balance as at 1 January 2017	**(21,500,308)**	**(14,105,982)**	**(27,929,643)**	**(13,017,407)**	**(1,356,506)**	**(969,272)**	**(78,879,118)**
Charge for the period	(1,211,013)	(1,353,967)	(4,998,873)	(3,268,985)	(230,801)	-	(11,063,639)
Disposals	21,086	137,082	854,162	228,625	81,376	658,846	1,981,177
Transfer	(560)	(3,204)	-	(7,383)	(330)	11,477	-
Charge of impairment	(10,783)	(66,552)	(18,532)	(70,712)	(14,418)	(24,744)	(205,741)
Reversal of impairment	600,943	98,532	306,096	44,793	7,206	-	1,057,570
Closing balance as at 31 December 2017	**(22,100,635)**	**(15,294,091)**	**(31,786,790)**	**(16,091,069)**	**(1,513,473)**	**(323,693)**	**(87,109,751)**
Net book value as at 31 December 2017	**38,394,415**	**21,643,129**	**74,715,597**	**24,872,369**	**1,630,566**	**23,011,206**	**184,267,282**
Net book value as at 31 December 2016	**36,997,382**	**22,006,105**	**75,482,434**	**26,698,605**	**975,173**	**22,639,487**	**184,799,186**

	Production buildings	Construc-tions	Energy machinery and equipment	Other machinery and equipment	Other	Construction in progress	Total
Cost							
Opening balance as at 1 January 2016	**45,128,175**	**26,461,266**	**73,124,469**	**25,017,485**	**2,029,340**	**78,648,678**	**250,409,413**
Additions	1,594	185,568	-	149,374	32,990	17,294,150	17,663,676
Transfer	13,403,050	9,605,366	33,716,459	15,131,860	345,348	(72,202,083)	-
Disposals	(35,129)	(140,113)	(3,428,851)	(582,707)	(75,999)	(131,986)	(4,394,785)
Closing balance as at 31 December 2016	**58,497,690**	**36,112,087**	**103,412,077**	**39,716,012**	**2,331,679**	**23,608,759**	**263,678,304**
Accumulated depreciation (including impairment)							
Opening balance as at 1 January 2016	**(20,738,108)**	**(13,059,125)**	**(25,190,060)**	**(10,765,235)**	**(1,273,903)**	**(985,150)**	**(72,011,581)**
Charge for the period	(1,055,643)	(1,124,099)	(4,332,589)	(2,711,421)	(125,183)	-	(9,348,935)
Disposals	23,796	46,131	1,516,207	480,758	65,950	12,626	2,145,468
Transfer	-	(1,598)	-	(8,283)	(609)	10,490	-
Charge of impairment	(694)	(13,350)	(69,291)	(45,619)	(26,958)	(7,238)	(163,150)
Reversal of impairment	270,341	46,059	146,090	32,393	4,197	-	499,080
Closing balance as at 31 December 2016	**(21,500,308)**	**(14,105,982)**	**(27,929,643)**	**(13,017,407)**	**(1,356,506)**	**(969,272)**	**(78,879,118)**
Net book value as at 31 December 2016	**36,997,382**	**22,006,105**	**75,482,434**	**26,698,605**	**975,173**	**22,639,487**	**184,799,186**
Net book value as at 31 December 2015	**24,390,067**	**13,402,141**	**47,934,409**	**14,252,250**	**755,437**	**77,663,528**	**178,397,832**

The following objects of contracts on capacity provision (CCP) were commissioned in the 2nd quarter of 2016: the Object number 2 (PSU-330), construction of the coal-fired power on the territory of the Novocherkasskaya GRES (capacity increased by 330 MW) and the start-up facilities of the Object number 1 (PSU-660), construction of the coal-fired power on the territory of the Troitskaya GRES (capacity increased by 660 MW).

Construction in progress as at 31 December 2017 and 31 December 2016 includes advances for property, plant and equipment in the amount of RR 1,692,416 thousand and RR 1,361,400 thousand respectively.

(in thousands of Russian Roubles unless noted otherwise)

As at 31 December 2017 the advances given to major contractors recorded within construction in progress are: LLC "QUARTZ-Novie Technologii" to build a power unit on site of Troitskaya GRES amounted to RR 1,151,083 thousand (net of VAT); as at 31 December 2016 LLC "QUARTZ-Novie Technologii" to build a power unit on site of Troitskaya GRES amounted to RR 635,448 thousand (net of VAT). The respective input VAT is recognised within trade and other receivables (Note 10).

For the year ended 31 December 2017 the Group capitalized borrowing costs attributable to the acquisition, construction or production of an asset in the amount of RR 683,585 thousand (for the year ended 31 December 2016: RR 2,390,578 thousand), with an average capitalisation rate of 9.71% (for the year ended 31 December 2016: 9.69%).

The amount of ash dump restoration costs capitalised within the group "Constructions" (Note 16) is RR 1,025,043 thousand as at 31 December 2017 (as at 31 December 2016: RR 1,114,707 thousand).

Impairment

Management identified indication of impairment of the Group's property, plant and equipment as at 31 December 2017. For the purposes of impairment test assets of the Group were grouped into 12 cash-generating units. Each power station of the Group was considered as separate cash-generating unit: Troitskaya GRES, Stavropolskaya GRES, Serovskaya GRES, Surgutskaya GRES-1, Kirishskaya GRES, Novochercasskaya GRES, Ryazanskaya GRES, each of which is a separate reportable segment and, Krasnoyarskaya GRES-2, Cherepovetskaya GRES, Pskovskaya GRES, Adlerskaya TES, LLC "OGK-Investproekt" which included in other operating segments of the Group (Note 29).

Management of the Group conducted the test for the economic impairment of property, plant and equipment of cash-generating units by comparing the carrying value of property, plant and equipment and their recoverable amount.

The majority of the Group's property, plant and equipment is specialized in nature and is rarely sold on the open market other than as part of a continuing business. Consequently, the recoverable amount of property, plant and equipment was primarily determined using discounted cash-flows method. The present value of the future cash flows of each cash-generating unit was calculated based on the projected future net cash flows using certain assumptions.

The following key assumptions were used when the cash flow testing was performed as at 31 December 2017:

Discount rate before tax (based on weighted average cost of capital)	15.74%
Forecast of electricity and capacity prices in competitive market	2018-2019 - the Company's management forecast based on parameters of Ministry of Economic Development of the Russian Federation , 2020-2022 - based on the forecast growth of energy prices according to the Ministry of Economic Development of the Russian Federation
Forecast of electricity and capacity volumes	Based on the Company's management assessment of future trends in the business

As at 31 December 2017 Management of the Group concluded on the impairment of certain cash-generating unit - Cherepovetskaya GRES in the amount of RR 205,741 thousand (recoverable amount of Cherepovetskaya GRES equals value in use and amounts to RR 1,290,418 thousand as at 31 December 2017) and on necessity of reversal of impairment of certain cash-generating unit - Pskovskaya GRES in the amount of RR 1,057,570 thousand (recoverable amount of Pskovskaya GRES equals value in use and amounts to RR 1,613,919 thousand as at 31 December 2017). As a result in operating expenses in Consolidated Statement of Comprehensive Income for the year ended 31 December 2017 the reversal of impairment in the amount of RR 851,829 thousand (net) was recognised (for the year ended 31 December 2016 impairment loss in the amount of RR 354,659 thousand was recognised).

The calculation of the recoverable amounts from cash-generating units is highly sensitive to the pre-tax discount rate and change of forecasted tariffs: a change in one or more key assumptions using real possible alternative assumptions leads to a significant change in the recoverable amount of property, plant and equipment. If the pre-tax discount rate was 1 percent higher in the forecasted period, there would be total reversal of impairment of RR 628,791 thousand recognised for the year ended 31 December 2017. If the electricity tariffs were 5 percent lower in the forecasted period, there would be total impairment loss of RR 1,219,468 thousand recognised for the year ended 31 December 2017.

The impairment provision balance in retation to property, plant and equipment and assets under construction is included in accumulated depreciation as at 31 December 2017 in the amount of

(in thousands of Russian Roubles unless noted otherwise)

RR 3,572,353 thousand (as at 31 December 2016: RR 5,199,360 thousand).

Finance lease

The Group leased certain equipment under a number of finance lease agreements. At the end of the leases the Group has the option to purchase the equipment at a price significantly lower its fair value. The net book value of leased equipment is presented below:

	31 December 2017	31 December 2016
Other machinery and equipment	36,924	-
Total	**36,924**	**-**

The leased equipment is pledged as a security for the lease obligation.

Operating lease

The Group leases a number of land plots owned by local governments and other assets under operating leases. Lease payments are determined by lease agreements. Lease agreements are concluded for the different periods. Part of the lease contracts is concluded for a year with right of future prolongation, maximum lease period is 49 years. Lease payments are reviewed regularly to reflect market rentals.

Operating lease rentals are payable as follows:

	31 December 2017	31 December 2016
Not later than one year	2,761,801	1,655,879
Later than one year and not later than five years	933,764	284,637
Later than five years and not later than ten years	336,979	350,590
Later than ten years	2,308,363	2,472,579
Total	**6,340,907**	**4,763,685**

Note 7. Intangible assets

	SAP software	Other intangibles	Total
Cost			
Balance as at 1 January 2017	**1,279,057**	**410,090**	**1,689,147**
Additions	-	174,463	174,463
Disposals	(416,765)	(17,323)	(434,088)
Balance as at 31 December 2017	**862,292**	**567,230**	**1,429,522**
Amortisation			
Balance as at 1 January 2017	**(587,118)**	**(169,496)**	**(756,614)**
Charge for the period	(140,032)	(78,974)	(219,006)
Disposals	246,949	17,323	264,272
Balance as at 31 December 2017	**(480,201)**	**(231,147)**	**(711,348)**
Net book value as at 31 December 2017	**382,091**	**336,083**	**718,174**
Net book value as at 31 December 2016	**691,939**	**240,594**	**932,533**

	SAP software	Other intangibles	Total
Cost			
Balance as at 1 January 2016	**1,279,057**	**398,015**	**1,677,072**
Additions	-	59,756	59,756
Disposals	-	(47,681)	(47,681)
Balance as at 31 December 2016	**1,279,057**	**410,090**	**1,689,147**
Amortisation			
Balance as at 1 January 2016	**(419,363)**	**(153,101)**	**(572,464)**
Charge for the period	(167,755)	(64,076)	(231,831)
Disposals	-	47,681	47,681
Balance as at 31 December 2016	**(587,118)**	**(169,496)**	**(756,614)**
Net book value as at 31 December 2016	**691,939**	**240,594**	**932,533**
Net book value as at 31 December 2015	**859,694**	**244,914**	**1,104,608**

(in thousands of Russian Roubles unless noted otherwise)

Note 8. Other non-current assets

	Notes	31 December 2017	31 December 2016
Long-term promissory notes (nominal value of promissory notes is RR 460,210 thousand as at 31 December 2017 and RR 461,427 thousand as at 31 December 2016)	10	240,635	221,318
Long-term loan issued	10	131,101	118,550
Long-term trade and other receivables (net of provision for impairment of RR 3,337 thousand as at 31 December 2017 and RR 4,181 thousand as at 31 December 2016, and the effect of discounting of 7,046 thousand as at 31 December 2017 and RR 8,667 thousand as at 31 December 2016)	10	14,749	15,848
Financial assets		**386,485**	**355,716**
Deposits for pensions	15	498,131	545,169
Long-term advances to suppliers	10	17,019	16,120
Long-term input VAT from advances paid	10	-	195
Other		7,093	6,658
Total		**908,728**	**923,858**

Note 9. Cash and cash equivalents

	Currency	31 December 2017	31 December 2016
Current bank accounts	RR	4,267,106	3,990,883
Current bank accounts	KZT	63	-
Bank deposits with maturity three months or less	USD	523,194	547,787
Bank deposits with maturity three months or less	RR	350,500	-
Other cash and cash equivalents	RR	63	14
Total		**5,140,926**	**4,538,684**

The Group has current bank accounts in the following banks:

Cash in bank	Credit rating on 31 December 2017*	31 December 2017	Credit rating on 31 December 2016*	31 December 2016
Bank GPB (JSC)	b1 / Positive	3,973,595	b1 / Negative	3,900,796
"BANK "ROSSIYA"	WR / Ratings Withdrawn	274,373	WR / Ratings Withdrawn	75,504
Sberbank	ba1 / Positive	18,842	ba2 / Negative	13,949
JSC VTB Bank	b1 / Positive	341	b1 / Negative	547
AO "ALFA-BANK"	ba2 / Stable	18	ba3 / Negative	40
"Bank Otkritie Financial Corporation" PJSC	-	-	b1 / Negative	47
Total cash in bank		**4,267,169**		**3,990,883**

* Baseline Credit Assessment / the outlook on all of the bank's ratings, determined by Moody's Investor Service.

(in thousands of Russian Roubles unless noted otherwise)

Credit quality of bank deposits is presented below:

Bank deposits with maturity of three months or less	Currency	Interest rate	Credit rating on 31 December 2017*	31 December 2017	Currency	Interest rate	Credit rating on 31 December 2016*	31 December 2016
Sberbank	USD	0.84%	Non-Prime	523,194	USD	0.47%	Non-Prime	547,787
"BANK "ROSSIYA"	RR	6.55%	Ratings Withdrawn	350,500	-	-	-	-
Total bank deposits with maturity of three months or less				**873,694**				**547,787**

* Short-term rating of domestic and foreign currency deposits, determined by Moody's Investors Service.

Note 10. Trade and other receivables

	Notes	31 December 2017	31 December 2016
Trade receivables (net of provision for impairment of RR 8,855,893 thousand as at 31 December 2017 and RR 7,156,533 thousand as at 31 December 2016)		10,779,181	10,630,501
Other receivables (net of provision for impairment of RR 6,312,701 thousand as at 31 December 2017 and RR 4,612,232 thousand as at 31 December 2016, and the effect of discounting of RR 7,228 thousand as at 31 December 2017 and RR 8,852 thousand as at 31 December 2016)		1,547,651	2,746,348
Promissory notes (nominal value of promissory notes is RR 462,644 thousand as at 31 December 2017 and RR 571,244 thousand as at 31 December 2016)		242,938	323,529
Loans issued		131,101	118,550
Interest receivable		3,034	2,044
Financial assets		**12,703,905**	**13,820,972**
Advances to suppliers (net of provision for impairment of RR 13,337 thousand as at 31 December 2017 and RR 269 thousand as at 31 December 2016)		842,256	1,916,818
Input VAT		314,890	219,228
Prepaid other taxes and social funds contribution		15,283	43,790
Total		**13,876,334**	**16,000,808**
Less: Long-term promissory notes	8	(240,635)	(221,318)
Long-term loans issued	8	(131,101)	(118,550)
Long-term advances to suppliers	8	(17,019)	(16,120)
Long-term trade and other receivables	8	(14,749)	(15,848)
Long-term input VAT from advances paid	8	-	(195)
Total		**13,472,830**	**15,628,777**

As at 31 December 2017 and 31 December 2016 the effective interest rate on the loans issued was 12.10%.

(in thousands of Russian Roubles unless noted otherwise)

Breakdown of promissory notes is presented below:

Bank	Effective interest rate	Credit rating on 31 December 2017*	31 December 2017	Credit rating on 31 December 2016*	31 December 2016
AO "ALFA-BANK"	8.11%-9.50%	ba2 /Stable	238,927	ba3 / Negative	218,819
"BANK "ROSSIYA"	9.00%	-	-	WR / Ratings Withdrawn	80,604
Bank GPB (JSC)	12.00%	-	-	b1 / Negative	19,305
Other	12.67%	-	4,011	-	4,801
Total promissory notes			**242,938**		**323,529**

* The bank financial strength rating / the outlook on all of the bank's ratings, determined by Moody's Investor Service.

Note 11. Inventories

	31 December 2017	31 December 2016
Spare parts	5,154,814	3,797,836
Fuel supplies	4,580,962	4,275,720
Materials and supplies	1,393,794	1,203,959
Total	**11,129,570**	**9,277,515**

Inventories are presented net of provision for obsolescence of RR 221,945 thousand and RR 27,162 thousand as at 31 December 2017 and 31 December 2016, respectively.

Note 12. Equity

Share capital

	Number of ordinary shares 31 December 2017	Number of ordinary shares 31 December 2016	Number of ordinary shares 31 December 2015
Issued shares	110,441,160,870	110,441,160,870	110,441,160,870
Treasury shares	(4,440,913,118)	(4,520,954,629)	(4,631,395,784)
Total outstanding shares	**106,000,247,752**	**105,920,206,241**	**105,809,765,086**

Each ordinary share carries one vote. The nominal value of one share is RR 0.3627.

As at 31 December 2017 and 31 December 2016 the number of authorised for issue but not issued ordinary shares is 58,886,766,090 shares.

Dividends

The Company's annual statutory accounts form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as net profit. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount of the distributable reserves in these financial statements.

In June 2017 the Company declared final dividends for the year ended 31 December 2016 of RR 0.00825304739908 per ordinary share for RR 874,173 thousand. These dividends were recognized as liability and deducted from equity.

In June 2016 the Company declared final dividends for the year ended 31 December 2015 of RR 0.00567376233395 per ordinary share for RR 600,346 thousand. These dividends were recognized as liability and deducted from equity.

Treasury shares

On June 2, 2017 the Annual General Meeting of Shareholders of JSC "OGK-2" decided to pay an additional remuneration to the Board members elected by the Annual General Meeting of Shareholders on December 16, 2016, in the form of ordinary shares of JSC "OGK-2" held by JSC "OGK-2", in the total number of 78,941,511 shares. The payment of additional remuneration in the form of JSC "OGK-2" shares was carried at their fair value of RR 35,311 thousand. The fair value was defined as the shares' weighted average price calculated by the Russian organizer of trade in the securities market (stock exchange) based on the results of the organized trading on the date of payment. The difference of RR 99,593 thousand between the fair value of the above shares and their carrying amount was recognized in retained earnings. The similar additional remuneration to the Board members was paid in 2016: number of shares - 110,441,155, fair value RR 40,602 thousand, the difference between the fair value of the above shares and their carrying amount was RR 148,131 thousand.

(in thousands of Russian Roubles unless noted otherwise)

Acquisition of entity under common control

According to the Group's accounting policy assets and liabilities of subsidiary LLC "OGK-Investproekt" (Note 1) transferred between entities under common control are accounted for at the predecessor entity's carrying amounts. In 2016 loss from the difference between the amount of consideration transferred and net asset value of LLC "OGK-Investproekt" is recognized in the financial statements as retained earnings in the amount of RR 817,757 thousand.

Note 13. Income tax

Income tax charge	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Current income tax charge	(1,214,316)	(1,742)
(Charge) / refund of income tax for prior periods	(5,187)	1,053,928
Deferred income tax expense	(1,727,350)	(2,966,638)
Total income tax charge	**(2,946,853)**	**(1,914,452)**

During the year ended 31 December 2017 the Group was subject to a 20% income tax rate on taxable profits (for the year ended 31 December 2016: 20%).

Reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2017	**Year ended 31 December 2016**
Profit before income tax	**10,147,714**	**4,967,041**
Theoretical tax charge at the statutory tax rate of 20%	(2,029,543)	(993,408)
Charge of income tax for prior periods	(5,187)	-
Tax effects of items which are non-deductible for income tax purposes	(912,123)	(921,044)
Total income tax charge	**(2,946,853)**	**(1,914,452)**

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

Deferred income tax liabilities

	31 December 2016	**Movement for the period recognized in profit and loss**	**Movement for the period recognized in other comprehensive income**	**31 December 2017**
Property, plant and equipment	(13,309,216)	(818,600)	-	(14,127,816)
Deposits for pensions	(109,034)	9,408	-	(99,626)
Provision for impairment of trade receivables	(101,148)	(30,715)	-	(131,863)
Trade and other payables	(5,001)	2,322	-	(2,679)
Intangible assets	(1,416)	(3,842)	-	(5,258)
Other	(4)	4	-	-
Total	**(13,525,819)**	**(841,423)**	-	**(14,367,242)**

(in thousands of Russian Roubles unless noted otherwise)

Deferred income tax assets

	31 December 2016	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2017
Unused tax losses	2,774,723	(1,125,678)	-	1,649,045
Restoration provision	262,459	(31,502)	-	230,957
Retirement benefit obligations	258,297	(96,350)	6,304	168,251
Trade and other receivables	58,186	7,514	-	65,700
Trade and other payables	51,691	316,324	-	368,015
Inventory	5,856	36,863	-	42,719
Finance lease liabilities	-	6,902	-	6,902
Total	**3,411,212**	**(885,927)**	**6,304**	**2,531,589**

	31 December 2016	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2017
Deferred income tax liabilities	(13,525,819)	(841,423)	-	(14,367,242)
Deferred income tax assets	3,411,212	(885,927)	6,304	2,531,589
Deferred income tax liabilities, net, total	**(10,114,607)**	**(1,727,350)**	**6,304**	**(11,835,653)**
Amounts recognised in the consolidated statement of financial position are as follows:				
*deferred income tax assets, net**	*188,778*	*X*	*X*	*357,168*
*deferred income tax liabilities, net**	*(10,303,385)*	*X*	*X*	*(12,192,821)*

* deferred income tax assets and liabilities, for which the Group has a legally enforceable right to set off the recognised amounts

Deferred income tax liabilities

	31 December 2015	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2016
Property, plant and equipment	(7,949,599)	(5,359,617)	-	(13,309,216)
Deposits for pensions	(109,886)	852	-	(109,034)
Provision for impairment of trade receivables	(62,993)	(38,155)	-	(101,148)
Intangible assets	(5,499)	4,083	-	(1,416)
Trade and other payables	(3,643)	(1,358)	-	(5,001)
Other	(40)	36		(4)
Total	**(8,131,660)**	**(5,394,159)**	**-**	**(13,525,819)**

(in thousands of Russian Roubles unless noted otherwise)

Deferred income tax assets

	31 December 2015	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2016
Restoration provision	305,380	(42,921)	-	262,459
Retirement benefit obligations	232,518	9,855	15,924	258,297
Unused tax losses	170,966	2,603,757	-	2,774,723
Trade and other payables	154,263	(102,572)	-	51,691
Trade and other receivables	74,676	(16,490)	-	58,186
Inventory	22,905	(17,049)	-	5,856
Finance lease liabilities	7,059	(7,059)	-	-
Total	**967,767**	**2,427,521**	**15,924**	**3,411,212**

	31 December 2015	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2016
Deferred income tax liabilities	(8,131,660)	(5,394,159)	-	(13,525,819)
Deferred income tax assets	967,767	2,427,521	15,924	3,411,212
Deferred income tax liabilities, net, total	**(7,163,893)**	**(2,966,638)**	**15,924**	**(10,114,607)**
Amounts recognised in the consolidated statement of financial position are as follows:				
*deferred income tax assets, net**	*-*	*X*	*X*	*188,778*
*deferred income tax liabilities, net**	*(7,163,893)*	*X*	*X*	*(10,303,385)*

* deferred income tax assets and liabilities, for which the Group has a legally enforceable right to set off the recognised amounts

Note 14. Non-current debt

	Currency	Effective interest rate	Due	31 December 2017	31 December 2016
Loans	RR	7.90% - 11.45%	2020 - 2025	47,868,982	24,590,389
Bonds	RR	11.87%	2020	10,000,000	10,000,000
Finance lease liability	RR	26.52% -27.29%	2019-2020	22,861	-
Total				**57,891,843**	**34,590,389**

The above debt is obtained at fixed interest rates. The effective interest rate is the market interest rate applicable to the loan at the date of origination for fixed rate loans.

(in thousands of Russian Roubles unless noted otherwise)

Breakdown of loans is presented below:

Company	31 December 2017	31 December 2016
PJSC "GAZPROM"	24,600,000	-
MOSENERGO	9,158,982	10,480,389
JSC VTB Bank	7,600,000	14,110,000
Sberbank	6,510,000	-
Total	**47,868,982**	**24,590,389**

Maturity table

	31 December 2017	31 December 2016
Due for repayment		
Between one and two years	14,787	7,600,000
Between two and three years	24,118,074	7,831,407
Between three and four years	26,924,830	10,000,000
Between four and five years	-	2,324,830
More than five years	6,834,152	6,834,152
Total	**57,891,843**	**34,590,389**

The movement of non-current debt is presented below:

	31 December 2017	31 December 2016
Non-current debt at the beginning of the period	**34,590,389**	**36,574,060**
Proceeds from finance lease liability	22,861	-
Proceeds from long-term borrowings	45,710,000	6,510,000
Repayment of long-term borrowings	(21,369,500)	(87,674)
Current portion of long-term loans and borrowings	(1,061,907)	(19,739,908)
Transfer of short-term loans and borrowings to long-term loans and borrowings	-	11,333,911
Non-current debt at the end of the period	**57,891,843**	**34,590,389**

Note 15. Retirement benefit obligations

The post employment and post retirement program of the Company consists of the occupational pension plan and various post employment, long-term and jubilee benefits. This is a defined benefit plan. The occupational pension program comprises the main part of the program. According to the pension formula, the pension benefit is dependent on the past service of participants and their final salary. Employees older than 25 with experience achievement in the industry more than 5 years are entitled to the occupational pension benefits.

The defined benefit pension plan provides old age retirement pension and disability pension. The plan's old age retirement pension is conditional on the member qualifying for the State old age pension.

The Company also provides benefits in case of death, retirement of employees and jubilee benefits.

Additionally the Company provides financial support payments of a defined benefit nature to its former employees, who have reached the retirement age. Such benefits are paid either to those who qualify for the occupational pension plan and those who do not.

Due to the post employment program the Company pays contributions to NPF Electroenergetiki and NPF GAZFOND, which are accumulated on pension accounts, which were opened under NPF contracts. In accordance with the terms of the treaty there is a possibility to abrogate a contract and receive the redemption amount of the depositor. In that way NPF funds do not meet the plan assets criteria. So they are recognized as a separate asset of the Group. The amount of that asset equals RR 498,131 thousand as at 31 December 2017 (as at 31 December 2016: 545,169 thousand) (Note 8).

(in thousands of Russian Roubles unless noted otherwise)

As at 31 December 2017, there were 8,617 active employees eligible to participate in the post retirement defined benefit program of the Company and 6,891 recipients of the financial support benefits (as at 31 December 2016: 8,774 and 6,850 respectively).

The last independent actuarial valuation of pension and other post employment and long-term benefits in accordance with the provisions of IAS 19 was performed as at 31 December 2017 using individual members' census data as at the valuation date. In 2017, the Company changed the pension program, which led to a decrease in the Company's liabilities as at 31 December 2017.

Amounts recognised in the consolidated statement of financial position are as follows:

	31 December 2017	31 December 2016
Present value of defined benefit obligation	1,499,735	1,913,643
Present value of other long-term employee benefit obligation	320,669	293,903
Total defined benefit liability	**1,820,404**	**2,207,546**

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

	Present value of defined benefit obligation	Present value of other long-term employee benefit obligation	Total
At 1 January 2016	**1,709,968**	**281,084**	**1,991,052**
Current service cost	63,920	20,097	84,017
Interest expense	168,519	28,612	197,131
Remeasurements:			
Experience losses / (gains)	61,838	(372)	61,466
Loss / (gains) from change in demographic assumptions	84,625	(4,083)	80,542
Gain from change in financial assumptions	(11,920)	(862)	(12,782)
Benefits paid	(163,307)	(30,573)	(193,880)
At 31 December 2016	**1,913,643**	**293,903**	**2,207,546**
Current service cost	52,553	21,352	73,905
Past service cost	(585,583)	-	(585,583)
Interest expense	116,663	26,638	143,301
Remeasurements:			
Experience losses / (gains)	43,814	(7,916)	35,898
Loss from change in financial assumptions	108,369	18,685	127,054
Benefits paid	(149,724)	(31,993)	(181,717)
At 31 December 2017	**1,499,735**	**320,669**	**1,820,404**

Amounts of profit for the period recognized in consolidated statement of comprehensive income are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Service cost	(511,678)	84,017
Remeasurements on present value of other long-term employee benefit obligation	10,769	(5,317)
Interest expense (Note 24)	143,301	197,131
Total	**(357,608)**	**275,831**

(in thousands of Russian Roubles unless noted otherwise)

Amounts recognised in other comprehensive income in consolidated statement of comprehensive income are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Experience losses	43,814	61,838
Loss from change in demographic assumptions	-	84,625
Loss / (gain) from change in financial assumptions	108,369	(11,920)
Total	**152,183**	**134,543**

The movement of remeasurements in consolidated statement of comprehensive income are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
At the beginning of year	**375,707**	**241,164**
Movement of remeasurements	152,183	134,543
At the end of year	**527,890**	**375,707**

The key actuarial assumptions used were as follows:

	31 December 2017	31 December 2016
Discount rate	7.60%	8.45%
Future salary increases	5.80%	5.90%
Future pension increases	n/a	n/a
Future financial support benefits increases	4.20%	4.30%
Social fund contribution rate	27.56%	27.54%
Staff turnover	3.60%	3.60%
Expected retirement age:		
Male	62	62
Female	57	57
Mortality (employees)	Russia, 2013 adjusted 60% (to level 40%)	Russia, 2013 adjusted 60% (to level 40%)
Mortality (pensioners)	Russia, 2013 adjusted 6% (to level 94%)	Russia, 2013 adjusted 6% (to level 94%)

Financial actuarial assumptions are based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The average period over which the Group obligations are to be settled is 10 years.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption	Impact on defined benefit liability 31 December 2017	Impact on defined benefit liability 31 December 2016
Discount rate	Increase / decrease by 1%	Decrease / increase by 10%	Decrease / increase by 9.6%
Future salary increases	Increase / decrease by 1%	Increase / decrease by 8.5%	Increase / decrease by 8.5%
Future financial support benefits increases (inflation)	Increase / decrease by 1%	Increase / decrease by 1.5%	Increase / decrease by 1.3%
Staff turnover	Increase / decrease by 10%	Decrease / increase by 1.4%	Decrease / increase by 1.2%
Mortality level	Increase / decrease by 10%	Decrease / increase by 0.8%	Decrease / increase by 0.5%
Probability of retirement	Increase / decrease by 10%	Increase / decrease by 0.2%	Increase / decrease by 0.5%

(in thousands of Russian Roubles unless noted otherwise)

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

The Group expects to contribute to the plan for the next annual reporting period RR 63,872 thousand.

The most significant Group's risks that arise from the post-employment benefit plan are:

- *Changes in government bond yield.* The reduction in government bond yields will lead to the growth of the current value of liabilities according to the employee benefit plan of the Group.
- *Inflation risk and the risk of employees' wages growth.* The most of the employee benefit plans are linked to the level of employees' wages and salaries. At the same time the inflation growth has a direct impact on the growth of salaries and wages. So the high inflation level will lead to the growth of the current value of liabilities according to the employee benefit plan of the Group.
- *The reduction of mortality rate among plan participants.* The most part of the Group's liabilities includes lump sum payments upon reaching certain age or experience achievement, including retirement payments. The amount of the Group's obligation for such payments depends on the probability of employees' survival to the expected date of settlement. In addition to employee benefit plan, the Group makes a lifetime payments to non-working pensioners. The amount of such obligation depends on life expectancy. The reduction of death rate among employees and pensioners will lead to the growth of the current value of liabilities according to the all benefit plans of the Group.

Note 16. Restoration provision

The Group owns an ash dump on the territory of the Republic of Kazakhstan, and an obligation to restore the surface of this ash dump when it is full. The main assumptions used in the calculation of the provision are as following:

- Average inflation per annum – 4.20% (2016: 4.15%);
- Pre-tax discount rate – 7.10% (2016: 8.14%);
- Projected restoration period – 12 years (2016: 13 years).

	Note	31 December 2017	31 December 2016
Total carrying amount at the beginning of year		**1,312,297**	**1,526,901**
Less current portion		(356,333)	(475,245)
Non-current portion at the beginning of year		**955,964**	**1,051,656**
Unwinding of the present value discount	24	106,781	155,371
Changes in estimates adjusted against property, plant and equipment		34,193	61,548
Utilisation of provision for environmental and pollution expenditure		(298,484)	(431,523)
Total carrying amount at the end of year		**1,154,787**	**1,312,297**
Less current portion		(79,324)	(356,333)
Non-current portion at the end of year		**1,075,463**	**955,964**

The sensitivity of the restoration provision for ash dump restoration to changes in the principal assumptions is at the 31 December 2017:

	Change in assumption	Impact on restoration provision	Impact on restoration provision
Discount rate	Increase / decrease by 1%	Decrease by 86,476 / increase by 95,010	Decrease by 7.49% / increase by 8.23%
Restoration cost	Increase / decrease by 10%	Increase / decrease by 115,479	Increase / decrease by 10.00%

(in thousands of Russian Roubles unless noted otherwise)

The sensitivity of the restoration provision for ash dump restoration to changes in the principal assumptions is at the 31 December 2016:

	Change in assumption	Impact on restoration provision	Impact on restoration provision
Discount rate	Increase / decrease by 1%	Decrease by 85,978 / increase by 94,973	Decrease by 6.55% / increase by 7.24%
Restoration cost	Increase / decrease by 10%	Increase / decrease by 131,230	Increase / decrease by 10.00%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant.

Note 17. Other long-term liabilities

	31 December 2017	31 December 2016
Trade payables (net of effect of discounting RR 115,907 thousand as at 31 December 2017 and 180,147 thousand as at 31 December 2016)	555,004	873,847
Other payables	6,971	2,991,823
Total finance liabilities	**561,975**	**3,865,670**

There was debt to MOSENERGO for the share of the capital of LLC "OGK-Investproekt" (Note 1) in the other long-term liabilities in the amount RR 2,984,492 thousand (including interest) as at 31 December 2016. This debt was transferred to short-term other paybles as at 31 December 2017.

Note 18. Current debt and current portion of non-current debt

	Currency	Effective interest rate	31 December 2017	31 December 2016
Current portion of long-term loans	RR	7.90% - 11.45%	1,317,427	16,351,115
Current portion of bonds	RR	11.87%	114,159	108,519
Current portion of finance lease liability	RR	26.52% - 27.29%	11,651	-
Current loans	RR	10.50%	-	16,000,000
Total			**1,443,237**	**32,459,634**

The above debt is obtained at fixed interest rates. The effective interest rate is the market interest rate applicable to the loan at the date of obtaining of fixed rate loans.

Breakdown of loans is presented below:

Company	31 December 2017	31 December 2016
MOSENERGO	1,308,224	248,737
Sberbank	5,886	-
JSC VTB Bank	3,317	2,378
PJSC "GAZPROM"	-	32,100,000
Total	**1,317,427**	**32,351,115**

(in thousands of Russian Roubles unless noted otherwise)

The movement of current debt and current portion of non-current debt is presented below:

Current debt and current portion of non-current debt at the beginning of the period	**32,459,634**	**36,141,251**
Proceeds from finance lease liability	16,885	-
Repayment of finance lease liability	(5,235)	(35,677)
Proceeds from short -term borrowings	-	16,000,000
Repayment of short -term borrowings	(32,100,000)	(28,310,572)
Interest expense	5,699,026	6,834,781
Interest paid	(5,688,980)	(6,576,146)
Current portion of long-term loans and borrowings	1,061,907	19,739,908
Transfer of long-term loans and borrowings to short-term loans and borrowings	-	(11,333,911)
Current debt and current portion of non-current debt at the end of the period	**1,443,237**	**32,459,634**

The lease liabilities are effectively secured as the rights for the leased asset revert to the lessor in the event of default.

Finance lease liabilities – minimum lease payments	**31 December 2017**	**31 December 2016**
Due for repayment		
Less than one year	18,731	-
Between one year and five years	27,346	-
Future finance charges on finance lease	(11,565)	-
Present value of lease liabilities	**34,512**	-

Note 19. Trade and other payables

	31 December 2017	**31 December 2016**
Trade payables (net of effect of discounting RR 23,115 thousand as at 31December 2017 and 30,886 as at 31 December 2016)	10,549,070	9,563,818
Accrued liabilities and other payables	7,074,655	4,204,885
Dividends payable	9,902	6,164
Financial liabilities	**17,633,627**	**13,774,867**
Salaries and wages payable	716,839	687,682
Advances from customers	54,254	180,067
Total	**18,404,720**	**14,642,616**

There is debt to MOSENERGO for the share of the capital of LLC "OGK-Investproekt" (Note 1) in the other payables including interest in the amount RR 6,563,399 thousand as at the 31 December 2017, and RR 3,084,980 thousand as at 31 December 2016.

Note 20. Other taxes payable

	31 December 2017	**31 December 2016**
Value added tax	840,973	1,642,183
Property tax	349,272	235,623
Social funds contribution	277,955	249,832
Personal income tax	64,490	65,199
Environment pollution payment	29,905	28,377
Water usage tax	195	194
Other taxes	14,609	14,191
Total	**1,577,399**	**2,235,599**

(in thousands of Russian Roubles unless noted otherwise)

Note 21. Revenues

	Year ended 31 December 2017	Year ended 31 December 2016
Electricity and capacity	133,355,500	128,265,233
Heating	5,013,541	5,030,262
Other	2,938,511	1,102,381
Total	**141,307,552**	**134,397,876**

Note 22. Operating expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Fuel	66,297,875	68,890,138
Purchased electricity, capacity and heat	12,966,311	11,645,233
Depreciation and amortisation of property, plant, equipment and intangible assets	11,265,422	9,534,470
Employee benefits	8,134,624	8,460,900
Repairs and maintenance	4,057,686	3,860,866
Taxes other than income tax	3,664,590	2,865,967
Charge of provision for impairment of trade and other receivables	3,597,008	3,123,145
Raw materials and supplies	2,692,717	3,557,492
Rent	2,613,170	2,368,125
Dispatcher's fees	2,049,057	2,020,454
Electricity transit	1,993,656	1,694,730
Transport	933,452	811,519
Loss on disposal of property, plant, equipment	703,933	889,428
Consulting, legal and audit services	279,129	184,027
Loss on disposal of other assets	259,809	123,582
Insurance	241,923	194,368
Ecological payments	210,740	257,905
Charge of provision for inventory obsolescence	204,028	7,730
Reversal of property, plant and equipment impairment	(851,829)	(335,930)
Other expenses	3,947,908	4,374,420
Total operating expenses	**125,261,209**	**124,528,569**

Employee benefits expenses comprise the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Salaries and wages	6,436,803	6,269,323
Social funds contribution	1,883,482	1,783,411
Financial aid to employees and pensioners	287,408	300,326
Non-state pensions and other long-term benefits (Note 15)	(500,909)	78,700
Other expenses	27,840	29,140
Employee benefits	**8,134,624**	**8,460,900**
Average number of personnel for the period	9,085	9,257

Included in social funds contribution are statutory pension contributions of RR 1,386,560 thousand for the year ended 31 December 2017 (for the year ended 31 December 2016: RR 1,366,209 thousand).

(in thousands of Russian Roubles unless noted otherwise)

Note 23. Finance income

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income on bank deposits and current bank account balances	432,774	637,143
Foreign currency exchange gain	215,882	714,947
Effect of discounting of long-term promissory notes received	28,009	37,844
Interest income on loans	12,443	19,019
Effect of discounting of long-term trade and other receivables	1,860	2,848
Effect of discounting of long-term payables	-	24,074
Other	40,636	36,623
Total finance income	**731,604**	**1,472,498**

Note 24. Finance costs

	Year ended 31 December 2017	Year ended 31 December 2016
Interest expense on debt	5,505,785	4,908,144
Foreign currency exchange loss	297,568	518,983
Interest on employee benefit obligations (Note 15)	143,301	197,131
Unwinding of the present value discount - provision for ash dump (Note 16)	106,781	155,371
Effect of discounting of long-term payables	76,927	112,773
Interest expense under finance lease agreements	4,882	2,300
Total finance costs	**6,135,244**	**5,894,702**

Note 25. Earnings per share

	Year ended 31 December 2017	Year ended 31 December 2016
Weighted average number of ordinary shares issued	105,945,825,366	105,844,932,885
Profit attributable to the shareholders of JSC "OGK-2" (thousands of RR)	7,200,861	3,169,470
Earnings per ordinary share attributable to the shareholders of JSC "OGK-2" – basic and diluted (in RR)	**0.07**	**0.03**

The diluted earnings per share are equal to the basic earnings per share as the Company has no dilutive ordinary shares.

Note 26. Capital commitments

In November 2010 the Company had signed agency agreement with JSC "FSC", JSC "Trading system of Wholesale Electricity Market Transaction" (JSC "TSA"), Association "NP Market Council" and JSC "SO UPS", under which JSC "FSC" was to sign on behalf of the Company contracts on capacity provision. In December 2010 JSC "FSC" on behalf of the Company signed the contracts on provision of capacity from estimated generating units. According to the agency agreement, in case of violation by the Company of the terms of commissioning of generating facilities or short delivery capacity, the Company pays to the Agent a penalty, the amount of which depends on the period for which expired commissioning of generating facility, on the amount of undelivered capacity and on the capacity rates under the long-term contract to provision of capacity. The Company fulfilled late its obligations under the commissioning of some of its objects according to capacity provision agreements. In accordance with the decision of the authorized body there were identified the bases for calculation (applications) of a penalty for failure (improper fulfillment) of JSC "OGK-2" of its obligation to provide capacity, expressed in the delay in the beginning to fulfill its obligations to provide capacity. Therefore, the Company has a contingent liability in the form of a fine, the amount of which, in accordance with the decision of the authorised body of August 2016, calculates and debites from the account of the Company in May 2017 – December 2018. The Company had signed agreements on assignment of rights and obligations by the contracts on provision of capacity, according to which the amount of penalties is compensated by another participant of the PDM program

As at 31 December 2017 in the framework of the investment program implementation the Group has capital commitments (including VAT) of RR 16,399,422 thousand (as at 31 December 2016: RR 5,387,513 thousand).

Note 27. Contingencies

Political and economic environment. The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russian Federation.

Insurance. The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks for which it does not have insurance.

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

Tax contingency. Russian tax, currency and customs legislation are subject to varying interpretation and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may arise. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

As at 31 December 2017 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and currency positions will be sustained.

Environmental matters. The Group and its predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement position of government authorities is continually being reconsidered.

The Group owns an ash dump on the territory of the Republic of Kazakhstan, and is subject to the environmental regulations in this country in respect of the usage of the ash dump. As such, the Group periodically evaluates its obligations under Kazakhstan environmental regulations and accrues the respective provision (Note 16).

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental remediation in excess of those amounts for which the provision has been recognised by the Group in these consolidated financial statements.

Note 28. Financial instruments and financial risks factors

Financial risk factors. The Group's activities expose it to a variety of financial risks, including the effects of changes in interest rates, the collectability of receivables and changes in foreign currency exchange rates. The Group does not have a risk policy to hedge its financial exposures.

Compliance with covenants. The Group is subject to certain covenants related primarily to its loans and borrowings. The Group was in compliance with covenants at 31 December 2017 and at 31 December 2016.

(in thousands of Russian Roubles unless noted otherwise)

Credit risk. The Group's financial assets, which are exposed to credit risk, are as follows:

	Notes	31 December 2017	31 December 2016
Trade and other receivables	10	12,326,832	13,376,849
Cash and cash equivalents	9	5,140,926	4,538,684
Promissory notes	10	242,938	323,529
Loans issued	10	131,101	118,550
Interest receivable	10	3,034	2,044
Total financial assets		**17,844,831**	**18,359,656**

The Group's exposure to credit risk mainly depends on each particular counterparty characteristics. Due to absence of independent credit ratings for wholesale electricity market and other buyers, the Group assesses their solvency based on financial condition, reputation, past experience and existence of past due. The existing receivables are monitored and collection measures are taken regularly. Management believes that the majority of customers whose balances are included in trade receivables comprise a single class of customers of the same wholesale electric power market, which is regulated by JSC "ATS".

Management does not believe that the Group is dependent on any particular customer.

As at 31 December 2017 and 31 December 2016 no trade or other receivables were secured by guarantees. Credit risks related to trade and other receivables are systematically reviewed for necessity of creation of impairment provision against trade and other receivables. Trade and other receivables balance netted with trade and other receivables impairment provision represents maximum exposure to credit risks, relating to receivables. Despite the fact that cash collection is subject to influence of different economic factors, management of the Group believes that there is no significant risk of losses exceeding recognized trade and other receivables impairment provision.

The amount of trade and other receivables impairment provision is assessed by management based on the analysis of particular counterparty's solvency, credit history and cash collection, and analysis of future cash flows. As at 31 December 2017 identification of present value of future cash flows was done with usage of original effective discount rates, weighted averaged discount rates was 9.75% p.a. (as at 31 December 2016: 9.8% p.a.). Discounting effect is recognized as part of finance expenses (finance income). The Group estimates that discounted amount of trade and other receivables less recognized impairment provision can be collected in cash or settled against trade and other payables.

As at 31 December 2017 the main part of the provision for impairment related to the receivable from customers in North Caucasus region of Russia in the amount of RR 5,435,315 thousand (as at 31 December 2016: RR 4,148,274 thousand), JSC "E4 Group" in the amount of RR 5,043,713 thousand (as at 31 December 2016: RR 3,369,109 thousand), and receivable from CJSC "Mezhdunarodny promyshleny bank" in the amount of RR 1,157,325 thousand (as at 31 December 2016: RR 1,157,325 thousand).

Movements in trade and other receivables impairment provision during 2017 were as follows:

Impairment provision as at 31 December 2016	**11,768,765**
Accrual of impairment provision	4,482,537
Write-off of doubtful trade and other receivables	(183,973)
Reversal of impairment provision	(898,735)
Impairment provision as at 31 December 2017	**15,168,594**

Movements in trade and other receivables impairment provision during 2016 were as follows:

Impairment provision as at 1 January 2016	**8,765,862**
Accrual of impairment provision	3,639,174
Write-off of doubtful trade and other receivables	(120,238)
Reversal of impairment provision	(516,033)
Impairment provision as at 31 December 2016	**11,768,765**

(in thousands of Russian Roubles unless noted otherwise)

As at 31 December 2017 total amount of overdue trade and other receivables which were not provided for was RR 3,143,483 thousand (as at 31 December 2016: RR 4,597,232 thousand). The reason impairment provision was not created is the absence of non-payment of respective counterparties in the past.

The analysis of trade and other receivables by accrual periods is presented below:

	31 December 2017			
	Nominal value	**Impairment**	**Effect of discounting**	**Carrying amount**
Not overdue	9,194,044	(3,467)	(7,228)	9,183,349
Overdue less than 1 month	597,012	-	-	597,012
Overdue from 1 to 3 months	1,328,666	-	-	1,328,666
Overdue from 3 months to 1 year	2,466,801	(1,853,402)	-	613,399
Overdue from 1 year to 3 years	7,295,542	(6, 691,201)	-	604,341
Overdue more than 3 years	6,620,589	(6,620,524)	-	65
Total	**27,502,654**	**(15,168,594)**	**(7,228)**	**12,326,832**

	31 December 2016			
	Nominal value	**Impairment**	**Effect of discounting**	**Carrying amount**
Not overdue	8,792,778	(4,309)	(8,852)	8,779,617
Overdue less than 1 month	667,261	-	-	667,261
Overdue from 1 to 3 months	657,912	-	-	657,912
Overdue from 3 months to 1 year	1,531,038	(875,064)	-	655,974
Overdue from 1 year to 3 years	8,342,999	(5,726,983)	-	2,616,016
Overdue more than 3 years	5,162,478	(5,162,409)	-	69
Total	**25,154,466**	**(11,768,765)**	**(8,852)**	**13,376,849**

Cash is placed in Russian financial institutions which are considered at the time of deposit to have minimal or low risk of default. The Board of Directors of the Company has approved a list of the banks, at which deposits could be placed and rules for such placements. Also the Group continuously considers financial condition, independent agencies ratings, past experience and other factors. The list of the banks with balances and ratings, at which the Group has open current bank accounts and deposits at the reporting date, is presented in Notes 9.

The Company can accept bank promissory notes from contractors in payment for the delivered electrical energy and power. The Group continuously monitors the financial positon of banks and their ratings assigned by independent agencies, past experience and other factors. Note 10 includes lists of banks with information on the amount of their promissory notes and their ratings at the reporting date.

The credit quality of the loan provided is defined as good due to the established relationship with the counterparty, which is a GAZPROM Group entity. The loan was not past due.

As at the reporting date maximum Group's exposure to credit risk equals to carrying amount of each class of financial assets. The Group does not hold any collateral.

Liquidity risk. Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. To manage the liquidity risk the Group applies a policy of holding financial assets for which there is a liquid market and that are readily convertible to meet liquidity needs. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

(in thousands of Russian Roubles unless noted otherwise)

31 December 2017	Notes	0-6 months	6-12 months	1-2 years	2-3 years
Loans including future principal and interest payments	14, 18	2,613,355	3,662,277	5,102,112	28,891,700
Finance lease liability	14, 18	9,366	9,365	18,731	8,615
Trade payables	17, 19	8,986,082	1,586,103	301,941	261,413
Other payables (except for advances received and liabilities for employee compensations)	17, 19	7,136,270	180	360	360
Total future payments		**18,745,073**	**5,257,925**	**5,423,144**	**29,162,088**

31 December 2017	Notes	3-4 years	4-5 years	Over 5 years	Total	Carrying value
Loans including future principal and interest payments	14, 18	28,795,585	622,145	7,942,144	77,629,318	59,300,568
Finance lease liability	14, 18	-	-	-	46,077	34,512
Trade payables	17, 19	107,557	-	-	11,243,096	11,104,074
Other payables (except for advances received and liabilities for employee compensations)	17, 19	360	360	5,531	7,143,421	7,091,528
Total future payments		**28,903,502**	**622,505**	**7,947,675**	**96,061,912**	**77,530,682**

31 December 2016	Notes	0-6 months	6-12 months	1-2 years	2-3 years
Loans including future principal and interest payments	14, 18	26,594,733	10,958,449	12,335,457	9,126,492
Finance lease liability	14, 18	-	-	-	-
Trade payables	17, 19	9,395,313	199,391	468,820	571,105
Other payables (except for advances received and liabilities for employee compensations)	17, 19	971,727	3,480,705	3,289,289	360
Total future payments		**36,961,773**	**14,638,545**	**16,093,566**	**9,697,957**

31 December 2016	Notes	3-4 years	4-5 years	Over 5 years	Total	Carrying value
Loans including future principal and interest payments	14, 18	12,001,477	2,978,344	8,574,363	82,569,315	67,050,023
Finance lease liability	14, 18	-	-	-	-	-
Trade payables	17, 19	14,069	-	-	10,648,698	10,437,665
Other payables (except for advances received and liabilities for employee compensations)	17, 19	360	360	5,891	7,748,692	7,202,872
Total future payments		**12,015,906**	**2,978,704**	**8,580,254**	**100,966,705**	**84,690,560**

The Group has the following unutilized bank credit lines:

	31 December 2017	31 December 2016
Floating interest rate facility:		
- expiring more than 1 year from the reporting date	12,490,000	19,000,000
Fixed interest rate facility*:		
- expiring more than 1 year from the reporting date	32,400,000	20,990,000
Total	**44,890,000**	**39,990,000**

*fixed rate is agreed for every tranche withdrawal.

Interest rate risk. Profit and cash flows from operating activities of the Group are mainly independent from changes in market interest rates. The Group is exposed to changes in interest rates risk only in respect of changes in market value of interest bearing loans and borrowings and interest bearing deposits. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity. Significant interest bearing assets and liabilities of the Group are disclosed in Notes 9, 14, 18. These assets and liabilities have fixed interest rate and therefore are not exposed to risk of difference between fixed interest rate and market interest rate.

(in thousands of Russian Roubles unless noted otherwise)

Currency risk. The electricity and heat produced by the Group are sold domestically at prices denominated in Russian Roubles, currency of Russian Federation. Due to that fact, the Group has low foreign currency exchange risk exposure. The Group's financial position, liquidity, its sources of financing, financial performance are largely independent of changes in foreign exchange rate because the Group's activity is planned in the way that all its assets and liabilities should be mainly denominated in domestic currency. Due to these facts potential effect of changes in exchange rate of national currency to other currencies is estimated by the Group as insignificant.

Capital risk management. The following capital requirements have been established for joint stock companies by the legislation of Russian Federation:

- Share capital cannot be lower than RR 100 thousand;
- If the share capital of the entity is greater than statutory net assets of the entity, such entity must make a decision on the decrease of its share capital to the value not exceeding its net assets or liquidation value;
- If the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2017 and 31 December 2016, the Group has been in compliance with the above share capital requirements. The Group's objectives when managing capital are to safeguard the Group's ability as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital defined on the basis of Company's statutory financial statements that the Company managed as at 31 December 2017 was RR 120,149,020 thousand (as at 31 December 2016: RR 114,235,134 thousand).

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated based on the statutory financial statements prepared in accordance with RAR as total liabilities divided by total equity multiplied by 1.4. According to the Company's internal regulation the Company's total liabilities / (equity * 1.4) ratio should not exceed 1. The Company satisfied this ratio.

The gearing ratios, calculated on the basis of the Company's statutory financial statements prepared in accordance with RAR at 31 December 2017 and 31 December 2016 were as follows:

	31 December 2017	31 December 2016
Total liabilities	67,806,207	72,240,996
Equity * 1.4	168,208,628	159,929,188
Gearing ratio, %	**0.40**	**0.45**

Fair values. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(i) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

(ii) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows (except those financial assets which carrying value is equal to fair value):

(in thousands of Russian Roubles unless noted otherwise)

	Notes	Level 1	Level 2	Level 3	Fair value	Carrying value
31 December 2017						
Financial assets						
Promissory notes	10	-	283,785	-	**283,785**	**242,938**
Loan issued	10	-	128,034	-	**128,034**	**131,101**
Total financial assets		-	**411,819**	-	**411,819**	**374,039**
Financial liabilities						
Debt (including finance lease liabilities)	14, 18	-	(62,099,256)	-	**(62,099,256)**	**(59,335,080)**
Trade and other payables	17, 19	-	-	(18,242,685)	**(18,242,685)**	**(18,195,602)**
Total financial liabilities		-	**(62,099,256)**	**(18,242,685)**	**(80,341,941)**	**(77,530,682)**

	Notes	Level 1	Level 2	Level 3	Fair value	Carrying value
31 December 2016						
Financial assets						
Promissory notes	10	-	347,983	-	**347,983**	**323,529**
Loan issued	10	-	109,284	-	**109,284**	**118,550**
Total financial assets		-	**457,267**	-	**457,267**	**442,079**
Financial liabilities						
Debt	14, 18	-	(64,752,474)	-	**(64,752,474)**	**(67,050,023)**
Trade and other payables	17, 19	-	-	(17,713,451)	**(17,713,451)**	**(17,640,537)**
Total financial liabilities		-	**(64,752,474)**	**(17,713,451)**	**(82,465,925)**	**(84,690,560)**

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. The carrying amounts of trade and other receivables approximates their fair values. Cash and cash equivalets are carried at amortised cost which approximates their current fair value.

Liabilities carried at amortised cost. Fair values of financial liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Note 29. Segment information

The Management Board of the Company controls and allocates economic resources of the Group between segments and evaluates segments' operating efficiency. Primary activity of the Group is production of electric and heat power and capacity which covers 97.9% of the Group revenue in 2017 (99.2% in 2016). The Group operates in Russian Federation.

The technology of electricity and heat production does not allow segregation of electricity and heat segments. The Company's branches are managed separatly due to significant decentralization and distances between them, as a result the Group discloses seven reporting segments: Surgutskaya GRES-1, Kirishskaya GRES, Novocherkasskaya GRES, Stavropolskaya GRES, Troitskaya GRES, Ryazanskaya GRES, Serovskaya GRES. All reporting segments are located on the territory of Russian Federation. In the process of evaluation of segments, results and allocation of economic resources of the Group the Management Board uses financial information provided below prepared in accordance with RAR. The differences between the above-mentioned financial indicators analyzed by the Management Board and IFRS financial information are caused by different approaches applied in IFRS and RAR. The main differences relate to the respective carrying values of the value of property, plant and equipment. The Group does not have inter-segment revenue. The main contractor of the Group is JSC "FSC" which generates 46% of the Group revenue for the year ended 31 December 2017 (for the year ended 31 December 2016: 52%).

(in thousands of Russian Roubles unless noted otherwise)

Year ended 31 December 2017	Surgutskaya GRES-1	Novocherkasskaya GRES	Kirishskaya GRES	Stavropolskaya GRES
Revenue	23,165,801	21,467,462	20,353,735	19,188,232
Depreciation of property, plant, equipment*	385,480	1,718,017	1,412,657	163,123
Segment operating profit / (loss)*	3,137,982	457,140	4,620,542	37,588
Capital expenditure**	984,168	483,272	373,409	105,306

Year ended 31 December 2017	Troitskaya GRES	Ryazanskaya GRES	Serovskaya GRES	Other operating segments	**Total operating segments**
Revenue	12,784,752	12,038,340	6,890,168	25,419,062	**141,307,552**
Depreciation of property, plant, equipment*	2,531,019	828,245	1,188,035	1,958,668	**10,185,244**
Segment operating profit* / (loss)*	3,471,462	3,244,180	(755,068)	2,391,188	**16,605,014**
Capital expenditure**	4,317,910	517,175	648,224	1,582,449	**9,011,913**

Year ended 31 December 2016	Surgutskaya GRES-1	Novocherkasskaya GRES	Kirishskaya GRES	Stavropolskaya GRES
Revenue	22,916,157	17,174,437	20,775,580	18,242,469
Depreciation of property, plant, equipment*	349,021	1,048,887	1,303,982	144,776
Segment operating profit / (loss)*	2,761,118	(880,599)	5,488,004	614,528
Capital expenditure**	938,302	5,487,745	2,346,365	102,034

Year ended 31 December 2016	Troitskaya GRES	Ryazanskaya GRES	Serovskaya GRES	Other operating segments	**Total operating segments**
Revenue	8,822,140	13,359,291	7,579,062	25,528,740	**134,397,876**
Depreciation of property, plant, equipment*	1,878,177	850,722	1,020,790	1,880,949	**8,477,304**
Segment operating profit / (loss)*	658,966	1,762,034	838,210	3,991,945	**15,234,206**
Capital expenditure**	7,484,391	381,513	1,683,215	683,180	**19,106,745**

* Segment operating profit / (loss) represents segment operating profit / (loss) under RAR. Depreciation of property, plant, equipment represents segment depreciation of property, plant, equipment under RAR.

**Capital expenditure represents additions to property, plant and equipment under RAR, including advances to construction companies and suppliers of property, plant and equipment.

A reconciliation of management financial information prepared in accordance with RAR to consolidated financial statements prepared in accordance with IFRS is provided below:

	Year ended 31 December 2017	**Year ended 31 December 2016**
Segment operating profit	16,605,014	15,234,206
Adjustments, arised from different accounting policy:	1,446,404	82,692
Impairment of property, plant and equipment (Note 22)	851,829	335,930
Retirement benefit obligations adjustment	594,953	74,300
Gain on disposal of assets	496,144	19,374
Provision for impairment of trade and other receivables	15,578	1,261
Finance lease	10,117	35,952
Depreciation adjustment	(778,606)	(745,104)
Other adjustments	256,389	360,979
Unallocated expenses:	(2,500,064)	(5,927,653)
Consulting, legal and audit services	(117,190)	(104,249)
Rent	(285,582)	(353,092)
Employee benefits	(819,656)	(789,232)
Provision for impairment of trade and other receivables	(1,271,697)	(1,799,563)
Other expenses	(5,939)	(2,881,517)
Operating profit (IFRS)	**15,551,354**	**9,389,245**

(in thousands of Russian Roubles unless noted otherwise)

Segment's assets are disclosed below:

	Surgutskaya GRES-1	Novocherkasskaya GRES	Kirishskaya GRES	Stavropolskaya GRES
31 December 2017	5,515,593	37,619,739	20,988,147	3,381,361

	Troitskaya GRES	Ryazanskaya GRES	Serovskaya GRES	Other operating segments	**Total assets**
31 December 2017	57,220,749	15,024,540	20,386,788	28,616,720	**188,753,637**

	Surgutskaya GRES-1	Novocherkasskaya GRES	Kirishskaya GRES	Stavropolskaya GRES
31 December 2016	5,052,812	38,371,281	22,065,226	3,185,116

	Troitskaya GRES	Ryazanskaya GRES	Serovskaya GRES	Other operating segments	**Total assets**
31 December 2016	56,134,118	14,532,847	23,616,518	27,510,906	**190,468,824**

A reconciliation of management financial information to consolidated financial statements prepared in accordance with IFRS is provided below:

	31 December 2017	**31 December 2016**
Total assets for segments	188,753,637	190,468,824
Adjustments, arised from different accounting policy:	9,343,475	8,425,731
Property, plant and equipment adjustment	9,193,469	8,319,609
Deposits for pensions (Note 8)	498,131	545,169
Deferred tax	(486)	(3,574)
Impairment of trade and other receivables	(3,467)	(4,310)
Discounting of trade and other receivables (Note 10)	(7,228)	(8,852)
Provision for inventory obsolescence (Note 11)	(30,251)	(27,162)
Discounting of promissory notes (Note 10)	(219,706)	(247,715)
Other adjustments	(86,987)	(147,434)
Unallocated assets	17,962,672	17,513,481
Total assets (IFRS)	**216,059,784**	**216,408,036**

The unallocated assets are the assets which cannot be directly related to the certain operating segment and are also out of the operating segment control for decision making purposes. These assets include intangible assets, short – term and long - term trade receivables (which mainly presented by receivables for sales of electricity and power on the wholesale electric power market), cash in bank, deposits, inventories and items of property, plant and equipment which are subject to the headquarters control.

Management of the Group does not review the information in respect of operating segment's liabilities in order to make a decision about allocation of resources, because of centralisation of significant part of payment transactions.

Note 30. Events after the reporting date

There were no significant subsequent events that can influence the Group's financial position, cash flows or operating results which took place during the period between reporting date and date of signing of the Group's consolidated financial statements for the year ended 31 December 2017.

General Director S.A. Ananyev

Chief Accountant L.V. Klisch

2 March 2018