RUSHYDRO GROUP

Condensed Consolidated Interim Financial Information (Unaudited) prepared in accordance with IAS 34

As at and for the three and six months ended 30 June 2018

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REPORT ON REVIEW

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Report on Review of Interim Financial Information

To the Shareholders and Board of Directors of Public Joint Stock Company Federal Hydro-Generating Company – RusHydro:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Public Joint Stock Company Federal Hydro-Generating Company – RusHydro and its subsidiaries (the "Group") as of 30 June 2018 and the related condensed consolidated interim statements of income and comprehensive income for the three-month and six-month periods then ended, and cash flows and changes in equity for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

AO PricewaterhouseCoopers Audit

28 August 2018
Moscow, Russian Federation

A. S. Ivanov, certified auditor (licence no. 01-000531), AO PricewaterhouseCoopers Audit

Audited entity: PJSC RusHydro

Certificate of inclusion in the Unified State Register of Legal Entities issued on 26 December 2004 under registration № 1042401810494

Krasnoyarsk, Krasnoyarsk Region, Russian Federation, 660017

Independent auditor:
AO PricewaterhouseCoopers Audit

State registration certificate No. 008.890, issued by Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

(in millions of Russian Rubles unless noted otherwise)

	Note	30 June 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	815,094	799,855
Investments in associates and joint ventures		19,559	20,097
Financial asset at fair value through profit or loss	7	743	-
Financial assets at fair value through other comprehensive income		539	-
Available-for-sale financial assets	2	-	18,495
Deferred income tax assets		8,553	9,354
Other non-current assets	8	26,360	25,331
Total non-current assets		**870,848**	**873,132**
Current assets			
Cash and cash equivalents	9	72,401	70,156
Income tax receivable		3,139	3,839
Accounts receivable and prepayments	10	59,846	51,201
Inventories	11	25,322	25,523
Other current assets	12	8,568	4,400
		169,276	**155,119**
Non-current assets classified as held for sale	7	20,883	-
Total current assets		**190,159**	**155,119**
TOTAL ASSETS		**1,061,007**	**1,028,251**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	426,289	426,289
Treasury shares	13	(4,613)	(4,613)
Share premium		39,202	39,202
Retained earnings and other reserves		257,313	231,967
Equity attributable to the shareholders of PJSC RusHydro		**718,191**	**692,845**
Non-controlling interest		3,597	2,719
TOTAL EQUITY		**721,788**	**695,564**
Non-current liabilities			
Deferred income tax liabilities		43,195	41,695
Non-current debt	15	117,079	90,912
Non-deliverable forward contract for shares	16	21,536	20,716
Other non-current liabilities	17	29,231	28,116
Total non-current liabilities		**211,041**	**181,439**
Current liabilities			
Current debt and current portion of non-current debt	15	49,430	78,613
Accounts payable and accruals	18	62,513	55,625
Current income tax payable		415	976
Other taxes payable	19	15,820	16,034
Total current liabilities		**128,178**	**151,248**
TOTAL LIABILITIES		**339,219**	**332,687**
TOTAL EQUITY AND LIABILITIES		**1,061,007**	**1,028,251**

Chairman of Management Board – General Director N. G. Shulginov

Chief Accountant Y. G. Medvedeva

28 August 2018

(in millions of Russian Rubles unless noted otherwise)

	Note	Six months ended 30 June		Three months ended 30 June	
		2018	**2017**	**2018**	**2017**
Revenue	20	180,853	180,866	82,593	82,087
Government grants	21	20,024	6,788	9,626	2,208
Other operating income	7	4,896	-	2,270	-
Operating expenses (excluding impairment losses)	22	(154,075)	(147,736)	(70,434)	(68,867)
Operating profit excluding impairment losses		**51,698**	**39,918**	**24,055**	**15,428**
Impairment of accounts receivable, net		(2,404)	(2,633)	(921)	(1,658)
Impairment of property, plant and equipment	6	(1,144)	(1,244)	(664)	(373)
Operating profit		**48,150**	**36,041**	**22,470**	**13,397**
Finance income	23	2,763	5,196	1,206	2,343
Finance costs	23	(5,869)	(10,497)	(5,572)	(8,762)
Share of results of associates and joint ventures		681	149	335	(26)
Profit before income tax		**45,725**	**30,889**	**18,439**	**6,952**
Income tax expense	14	(9,037)	(8,586)	(4,702)	(3,455)
Profit for the period		**36,688**	**22,303**	**13,737**	**3,497**
Attributable to:					
Shareholders of PJSC RusHydro		35,660	22,052	14,457	4,870
Non-controlling interest		1,028	251	(720)	(1,373)
Earnings per ordinary share for profit attributable to the shareholders of PJSC RusHydro – basic and diluted (in Russian Rubles per share)	24	0,0844	0.0576	0,0342	0.0124
Weighted average number of shares outstanding – basic and diluted (millions of shares)	24	422,437	382,546	422,437	393,401

(in millions of Russian Rubles unless noted otherwise)

	Note	Six months ended 30 June		Three months ended 30 June	
		2018	**2017**	**2018**	**2017**
Profit for the period		36,688	22,303	13,737	3,497
Other comprehensive income, net of tax:					
Items that will not be reclassified to profit or loss					
Remeasurement of pension benefit obligations		197	(234)	197	(234)
Gain / (loss) arising on financial assets at fair value through other comprehensive income		7	-	(5)	-
Total items that will not be reclassified to profit or loss		**204**	**(234)**	**192**	**(234)**
Items that may be reclassified subsequently to profit or loss					
Gain / (loss) arising on available-for-sale financial assets		-	9	-	(391)
Reclassification of accumulated loss on available-for-sale financial assets to profit or loss		-	28	-	28
Other comprehensive (loss) / income		(6)	12	(4)	(3)
Total items that may be reclassified subsequently to profit or loss		**(6)**	**49**	**(4)**	**(366)**
Other comprehensive income / (loss) for the period		**198**	**(185)**	**188**	**(600)**
Total comprehensive income for the period		**36,886**	**22,118**	**13,925**	**2,897**
Attributable to:					
Shareholders of PJSC RusHydro		35,827	21,980	14,614	4,367
Non-controlling interest		1,059	138	(689)	(1,470)

(in millions of Russian Rubles unless noted otherwise)

	Note	Six months ended 30 June 2018	Six months ended 30 June 2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**45,725**	**30,889**
Depreciation of property, plant and equipment and amortisation of intangible assets	6, 22	13,131	11,408
Loss on disposal of property, plant and equipment, net	22	21	219
Share of results of associates and joint ventures		(681)	(149)
Other operating income	7	(4,896)	-
Finance income	23	(2,763)	(5,196)
Finance costs	23	5,869	10,497
Impairment of property, plant and equipment	6	1,144	1,244
Impairment of accounts receivable, net		2,404	2,633
Other loss / (income)		4	(85)
Operating cash flows before working capital changes, income tax paid and changes in other assets and liabilities		**59,958**	**51,460**
Working capital changes:			
Increase in accounts receivable and prepayments		(10,358)	(5,255)
Decrease in inventories		361	546
(Increase) / decrease in other current assets		(270)	1,529
Decrease in accounts payable and accruals, excluding dividends payable		(1,740)	(6,910)
Decrease in other taxes payable		(291)	(1,260)
(Increase) / decrease in other non-current assets		(484)	536
Increase in other non-current liabilities		406	285
Income tax paid		(6,633)	(8,659)
Net cash generated by operating activities		**40,949**	**32,272**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(27,985)	(26,416)
Proceeds from sale of property, plant and equipment		154	76
Investment in bank deposits and purchase of other investments		(14,410)	(10,859)
Redemption of bank deposits and proceeds from sale of other investments		10,707	11,459
Proceeds from sale of investment in joint venture		871	-
Interest received		2,958	4,062
Net cash used in investing activities		**(27,705)**	**(21,678)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from share issue	13	-	40,000
Proceeds from sale of treasury shares		-	15,000
Prepayment for non-deliverable forward for shares	16	(1,613)	(1,799)
Proceeds from current debt	15	23,809	26,344
Proceeds from non-current debt	15	42,473	23,864
Repayment of debt	15	(68,574)	(87,505)
Interest paid		(6,851)	(8,100)
Finance lease payments		(94)	(235)
Dividends paid		(27)	(173)
Net cash (used) / generated by financing activities		**(10,877)**	**7,396**
Effect of foreign exchange differences on cash and cash equivalents balances		(122)	(210)
Increase in cash and cash equivalents		**2,245**	**17,780**
Cash and cash equivalents at the beginning of the period		**70,156**	**67,354**
Cash and cash equivalents at the end of the period	9	**72,401**	**85,134**

(in millions of Russian Rubles unless noted otherwise)

	Note	Share capital	Treasury shares	Share premium	Merger reserve	Foreign currency translation reserve	Revaluation reserve on property, plant and equipment	Revaluation reserve on available-for-sale financial assets	Reserve for remeasu-rement of pension benefit obligation	Retained earnings	Equity attributable to shareholders of PJSC RusHydro	Non-controlling interest	Total equity
As at 1 January 2017		**386,255**	**(22,578)**	**39,202**	**(135,075)**	**(538)**	**182,968**	**16,909**	**459**	**179,067**	**646,669**	**4,263**	**650,932**
Profit for the period		-	-	-	-	-	-	-	-	22,052	22,052	251	22,303
Remeasurement of pension benefit obligations		-	-	-	-	-	-	-	(138)	-	(138)	(96)	(234)
Gain arising on available-for-sale financial assets	28	-	-	-	-	-	-	30	-	-	30	(21)	9
Reclassification of accumulated loss on available-for-sale financial assets to profit or loss		-	-	-	-	-	-	28	-	-	28	-	28
Other comprehensive income		-	-	-	-	3	5	-	-	-	8	4	12
Total other comprehensive loss		-	-	-	-	3	5	58	(138)	-	(72)	(113)	(185)
Total comprehensive income		**-**	**-**	**-**	**-**	**3**	**5**	**58**	**(138)**	**22,052**	**21,980**	**138**	**22,118**
Share issue	13	40,034	-	-	-	-	-	-	-	-	40,034	-	40,034
Sale of treasury shares	13	-	17,965	-	-	-	-	-	-	(2,965)	15,000	-	15,000
Dividends	13	-	-	-	-	-	-	-	-	(19,696)	(19,696)	(127)	(19,823)
Non-deliverable forward contract for shares	16	-	-	-	-	-	-	-	-	(10,013)	(10,013)	-	(10,013)
Transfer of revaluation reserve to retained earnings		-	-	-	-	-	(379)	-	-	379	-	-	-
Other movements		-	-	-	-	-	-	-	-	21	21	-	21
As at 30 June 2017		**426,289**	**(4,613)**	**39,202**	**(135,075)**	**(535)**	**182,594**	**16,967**	**321**	**168,845**	**693,995**	**4,274**	**698,269**
As at 1 January 2018		**426,289**	**(4,613)**	**39,202**	**(135,075)**	**(547)**	**181,163**	**14,356**	**647**	**171,423**	**692,845**	**2,719**	**695,564**
Application of IFRS 9	2,13	-	-	-	-	-	-	(13,894)	-	14,542	648	38	686
As at 1 January 2018 (restated)		**426,289**	**(4,613)**	**39,202**	**(135,075)**	**(547)**	**181,163**	**462**	**647**	**185,965**	**693,493**	**2,757**	**696,250**
Profit for the period		-	-	-	-	-	-	-	-	35,660	35,660	1,028	36,688
Remeasurement of pension benefit obligations		-	-	-	-	-	-	-	166	-	166	31	197
Gain arising on financial assets at fair value through other comprehensive income		-	-	-	-	-	-	7	-	-	7	-	7
Other comprehensive loss		-	-	-	-	(7)	-	-	-	1	(6)	-	(6)
Total other comprehensive income		-	-	-	-	(7)	-	7	166	1	167	31	198
Total comprehensive income		**-**	**-**	**-**	**-**	**(7)**	**-**	**7**	**166**	**35,661**	**35,827**	**1,059**	**36,886**
Dividends	13	-	-	-	-	-	-	-	-	(11,129)	(11,129)	(219)	(11,348)
Transfer of revaluation reserve to retained earnings		-	-	-	-	-	(186)	-	-	186	-	-	-
As at 30 June 2018		**426,289**	**(4,613)**	**39,202**	**(135,075)**	**(554)**	**180,977**	**469**	**813**	**210,683**	**718,191**	**3,597**	**721,788**

Note 1. The Group and its operations

PJSC RusHydro (hereinafter referred to as "the Company") was incorporated and is domiciled in the Russian Federation. The Company is a joint stock company limited by value of shares and was set up in accordance with Russian regulations.

The primary activities of the Company and its subsidiaries (hereinafter together referred to as "the Group") are generation and sale of electricity and capacity on the Russian wholesale and retail markets, as well as generation and sale of heat energy.

Economic environment in the Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The tax, currency and customs legislation continue to develop and are subject to frequent changes and varying interpretations. In 2018 the Russian economy continues to show signs of recovery after the economic downturn of 2015 and 2016. The economy is negatively impacted by ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile.

This economic environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

During the six months ended 30 June 2018 no substantial changes to the rules of Russian wholesale and retail electricity and capacity markets, their functioning and price setting mechanisms have been made.

Relations with the Government and current regulation. As at 30 June 2018 the Russian Federation owned 60.56 percent of the total ordinary shares of the Company (31 December 2017: 60.56 percent). As at 30 June 2018 PJSC Bank VTB that is controlled by the Russian Federation owned 13.34 percent of the Company's shares (31 December 2017: 13.34 percent).

The Group's major customer base includes a large number of entities controlled by, or related to the Government. Furthermore, the Government controls contractors and suppliers, which provide the Group with electricity dispatch, transmission and distribution services, and a number of the Group's fuel and other suppliers (Note 5).

In addition, the Government affects the Group's operations through:

- participation of its representatives in the Company's Board of Directors;
- regulation of tariffs for electricity, capacity and heat;
- approval of the Group's investment programme, volume and sources of financing, and control over its implementation.

Economic, social and other policies of the Russian Government could have a material effect on operations of the Group.

Seasonality of business. The demand for the Group's heat and electricity generation and supply depends on weather conditions and the season. In addition to weather conditions, the electricity production by hydro generation plants depends on water flow in the river systems. In spring and in summer (flood period) electricity production by hydro generation plants is significantly higher than in autumn and in winter. Heat and electricity production by the heat generation assets, to the contrary, is significantly higher in autumn and in winter than in spring and in summer. The seasonal nature of heat and electricity generation has a significant influence on the volumes of fuel consumed by heat generation assets and electricity purchased by the Group.

Note 2. Summary of financial reporting framework and new accounting pronouncements

Basis of preparation. This Condensed Consolidated Interim Financial Information has been prepared in accordance with IAS 34, *Interim Financial Reporting* and should be read in conjunction with the annual Consolidated Financial Statements as at and for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

This Condensed Consolidated Interim Financial Information is unaudited. Certain disclosures duplicating information included in the annual Consolidated Financial Statements as at and for the year ended 31 December 2017 have been omitted or condensed.

Significant accounting policies. The accounting policies followed in the preparation of this Condensed Consolidated Interim Financial Information are consistent with those applied in the annual Consolidated Financial Statements as at and for the year ended 31 December 2017 except for income tax which is accrued in the interim periods using the best estimate of the weighted average annual income tax rate that would be applicable to expected total annual profit or loss and for the new standards and interpretations that are effective from 1 January 2018.

Certain reclassifications have been made to prior period data to conform to the current period presentation. These reclassifications are not material.

Changes in accounting policies. The Group has changed its accounting policies from 1 January 2018 due to the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

IFRS 9, Financial Instruments – accounting policies and the impact of the adoption. The Group applies new accounting policies due to adoption of IFRS 9 Financial Instruments.

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the company's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI (in case the management makes such a decision). For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments. Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and on the cash flow characteristics of the asset.

There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, are measured at amortised cost.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

All the Group's debt instruments are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as separate line item in the statement of profit or loss.

Equity instruments. The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of such investments. Dividends from such investments continue to be recognised in profit or loss as other operating income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised as other operating income or expense. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(in millions of Russian Rubles unless noted otherwise)

In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The total impact of the change of classification and measurement on the Group's retained earnings as at 1 January 2018

Retained earnings as at 31 December 2017	**171,423**
Non-controlling interest as at 31 December 2017	**2,719**
Reclassification of accumulated gains on available-for-sale financial assets to retained earnings	13,894
Reversal of impairment of financial assets measured at amortised cost in accounts receivable	749
Change in deferred taxes relating to impairment provisions of financial assets measured at amortised cost in accounts receivable	(63)
Total change in retained earnings	**14,542**
Total change in non-controlling interest	**38**
Retained earnings as at 1 January 2018	**185,965**
Non-controlling interest as at 1 January 2018	**2,757**

Reclassification of financial assets. On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories.

	Available-for-sale financial assets / measured at fair value through OCI (FVOCI)	Financial assets / measured at fair value through PL (FVPL)	Total
As at 31 December 2017 - IAS 39	**18,495**	**-**	**18,495**
Reclassification of available-for-sale financial assets to FVPL	(17,953)	17,953	-
As at 1 January 2018 - IFRS 9	**542**	**17,953**	**18,495**

Investments in shares of listed companies are reclassified from available-for-sale financial assets which were included in non-current assets as at 31 December 2017 to financial assets at fair value through profit or loss. The gains from revaluation at fair value of the shares of listed companies accumulated as at 1 January 2018 in revaluation reserve on available-for-sale financial assets in the amount of RR 13,894 million were transferred to retained earnings as at 1 January 2018. Subsequent revaluations of the fair value of these shares after reclassification are reported in profit or loss as "Other operating income".

Other investments in shares of unquoted companies are reclassified to financial assets at fair value through other comprehensive income due to the fact that management of the Group treats them as long-term strategic investments and does not expect to sell them in the short to medium term. The accumulated gain from their revaluation in the amount of RR 462 million as at 1 January 2018 is recognized in the revaluation reserve for financial assets.

Trade receivables. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables for the same types of contracts. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. For each company of the Group, the trade receivables were grouped on the above principles and for each group of counterparties, the shares of expected losses were determined in accordance with the credit risk for each duration of the delay in payment. As a result, the provision for impairment of accounts receivable as at 1 January 2018 reduced by RR 749 million (before income tax) and, accordingly, accounts receivable increased by the same amount.

IFRS 15, Revenue from Contracts with Customers. IFRS 15 introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. In accordance with the transition provisions in IFRS 15 the Group applies the simplified transition method with the effect of the transition to be recognised as at 1 January 2018.

The Group applies the practical expedient available for the simplified transition method. IFRS 15 applies retrospectively only to contracts that are outstanding at the date of initial recognition (1 January 2018). The Group analyzed the effect of the retrospective application of the standard in relation to such contracts and concluded that it was immaterial, and therefore no retrospective recalculation was carried out.

In accordance with IFRS 15, revenue is recognised in an amount that reflects the consideration to which the Group is expected to be entitled in exchange for the transfer of goods or services promised to the customer. Contract liabilities are represented by advances received included in other non-current liabilities and accounts payable and accruals.

Received compensation of losses in grids. From 1 January 2018 the Group recognises revenue from compensation of transmission losses and expenses on power distribution under contracts with grid companies on a net basis. Compensation of transmission losses that the Group receives from grid companies is not treated as a separate performance obligation in accordance with IFRS 15. Therefore, this compensation cannot be recognised within revenues as the contract on compensation of losses is not a contract with customers in the context of IFRS 15 and is beyond the scope of IFRS 15. The compensation of transmission losses that entities of the Group received in three and the six months ended 30 June 2018 amounted to RR 1,202 million and RR 4,184 million respectively (for the three and the six months ended 30 June 2017: RR 1,311 million and RR 3,760 million respectively).

Purchase of electricity for own needs. The cost of electricity that the Group buys at WEM to support the work process and for own needs, in accordance with IFRS 15 represents compensation to be paid to the customer. From 1 January 2018 this compensation is recognised as a reduction of the transaction price and, therefore, of revenue, unless the payment to the customer is in exchange for distinct goods or services that the customer transfers to the entity. The cost of electricity purchased to support the work process and for other own needs for the three and six months ended 30 June 2018 totalled RR 142 million and RR 299 million respectively (for the three and six months ended 30 June 2017: RR 129 million and RR 284 million respectively).

Critical accounting estimates and judgements. The preparation of Condensed Consolidated Interim Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing this Condensed Consolidated Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 31 December 2017 with the exception of changes in estimates that are required in determining the estimate weighted average annual income tax rate (Note 14), judgements in respect of the non-deliverable forward contract for the shares (Note 16) and discount rate used in determining pension benefit obligations which increased from 7.50 percent as at 31 December 2017 to 7.60 percent as at 30 June 2018.

New standards and interpretations

The Group has adopted all new standards and interpretations that were effective from 1 January 2018. Apart from IFRS 9 Financial instruments and IFRS 15 Revenue from Contracts with Customers, the impact of which is described above, the impact of the adoption of other new standards and interpretations has not been significant with respect to this Condensed Consolidated Interim Financial Information.

IFRS 16, Leases. IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the Group's operating leases. However, the Group has not yet determined to what extent commitments under non-cancellable operating lease agreements will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

Apart from new standards and interpretations becoming effective from 1 January 2019 and after that date applicable to the Group as disclosed in the consolidated financial statements as at and for the year ended 31 December 2017, the following interpretations and amendments were issued which are apllicable to the Group:

- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance;

(in millions of Russian Rubles unless noted otherwise)

improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

These interpretations are not expected to affect significantly the Group's consolidated financial statements.

Note 3. Principal subsidiaries

All principal subsidiaries are incorporated and operate in the Russian Federation. Differences between the ownership interest and voting interest held by some subsidiaries represent the effect of preference shares and / or effects of indirect ownership, or non-corporate partnership (LLC).

The Group operates in the three main reportable segments one of which is presented by the Group's parent company – PJSC RusHydro (Note 4). The principal subsidiaries are presented below according to their allocation to the reportable segments as at 30 June 2018 and 31 December 2017.

ESC RusHydro subgroup segment

ESC RusHydro subgroup segment includes the Group's subsidiaries which sell electricity to final customers. All the entities included in this segment with the exception of JSC ESC RusHydro have the guaranteeing supplier status and are obliged to sign contracts on supplies with all final consumers of their region upon their request.

	30 June 2018		31 December 2017	
	% of ownership	% of voting	% of ownership	% of voting
JSC ESC RusHydro	100.00%	100.00%	100.00%	100.00%
PJSC Krasnoyarskenergosbyt	65.81%	69.40%	65.81%	69.40%
PJSC Ryazanenergosbyt	90.52%	90.52%	90.52%	90.52%
JSC Chuvashskaya Electricity Sales Company	100.00%	100.00%	100.00%	100.00%

RAO ES East subgroup segment

RAO ES East subgroup segment consists of JSC RAO ES East and its subsidiaries that generate, distribute and sell electricity and heat in the Far East region of the Russian Federation and render transportation, construction, repair and other services.

Principal subsidiaries of this segment are presented below:

	30 June 2018		31 December 2017	
	% of ownership	% of voting	% of ownership	% of voting
JSC RAO ES East	99.98%	99.98%	99.98%	99.98%
PJSC DEK	52.11%	52.17%	52.11%	52.17%
JSC DGK	52.11%	100.00%	52.11%	100.00%
JSC DRSK	52.11%	100.00%	52.11%	100.00%
PJSC Kamchatskenergo	98.72%	98.74%	98.72%	98.74%
PJSC Magadanenergo*	48.99%	49.00%	48.99%	49.00%
PJSC Sakhalinenergo	57.80%	57.82%	57.80%	57.82%
PJSC Yakutskenergo	79.15%	79.16%	79.15%	79.16%

** Control over PJSC Magadanenergo is achieved by the majority of votes at shareholders' meetings because the remaining part of the shares not owned by the Group are distributed among a large number of shareholders whose individual stakes are insignificant.*

Other segments

Other segments include:

- the Group's subsidiaries engaged in production and sale of electricity and capacity;
- the Group's subsidiaries engaged in research and development related to the utilities industry and construction of hydropower facilities;
- the Group's subsidiaries engaged primarily in repair, upgrade and reconstruction of equipment and hydropower facilities;
- the Group's subsidiaries engaged in hydropower plants construction;
- minor segments which do not have similar economic characteristics.

(in millions of Russian Rubles unless noted otherwise)

Principal subsidiaries included in other segments are presented below:

	30 June 2018		31 December 2017	
	% of ownership	% of voting	% of ownership	% of voting
JSC Blagoveschensk TPP	100.00%	100.00%	100.00%	100.00%
JSC VNIIG named after B. E. Vedeneev	100.00%	100.00%	100.00%	100.00%
JSC Geotherm	99.74%	99.74%	99.65%	99.65%
JSC Gidroremont-VKK	100.00%	100.00%	100.00%	100.00%
JSC Zagorskaya GAES-2	100.00%	100.00%	100.00%	100.00%
JSC Zaramag HS	99.75%	99.75%	99.75%	99.75%
JSC Institute Hydroproject	100.00%	100.00%	100.00%	100.00%
PJSC Kolimaenergo	98.76%	98.76%	98.76%	98.76%
JSC Lenhydroproject	100.00%	100.00%	100.00%	100.00%
JSC NIIES	100.00%	100.00%	100.00%	100.00%
JSC Nizhne-Bureiskaya HPP	100.00%	100.00%	100.00%	100.00%
JSC Sakhalin GRES-2	100.00%	100.00%	100.00%	100.00%
JSC Sulak GidroKaskad	100.00%	100.00%	100.00%	100.00%
JSC TPP in Sovetskaya Gavan	100.00%	100.00%	100.00%	100.00%
JSC Ust'-Srednekangesstroy	98.76%	100.00%	98.76%	100.00%
JSC Ust'-Srednekanskaya HPP named after A. F. Dyakov	99.63%	100.00%	99.63%	100.00%
JSC Chirkeigesstroy	100.00%	100.00%	100.00%	100.00%
JSC Yakutskaya GRES-2	100.00%	100.00%	100.00%	100.00%

Note 4. Segment information

Operating segments are components of the Group engaged in operations from which they may earn revenue and incur expenses, including revenue and expenses relating to transactions with other components of the Group. The individual financial information of the operating segments, which based on the same principles as the present consolidated financial statements, is available and is regularly reviewed by the chief operating decision maker (CODM) to make operating decisions about resources to be allocated to the segments and the performance of the segments' operating activities.

The CODM analyses the information concerning the Group by the groups of operations which are aggregated in operating segments presented by the following separate reportable segments: PJSC RusHydro (the Group's parent company), ESC RusHydro subgroup, RAO ES East subgroup and other segments (Note 3). Transactions of other segments are not disclosed as reportable segments based on quantitative indicators for the periods presented.

Management of operating activities of segments is performed with direct participation of individual segment managers accountable to the CODM. Segment managers on a regular basis submit for approval to the CODM results of operating activities and financial performance of segments. The CODM approves the annual business plan at the level of reportable segments as well as analyses actual financial performance of segments. Management bears responsibility for execution of approved plan and management of operating activities at the level of segments.

The segments' operational results are assessed on the basis of EBITDA, which is calculated as operating profit / loss excluding depreciation of property, plant and equipment and amortisation of intangible assets, gain arising on financial assets at fair value through profit or loss, impairment of property, plant and equipment, impairment of accounts receivable, profit / loss on disposal of property, plant and equipment, profit / loss on disposal of subsidiaries and associates and other non-monetary items of operating expenses. This method of definition of EBITDA may differ from the methods applied by other companies. CODM believes that EBITDA represents the most useful means of assessing the performance of ongoing operating activities of the Company and the Group's subsidiaries, as it reflects the earnings trends without showing the impact of the above charges.

Segment information also contains capital expenditures and the amounts of borrowings as these indicators are analysed by the CODM. Intersegment borrowings balances are excluded.

Other information provided to the CODM complies with the information presented in the consolidated financial statements as at and for the year ended 31 December 2017.

Intersegment sales are carried out at market prices.

Segment information for the three and six months ended 30 June 2018 and 30 June 2017 and as at 30 June 2018 and 31 December 2017 is presented below.

(in millions of Russian Rubles unless noted otherwise)

Six months ended 30 June 2018	PJSC RusHydro	ESC RusHydro subgroup	RAO ES East subgroup	Other segments	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	**63,044**	**29,729**	**90,787**	**16,422**	**199,982**	**(19,129)**	**180,853**
including:							
from external companies	*57,445*	*29,702*	*90,610*	*3,096*	***180,853***	*-*	***180,853***
sales of electricity	*41,017*	*29,103*	*52,887*	*391*	***123,398***	*-*	***123,398***
sales of heat and hot water	*94*	*-*	*23,998*	*1*	***24,093***	*-*	***24,093***
sales of capacity	*16,249*	*-*	*4,263*	*249*	***20,761***	*-*	***20,761***
other revenue	*85*	*599*	*9,462*	*2,455*	***12,601***	*-*	***12,601***
from intercompany operations	*5,599*	*27*	*177*	*13,326*	***19,129***	*(19,129)*	***-***
Government grants	-	-	19,909	115	**20,024**	-	**20,024**
Operating expenses (excluding depreciation and other non-monetary items)	**(20,242)**	**(28,979)**	**(96,321)**	**(14,737)**	**(160,279)**	**19,351**	**(140,928)**
EBITDA	**42,802**	**750**	**14,375**	**1,800**	**59,727**	**222**	**59,949**
Other operating income	295	-	32	896	**1,223**	-	**1,223**
Depreciation of property, plant and equipment and amortization of intangible assets	(7,341)	(88)	(4,252)	(1,548)	**(13,229)**	98	**(13,131)**
Other non-monetary items of operating income and expenses	**(455)**	**(272)**	**(1,319)**	**2,129**	**83**	**26**	**109**
including:							
gain arising on financial assets at fair value through profit or loss	*1,449*	*-*	*43*	*2,181*	***3,673***	*-*	***3,673***
impairment of property, plant and equipment	*(720)*	*-*	*(424)*	*-*	***(1,144)***	*-*	***(1,144)***
impairment of accounts receivable, net	*(1,111)*	*(233)*	*(1,035)*	*(25)*	***(2,404)***	*-*	***(2,404)***
(loss) / profit on disposal of property, plant and equipment, net	*(76)*	*(8)*	*64*	*(27)*	***(47)***	*26*	***(21)***
profit / (loss) on disposal of subsidiaries and joint venture, net	*3*	*(31)*	*33*	*-*	***5***	*-*	***5***
Operating profit	**35,301**	**390**	**8,836**	**3,277**	**47,804**	**346**	**48,150**
Finance income							2,763
Finance costs							(5,869)
Share of results of associates and joint ventures							681
Profit before income tax							**45,725**
Total income tax expense							(9,037)
Profit for the period							**36,688**
Capital expenditure	**8,290**	**8**	**9,374**	**12,587**	**30,259**	**-**	**30,259**
30 June 2018							
Non-current and current debt	**112,157**	**2,104**	**47,043**	**5,205**	**166,509**	**-**	**166,509**

(in millions of Russian Rubles unless noted otherwise)

Six months ended 30 June 2017	PJSC RusHydro	ESC RusHydro subgroup	RAO ES East subgroup	Other segments	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	**58,219**	**30,439**	**93,852**	**11,220**	**193,730**	**(12,864)**	**180,866**
including:							
from external companies	*53,884*	*30,431*	*93,674*	*2,877*	***180,866***	*-*	***180,866***
sales of electricity	*36,975*	*29,895*	*59,399*	*439*	***126,708***	*-*	***126,708***
sales of heat and hot water	*83*	*-*	*22,584*	*-*	***22,667***	*-*	***22,667***
sales of capacity	*16,757*	*-*	*2,931*	*152*	***19,840***	*-*	***19,840***
other revenue	*69*	*536*	*8,760*	*2,286*	***11,651***	*-*	***11,651***
from intercompany operations	*4,335*	*8*	*178*	*8,343*	***12,864***	*(12,864)*	***-***
Government grants	-	-	6,757	31	**6,788**	-	**6,788**
Operating expenses (excluding depreciation and other non-monetary items)	(19,711)	(29,562)	(89,330)	(10,467)	**(149,070)**	12,963	**(136,107)**
EBITDA	**38,508**	**877**	**11,279**	**784**	**51,448**	**99**	**51,547**
Depreciation of property, plant and equipment and amortization of intangible assets	(6,564)	(71)	(3,957)	(925)	**(11,517)**	109	**(11,408)**
Other non-monetary items of operating income and expenses	**(1,968)**	**(20)**	**(1,889)**	**(219)**	**(4,096)**	**(2)**	**(4,098)**
including:							
impairment of property, plant and equipment	*(843)*	*-*	*(298)*	*(103)*	***(1,244)***	*-*	***(1,244)***
impairment of accounts receivable, net	*(982)*	*(9)*	*(1,542)*	*(100)*	***(2,633)***	*-*	***(2,633)***
loss on disposal of property, plant and equipment, net	*(143)*	*(9)*	*(49)*	*(16)*	***(217)***	*(2)*	***(219)***
loss on disposal of subsidiaries, net	*-*	*(2)*	*-*	*-*	***(2)***	*-*	***(2)***
Operating profit / (loss)	**29,976**	**786**	**5,433**	**(360)**	**35,835**	**206**	**36,041**
Finance income							5,196
Finance costs							(10,497)
Share of results of associates and joint ventures							149
Profit before income tax							**30,889**
Total income tax expense							(8,586)
Profit for the period							**22,303**
Capital expenditure	**9,489**	**25**	**8,135**	**16,980**	**34,629**	**-**	**34,629**
31 December 2017							
Non-current and current debt	**120,070**	**1,268**	**43,348**	**4,839**	**169,525**	**-**	**169,525**

(in millions of Russian Rubles unless noted otherwise)

Three months ended 30 June 2018	PJSC RusHydro	ESC RusHydro subgroup	RAO ES East subgroup	Other segments	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	**32,921**	**13,106**	**37,539**	**9,464**	**93,030**	**(10,437)**	**82,593**
including:							
from external companies	*30,409*	*13,093*	*37,447*	*1,644*	***82,593***	*-*	***82,593***
sales of electricity	*22,693*	*12,826*	*23,125*	*159*	***58,803***	*-*	***58,803***
sales of heat and hot water	*25*	*-*	*7,398*	*-*	***7,423***	*-*	***7,423***
sales of capacity	*7,647*	*-*	*2,159*	*156*	***9,962***	*-*	***9,962***
other revenue	*44*	*267*	*4,765*	*1,329*	***6,405***	*-*	***6,405***
from intercompany operations	*2,512*	*13*	*92*	*7,820*	***10,437***	*(10,437)*	***-***
Government grants	-	-	9,577	49	**9,626**	-	**9,626**
Operating expenses (excluding depreciation and other non-monetary items)	(10,054)	(12,879)	(43,253)	(8,205)	**(74,391)**	10,384	**(64,007)**
EBITDA	**22,867**	**227**	**3,863**	**1,308**	**28,265**	**(53)**	**28,212**
Other operating income	295	-	32	611	**938**	-	**938**
Depreciation of property, plant and equipment and amortization of intangible assets	(3,684)	(42)	(2,015)	(823)	**(6,564)**	57	**(6,507)**
Other non-monetary items of operating income and expenses	**(263)**	**(161)**	**(566)**	**813**	**(177)**	**4**	**(173)**
including:							
gain arising on financial assets at fair value through profit or loss	*525*	*-*	*12*	*795*	***1,332***	*-*	***1,332***
impairment of property, plant and equipment	*(462)*	*-*	*(202)*	*-*	***(664)***	*-*	***(664)***
(impairment) / reversal of accounts receivable, net	*(316)*	*(125)*	*(499)*	*19*	***(921)***	*-*	***(921)***
(loss) / profit on disposal of property, plant and equipment, net	*(13)*	*(5)*	*90*	*(1)*	***71***	*4*	***75***
profit / (loss) on disposal of subsidiaries and joint venture, net	*3*	*(31)*	*33*	*-*	***5***	*-*	***5***
Operating profit	**19,215**	**24**	**1,314**	**1,909**	**22,462**	**8**	**22,470**
Finance income							1,206
Finance costs							(5,572)
Share of results of associates and joint ventures							335
Profit before income tax							**18,439**
Total income tax expense							(4,702)
Profit for the period							**13,737**
Capital expenditure	**5,246**	**8**	**5,917**	**7,623**	**18,794**	**-**	**18,794**

(in millions of Russian Rubles unless noted otherwise)

Three months ended 30 June 2017	PJSC RusHydro	ESC RusHydro subgroup	RAO ES East subgroup	Other segments	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	**30,542**	**13,140**	**39,003**	**6,545**	**89,230**	**(7,143)**	**82,087**
including:							
from external companies	*28,551*	*13,137*	*38,925*	*1,474*	***82,087***	*-*	***82,087***
sales of electricity	*20,820*	*12,879*	*26,134*	*276*	***60,109***	*-*	***60,109***
sales of heat and hot water	*22*	*-*	*6,977*	*-*	***6,999***	*-*	***6,999***
sales of capacity	*7,670*	*-*	*1,497*	*85*	***9,252***	*-*	***9,252***
other revenue	*39*	*258*	*4,317*	*1,113*	***5,727***	*-*	***5,727***
from intercompany operations	*1,991*	*3*	*78*	*5,071*	***7,143***	*(7,143)*	***-***
Government grants	-	-	2,194	14	**2,208**	-	**2,208**
Operating expenses (excluding depreciation and other non-monetary items)	(10,732)	(12,828)	(40,715)	(6,093)	**(70,368)**	7,386	**(62,982)**
EBITDA	**19,810**	**312**	**482**	**466**	**21,070**	**243**	**21,313**
Depreciation of property, plant and equipment and amortization of intangible assets	(3,329)	(36)	(1,957)	(468)	**(5,790)**	65	**(5,725)**
Other non-monetary items of operating income and expenses	**(831)**	**106**	**(1,405)**	**(59)**	**(2,189)**	**(2)**	**(2,191)**
including:							
impairment of property, plant and equipment	*(124)*	*-*	*(201)*	*(48)*	***(373)***	*-*	***(373)***
(impairment) / reversal of accounts receivable, net	*(567)*	*117*	*(1,193)*	*(15)*	***(1,658)***	*-*	***(1,658)***
(loss) / profit on disposal of property, plant and equipment, net	*(140)*	*(9)*	*(11)*	*4*	***(156)***	*(2)*	***(158)***
loss on disposal of subsidiaries, net	*-*	*(2)*	*-*	*-*	***(2)***	*-*	***(2)***
Operating profit / (loss)	**15,650**	**382**	**(2,880)**	**(61)**	**13,091**	**306**	**13,397**
Finance income							2,343
Finance costs							(8,762)
Share of results of associates and joint ventures							(26)
Profit before income tax							**6,952**
Total income tax expense							(3,455)
Profit for the period							**3,497**
Capital expenditure	**5,482**	**24**	**5,335**	**10,287**	**21,128**	**-**	**21,128**

(in millions of Russian Rubles unless noted otherwise)

Note 5. Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions with the Group's related parties for the six months ended 30 June 2018 and 30 June 2017 and as at 30 June 2018 and 31 December 2017 mainly included transactions with associates and joint ventures of the Group, as well as with government-related entities.

Joint ventures

The Group had the following balances with its joint ventures:

	30 June 2018	31 December 2017
Promissory notes	7,205	6,880
Advances to suppliers	169	172
Loans issued	10	8
Loans received	-	750

The Group had the following transactions with its joint ventures:

	Six months ended 30 June		Three months ended 30 June	
	2018	2017	2018	2017
Sales of electricity and capacity	167	171	90	85
Other revenue	232	290	81	142
Purchased electricity and capacity	272	1,440	111	596

The Group also issued a guarantee for liabilities of its joint venture as at 31 December 2017 (Note 26).

Associates

The Group had the following balances with its associates:

	30 June 2018	31 December 2017
Trade and other receivables	243	456
Trade payables	1,525	1,277

The Group had the following transactions with its associates:

	Six months ended 30 June		Three months ended 30 June	
	2018	2017	2018	2017
Sales of electricity and capacity	1,551	1,543	590	586
Other revenue	57	67	30	33
Rent	308	298	154	149
Purchased electricity and capacity	10	10	3	4

Government-related entities

In the normal course of business the Group enters into transactions with the entities controlled by the Government.

The Group had transactions during the three and six months ended 30 June 2018 and 30 June 2017 and balances outstanding as at 30 June 2018 and 31 December 2017 with a number of government-related banks. All transactions with the banks are carried out on market terms. The Company entered into a non-deliverable forward transaction for own shares with PJSC Bank VTB (Note 16).

The Group's sales of electricity, capacity and heat to government-related entities comprised approximately 20 percent of the total sales of electricity, capacity and heat for the three and six months ended 30 June 2018 (for the three and six months ended 30 June 2017: approximately 20 percent). Sales of electricity and capacity under the regulated contracts are made directly to the consumers, within the day-ahead market (DAM) – through commission agreements with JSC Centre of Financial Settlements (hereinafter referred to as "CFS"). Electricity and capacity supply tariffs under the regulated contracts and electricity and heat supply tariffs in the non-pricing zone of the Far East are approved by FTS and by regional regulatory authorities of the Russian Federation. At the DAM, the price is determined by balancing the demand and supply and such price is applied to all market participants.

During the six months ended 30 June 2018, the Group received government subsidies of RR 20,024 million (for the six months ended 30 June 2017: RR 6,788 million). During the three months ended 30 June 2018, the Group received government subsidies of RR 9,626 million (for the three months ended 30 June 2017: RR 2,208 million) (Note 21).

Government subsidies receivable comprised RR 5,596 million as at 30 June 2018 (31 December 2017: RR 3,401 million) (Note 10). Accounts payable on free-of-charge targeted contributions of the Group comprised RR 3,185 million as at 30 June 2018 (31 December 2017: no accounts payable on free-of-charge targeted contributions) (Note 18).

The Group's purchases of electricity, capacity and fuel from government-related entities comprised approximately 30 percent of the total expenses on purchased electricity, capacity and fuel for the three and six months ended 30 June 2018 (for the three and six months ended 30 June 2017: approximately 30 percent).

Grid companies services on electricity distribution provided to the Group by government-related entities comprised approximately 80 percent of the total electricity distribution expenses for the three and six months ended 30 June 2018 (for the three and six months ended 30 June 2017: approximately 70 percent). The distribution of electricity is subject to tariff regulations.

Key management of the Group. Key management of the Group includes members of the Board of Directors of the Company, members of the Management Board of the Company, heads of the business subdivisions of the Company and their deputies, key management of subsidiaries of RAO ES East subgroup segment.

Remuneration to the members of the Board of Directors of the Company for their services in this capacity and for attending Board meetings is paid depending on the results for the year and is calculated based on the remuneration policy approved by the Annual General Shareholders Meeting of the Company.

Remuneration to the members of the Management Board and to other key management of the Group is paid for their services in full time management positions and is made up of a contractual salary and performance bonuses depending on the results of the work for the period based on key performance indicators approved by the Board of Directors of the Company.

The compensation for key management is mostly short-term except for the accruals for future payments under pension plans with defined benefits. Pension benefits for key management of the Group are provided on the same terms as for the rest of employees.

Short-term remuneration paid to the key management of the Group for the six months ended 30 June 2018 comprised RR 487 million (for the six months ended 30 June 2017: RR 758 million). Short-term remuneration paid to the key management of the Group for the three months ended 30 June 2018 comprised RR 301 million (for the three months ended 30 June 2017: RR 541 million).

(in millions of Russian Rubles unless noted otherwise)

Note 6. Property, plant and equipment

Revalued amount / cost	Buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Balance as at 31 December 2017	**101,476**	**432,524**	**353,294**	**296,562**	**14,477**	**1,198,333**
Reclassification	117	(428)	209	-	102	-
Additions	8	120	782	28,786	563	30,259
Transfers	977	2,590	11,782	(15,376)	27	-
Disposals and write-offs	(232)	(115)	(544)	(724)	(200)	(1,815)
Balance as at 30 June 2018	**102,346**	**434,691**	**365,523**	**309,248**	**14,969**	**1,226,777**
Accumulated depreciation (including impairment)						
Balance as at 31 December 2017	**(41,595)**	**(162,870)**	**(153,722)**	**(31,556)**	**(8,735)**	**(398,478)**
Reclassification	(10)	37	42	-	(69)	-
Impairment charge	-	(76)	(121)	(936)	(11)	(1,144)
Charge for the period	(1,065)	(4,599)	(7,104)	-	(581)	(13,349)
Transfers	(29)	(215)	(238)	492	(10)	-
Disposals and write-offs	140	64	464	535	85	1,288
Balance as at 30 June 2018	**(42,559)**	**(167,659)**	**(160,679)**	**(31,465)**	**(9,321)**	**(411,683)**
Net book value as at 30 June 2018	**59,787**	**267,032**	**204,844**	**277,783**	**5,648**	**815,094**
Net book value as at 31 December 2017	**59,881**	**269,654**	**199,572**	**265,006**	**5,742**	**799,855**

As at 30 June 2018, the net book value of the property, plant and equipment includes office buildings and plots of land owned by the Group in the amount of RR 7,417 million (31 December 2017: RR 7,486 million) which are stated at cost.

Assets under construction represent the expenditures for property, plant and equipment that are being constructed, including power plants under construction, as well as advances to construction companies and suppliers of property, plant and equipment. As at 30 June 2018, such advances amounted to RR 34,269 million (31 December 2017: RR 36,577 million).

Additions to assets under construction include capitalised borrowing costs in the amount of RR 4,181 million, the capitalisation rate was 8.62 percent (for the six months ended 30 June 2017: RR 6,017 million, the capitalisation rate was 9.68 percent).

Additions to assets under construction include capitalised depreciation in the amount of RR 222 million (for the six months ended 30 June 2017: RR 111 million).

Impairment. Management of the Group considered the market and economic environment in which the Group operates to assess whether any indicators of property, plant and equipment being impaired existed, or that an impairment loss recognised in prior periods may no longer exist or may have decreased. At the reporting date no indicators of significant changes of management's assumptions used to determine the recoverable amounts of cash-generating units as at 31 December 2017 were identified as a result of this analysis.

Based on the same assumptions, the Group recognised an impairment loss in the amount of RR 1,144 million for the six months ended 30 June 2018 in respect of additions of property, plant and equipment related to cash-generating units impaired in previous periods (for the six months ended 30 June 2017: RR 1,244 million). For the three months ended 30 June 2018, the impairment loss was RR 664 million (for the three months ended 30 June 2017: RR 373 million).

Note 7. Financial assets at fair value through profit or loss

As at 1 January 2018 (Note 2)	**17,953**
Gain arising on financial assets at fair value through profit or loss within other operating income	3,673
Reclassification to non-current assets classified as held for sale	(20,883)
As at 30 June 2018	**743**

Gain arising on financial assets at fair value through profit or loss for the six months ended 30 June 2018 totaled RR 3,673 million, including change in fair value of PJSC Inter RAO`s shares – RR 3,664 million and was recorded within other operating income (for the three months ended 30 June 2018: RR 1,327 million).

(in millions of Russian Rubles unless noted otherwise)

As of 30 June 2018 the shares of PJSC Inter RAO were reclassified to non-current assets classified as held for sale in the amount of RR 20,883 million due to the decision adopted on 27 June 2018 by the Board of Directors of the Company on termination of the Group participation in the capital of PJSC Inter RAO through the sale of shares owned by the Group (Note 29).

Note 8. Other non-current assets

	30 June 2018	31 December 2017
Long-term promissory notes	40,067	39,549
Discount	(15,268)	(15,662)
Impairment provision	(14,025)	(14,025)
Long-term promissory notes, net	10,774	9,862
Long-term advances to suppliers	5,053	5,024
VAT recoverable	3,396	2,957
Goodwill	481	481
Other non-current assets	6,656	7,007
Total other non-current assets	**26,360**	**25,331**

Note 9. Cash and cash equivalents

	30 June 2018	31 December 2017
Cash equivalents	57,663	59,029
Cash at bank	14,710	11,106
Cash in hand	28	21
Total cash and cash equivalents	**72,401**	**70,156**

Cash equivalents held as at 30 June 2018 and 31 December 2017 comprised short-term bank deposits with original contractual maturities of three months or less.

Note 10. Accounts receivable and prepayments

	30 June 2018	31 December 2017
Trade receivables	64,471	61,279
Provision for impairment of trade receivables	(27,624)	(26,571)
Trade receivables, net	**36,847**	**34,708**
VAT recoverable	**6,978**	**7,841**
Advances to suppliers and other prepayments	7,703	2,944
Provision for impairment of advances to suppliers and other prepayments	(670)	(837)
Advances to suppliers and other prepayments, net	**7,033**	**2,107**
Other receivables	8,302	7,959
Provision for impairment of other receivables	(4,910)	(4,815)
Other receivables, net	**3,392**	**3,144**
Government grants receivables	5,596	3,401
Total accounts receivable and prepayments	**59,846**	**51,201**

As at 1 January 2018 the trade receivables were restated in accordance with IFRS 9 (Note 2).

The Group does not hold any accounts receivable pledged as collateral.

(in millions of Russian Rubles unless noted otherwise)

Note 11. Inventories

	30 June 2018	31 December 2017
Fuel	13,897	16,162
Materials and supplies	8,491	6,782
Spare parts	2,603	2,466
Other materials	594	386
Total inventories before provision for impairment	**25,585**	**25,796**
Provision for impairment of inventories	(263)	(273)
Total inventories	**25,322**	**25,523**

There are no inventories pledged as collateral for borrowings as at 30 June 2018 and as at 31 December 2017.

Note 12. Other current assets

	30 June 2018	31 December 2017
Special funds	**3,919**	**3,429**
Deposits	**4,499**	**790**
Loans issued	2,723	2,472
Provision for loans issued	(2,698)	(2,447)
Loans issued, net	**25**	**25**
Other short-term investments	**125**	**156**
Total other current assets	**8,568**	**4,400**

As at 30 June 2018 the balance of special funds in the amount of RR 3,919 million received by the Group to fund construction of generating facilities, is placed to the special accounts of the Federal Treasury of Russia (as at 31 December 2017: RR 3,429 million). These special funds may be used by the Group only upon approval by the Federal Treasury of Russia according to the procedure prescribed by the Order of the Ministry of Finance of the Russian Federation No. 213n dated 25 December 2015.

Note 13. Equity

	Number of issued ordinary shares (Par value of RR 1.00)
As at 30 June 2018	426,288,813,551
As at 31 December 2017	426,288,813,551

Changes in the equity as at 1 January 2018 due to changes in accounting policies. The Group recalculated capital as at 1 January 2018 due to adoption of IFRS 9 (Note 2). The revaluation reserve on available-for-sale financial assets for those financial assets reclassified to fair value through profit or loss in the amount of RR 13,894 million as at 1 January 2018 was transferred to retained earnings. As a result of the recalculation of the provision for impairment of trade receivables, retained earnings as at 1 January 2018 increased by RR 648 million and non-controlling interest by RR 38 million.

Additional share issue 2018. On 21 June 2018, the Board of Directors of the Company adopted a resolution to make a placement of 14,013,888,828 ordinary shares by open subscription. The placement price of the additional shares was determined at RR 1.00 per share. On 27 August 2018, the share issue was registered with the Bank of Russia.

Additional share issue 2016–2017. On 22 November 2016, the Board of Directors of the Company adopted a resolution to make a placement of 40,429,000,000 ordinary shares by open subscription. The placement price of the additional shares was determined at RR 1.00 per share. On 7 December 2016, the share issue was registered with the Bank of Russia.

In January 2017, as a result of certain shareholders exercising their pre-emptive right, the Company placed 33,348,661 additional shares, which were paid in December 2016.

In March 2017, PJSC Bank VTB purchased 40,000,000,000 additional shares under the agreement related to the purchase of 55 billion ordinary shares of the Company for a total amount of RR 55 billion (Note 2). The other 15 billion shares of quasy-treasury stock were sold to the bank by the Group`s subsidiaries. The full amount of cash received by the Group was used to repay the debts of RAO ES East subgroup.

(in millions of Russian Rubles unless noted otherwise)

On 11 May 2017, the placement of ordinary shares of the Company under the additional share issue 2016–2017 was completed.

On 5 June 2017, the results of the additional share issue were registered. 40,033,348,661 shares were placed as a result of the additional issue, which represents 99.02 percent of the additional issue's total number of shares registered. The shares issued were fully paid for in cash.

Treasury shares. As at 30 June 2018, treasury shares were represented by 3,852,260,628 ordinary shares in the amount of RR 4,613 million (31 December 2017: 3,852,267,925 ordinary shares in the amount of RR 4,613 million).

In March 2017, 15 billion treasury shares were sold to PJSC Bank VTB at the price of RR 1,00 per share in accordance with the agreement described above. Weighted average cost of these treasury shares was RR 17,965 million; the loss on disposal of RR 2,965 million was accounted for within equity.

Dividends. On 27 June 2018, the Company declared dividends for the year ended 31 December 2017 of RR 0.0263 per share in the total amount of RR 11,226 million (RR 11,129 million excluding dividends to subsidiaries). On 26 June 2017, the Company declared dividends for the year ended 31 December 2016 of RR 0.0466 per share in the total amount of RR 19,876 million (RR 19,696 million excluding dividends to subsidiaries).

Declared dividends of the Group's subsidiaries in favour of non-controlling interest holders amounted to RR 219 million for the six months ended 30 June 2018 (for the six months ended 30 June 2017: RR 127 million).

Note 14. Income tax

Income tax expense is recognised based on the management's best estimate as of the reporting date of the weighted average annual income tax rate expected for the full financial year. The tax effect of the exceptional, one-off items has not been included in the estimation of the weighted average annual income tax rate. The estimated average annual effective income tax rate used for the six months ended 30 June 2018, was 20 percent (for the six months ended 30 June 2017: 28 percent).

	Six months ended 30 June		Three months ended 30 June	
	2018	**2017**	**2018**	**2017**
Current income tax expense	6,849	6,343	2,964	2,430
Deferred income tax expense	2,188	2,243	1,738	1,025
Total income tax expense	**9,037**	**8,586**	**4,702**	**3,455**

(in millions of Russian Rubles unless noted otherwise)

Note 15. Current and non-current debt

Non-current debt

	Due date	30 June 2018	31 December 2017
PJSC Sberbank	2018–2020	47,862	54,790
Eurobonds (RusHydro Capital Markets DAC), issued in February 2018	2021	20,399	-
Eurobonds (RusHydro Capital Markets DAC), issued in September 2017	2022	20,248	20,235
Russian bonds (PJSC RusHydro) issued in July 2015	2018	15,867	15,868
Russian bonds (PJSC RusHydro) issued in April 2016	2019	15,177	15,357
Russian bonds (PJSC RusHydro) issued in June 2017	2020	10,196	10,016
PJSC ROSBANK	2018–2020	6,253	4,520
UniCredit Bank Austria AG	2018–2026	5,130	5,113
Russian bonds (PJSC RusHydro) issued in February 2013	2023*	2,182	20,650
PJSC Bank VTB	2018–2020	2,097	5,046
Bank GPB (JSC)	2018–2027	1,934	1,794
Far East and Baikal Region Development Fund	2026	1,643	-
Municipal authority of Kamchatka region	2018–2034	1,626	1,560
EBRD	2018–2027	1,421	1,350
ASIAN Development bank	2018–2027	1,378	1,310
Russian bonds (PJSC RusHydro) issued in April 2015	2025	768	767
Russian bonds (PJSC RusHydro) issued in April 2011	2021	255	255
Other long-term debt	-	863	831
Finance lease liabilities	-	744	1,586
Total		**156,043**	**161,048**
Less current portion of non-current debt		(38,848)	(69,877)
Less current portion of finance lease liabilities		(116)	(259)
Total non-current debt		**117,079**	**90,912**

** In February 2018 holders of the bonds issued in February 2013 partly redeemed the bonds under the put option. The rest of the bonds with nominal amount of RR 2,196 million will mature in 2023 year.*

Eurobond issue. In February 2018 the Group placed Eurobonds, issued by the special purpose company RusHydro Capital Markets DAC. The volume of the issue was RR 20,000 million. The term of the bonds is 3 years, the coupon rate is 7.4 percent per annum. VTB Capital, JP Morgan, Gazprombank and Sberbank CIB acted as joint lead managers of the issue. The placement and listing of the Eurobonds took place on the Irish Stock Exchange under Reg S rule. Eurobonds could have been partly purchased by government-related entities.

Current debt

	30 June 2018	31 December 2017
PJSC ROSBANK	5,517	930
PJSC Sberbank	2,496	5,428
BANK ROSSIYA	1,465	1,000
JSC Raiffeisenbank	639	-
Bank GPB (JSC)	312	334
LLC AlstomRusHydroEnergy	-	750
Current portion of non-current debt	38,848	69,877
Current portion of finance lease liabilities	116	259
Other current debt	37	35
Total current debt and current portion of non-current debt	**49,430**	**78,613**
Reference:		
Interest payable	2,743	3,012

Compliance with covenants. The Group is subject to certain covenants related to its debt. As at 30 June 2018 and 31 December 2017 and during the reporting period the Group met all covenant clauses of the debt agreements.

(in millions of Russian Rubles unless noted otherwise)

Note 16. Non-deliverable forward contract for shares

	The fair value of the forward contract
As at 31 December 2017	**20,716**
Change in the fair value of the non-deliverable forward contract (Note 23)	2,433
Interim payments	(1,613)
As at 30 June 2018	**21,536**

The table below includes key assumptions made to determine the forward contract's fair value using the Monte-Carlo model:

Key assumptions made to assess the forward contract's fair value	**As at 30 June 2018**	**As at 31 December 2017**
Expected term of the forward transaction	3.68 years	4.17 years
Market value of the share	RR 0.6821	RR 0.7264
CB RF key refinancing rate	7.25 percent	7.75 percent
Volatility of shares	34.15 percent	34.85 percent
Risk-free rate	7.15 percent	7.01 percent
Discount rate	7.77 percent	7.84 percent
Expected dividend yield	5.10 percent	5.10 percent

The sensitivity analysis of the fair value of the forward contract to the key assumptions is presented in Note 28.

Note 17. Other non-current liabilities

	30 June 2018	**31 December 2017**
Non-current advances received	11,915	10,766
Pension benefit obligations	8,407	8,634
Other non-current liabilities	8,909	8,716
Total other non-current liabilities	**29,231**	**28,116**

Note 18. Accounts payable and accruals

	30 June 2018	**31 December 2017**
Trade payables	26,900	30,949
Dividends payable	11,480	159
Advances received	9,288	11,664
Settlements with personnel	7,672	8,880
Accounts payable on free-of-charge targeted contributions	3,185	-
Accounts payable under factoring agreements	235	258
Other accounts payable	3,753	3,715
Total accounts payable and accruals	**62,513**	**55,625**

All accounts payable and accruals are denominated in Russian Rubles.

Accounts payable on free-of-charge targeted contributions as of 30 June 2018 is the debts to the constituent budgets of the Far East Federal region according to Russian Government Resolution No. 895 "On achievement of basic rates (tariffs) for electric power (capacity) in the territories of the Far East Federal region", which stipulates the application of a premium to the price of capacity provided by the Company in the price zones of the wholesale electricity and capacity market with subsequent transfer of the amounts collected to the constituent budgets of the Far East Federal region in the form of free-of-charge targeted contributions.

(in millions of Russian Rubles unless noted otherwise)

Note 19. Other taxes payable

	30 June 2018	31 December 2017
VAT	9,397	10,236
Insurance contributions	3,138	3,160
Property tax	2,695	2,038
Other taxes	590	600
Total other taxes payable	**15,820**	**16,034**

Note 20. Revenue

	Six months ended 30 June		Three months ended 30 June	
	2018	2017	2018	2017
Sales of electricity	123,398	126,708	58,803	60,108
Sales of heat and hot water	24,093	22,667	7,423	6,999
Sales of capacity	20,761	19,840	9,962	9,252
Other revenue	12,601	11,651	6,405	5,728
Total revenue	**180,853**	**180,866**	**82,593**	**82,087**

Other revenue includes revenue earned from transportation of electricity and heat, connections to the grid, rendering of construction, repair and other services.

Note 21. Government grants

In accordance with legislation of the Russian Federation, several companies of the Group are entitled to government subsidies for compensation of the difference between approved economically viable electricity and heat tariffs and actual reduced tariffs and for compensation of losses on purchased fuel, purchased electricity and capacity.

During the six months ended 30 June 2018, the Group received government subsidies of RR 20,024 million (for the six months ended 30 June 2017: RR 6,788 million). During the three months ended 30 June 2018, the Group received government subsidies of RR 9,626 million (for the three months ended 30 June 2017: RR 2,208 million). The subsidies were received in the following territories: Kamchatsky territory, Sakha Republic (Yakutia), Magadan Region, Chukotka Autonomous Area and other Far East regions.

Incuded in the total amount of government grants are government grants received by the Group’s companies – guaranteeing suppliers, under the Resolution of the Russian Government No. 895 “On achievement of basic rates (tariffs) for electric power (capacity) in the territories of the Far East Federal region”, effective from July 2017. For the the six months ended 30 June 2018 these subsidies amounted to RR 13,196 million and for the three months ended 30 June 2018 they amounted to RR 6,600 million.

(in millions of Russian Rubles unless noted otherwise)

Note 22. Operating expenses (excluding impairment losses)

	Six months ended 30 June		Three months ended 30 June	
	2018	**2017**	**2018**	**2017**
Employee benefit expenses (including payroll taxes and pension benefit expenses)	37,158	36,377	18,152	17,715
Fuel expenses	34,260	29,969	13,021	12,069
Grid companies services on electricity distribution	20,071	21,241	9,217	9,439
Purchased electricity and capacity	19,602	19,906	8,201	8,284
Depreciation of property, plant and equipment and amortisation of intangible assets	13,131	11,408	6,507	5,725
Taxes other than on income	6,077	5,409	3,031	2,729
Other materials	4,008	4,310	2,509	2,498
Third parties services, including:				
Purchase and transportation of heat power	1,933	1,914	826	816
Provision of functioning of electricity and capacity market	1,827	1,818	930	909
Repairs and maintenance	1,786	1,524	1,230	963
Security expenses	1,670	1,691	830	856
Insurance cost	1,091	990	502	445
Rent	969	1,034	517	509
Services of subcontracting companies	843	648	467	413
Consulting, legal and information expenses	806	1,153	344	729
Transportation expenses	473	634	310	452
Other third parties services	4,324	3,817	2,052	1,922
Water usage expenses	1,996	1,678	1,093	881
Social charges	506	351	301	213
Travel expenses	425	360	233	203
Loss / (profit) on disposal of property, plant and equipment, net	21	219	(75)	158
Other expenses	1,098	1,285	236	939
Total operating expenses (excluding impairment losses)	**154,075**	**147,736**	**70,434**	**68,867**

Note 23. Finance income, costs

	Six months ended 30 June		Three months ended 30 June	
	2018	**2017**	**2018**	**2017**
Finance income				
Interest income	2,376	4,056	1,135	1,930
Income on discounting	119	245	-	137
Foreign exchange gains	60	590	50	-
Other income	208	305	21	276
Total finance income	**2,763**	**5,196**	**1,206**	**2,343**
Finance costs				
Change of fair value of non-deliverable forward contract for shares (Note 16)	(2,433)	(6,451)	(3,889)	(6,855)
Interest expense	(2,525)	(2,201)	(1,274)	(681)
Foreign exchange losses	(305)	(1,049)	(136)	(902)
Expense on discounting	(152)	(178)	(51)	(19)
Finance lease expense	(49)	(116)	(25)	(61)
Other costs	(405)	(502)	(197)	(244)
Total finance costs	**(5,869)**	**(10,497)**	**(5,572)**	**(8,762)**

(in millions of Russian Rubles unless noted otherwise)

Note 24. Earnings per share

	Six months ended 30 June		Three months ended 30 June	
	2018	**2017**	**2018**	**2017**
Weighted average number of ordinary shares issued (millions of shares)	422,437	382,546	422,437	393,401
Profit for the period attributable to the shareholders of PJSC RusHydro	35,660	22,052	14,457	4,870
Earnings per share attributable to the shareholders of PJSC RusHydro – basic and diluted (in Russian Rubles per share)	**0.0844**	**0.0576**	**0.0342**	**0.0124**

Note 25. Capital commitments

In accordance with consolidated investment programme approved under the consolidated business plan of the Group, as of 30 June 2018 the Group has to invest RR 362,240 million for the period 2018–2022 for reconstruction of the existing and construction of new power plants and grids, including capital commitments for 2018 year in the amount of RR 93,466 million, for 2019 year – RR 93,359 million, for 2020 year – RR 72,098 million, for 2021 year – RR 55,506 million, for 2022 year – RR 47,811 million (31 December 2017: RR 391,711 million for the period 2018–2022).

Note 26. Contingencies

Social commitments. The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and maintenance of housing, hospitals, transport services and other social needs in the geographical areas in which it operates. Management believes that there are no material liabilities that should have been recognized at the reporting date.

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

Legal proceedings. The Group's subsidiaries are parties 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 financial position and results of the Group.

Tax contingencies. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management may be challenged by tax 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. The impact of this course of events cannot be assessed with sufficient reliability, but it can be significant in terms of the financial situation and / or the business of the Group. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessments for controlled transactions (transactions with related parties and certain transactions between unrelated parties) if such transactions are not on an arm's length basis.

During the six months ended 30 June 2018, the Group's subsidiaries had controlled transactions and transactions which highly probably will be considered by tax authorities to be controlled based on the results of the period. Management has implemented internal controls to be in compliance with this transfer pricing legislation. In case of receipt of a request from tax authorities, the management of the Group will provide documentation meeting the requirements of Art. 105.15 of the Tax Code.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

(in millions of Russian Rubles unless noted otherwise)

New provisions aimed at deoffshorisation of Russian economy have been added to the Russian tax legislation and are effective from 1 January 2015. Specifically, they introduce new rules for controlled foreign companies, a concept of beneficiary owner of income for the purposes of application of preferential provisions of taxation treaties of the Russian Federation, a concept of tax residency for foreign persons and taxation of indirect sale of Russian real estate assets.

The Group is currently assessing the effects of new tax rules on the Group's operations and takes necessary steps to comply with the new requirements of the Russian tax legislation. Following the performed analysis, management of the Group concluded that the Group is in compliance with the tax legislation requirements aimed at deoffshorisation of Russian economy: there are no risks associated with taxation of CFC profits; foreign entities of the Group are not tax residents of the Russian Federation; when proceeds are paid to foreign entities the Group entities undertake reasonable actions to prove beneficiary ownership of these proceeds by foreign entities.

However, in view of the recent introduction of the above provisions and insufficient related administrative and court practice, at present the probability of claims from Russian tax authorities and probability of favourable outcome of tax disputes (if they arise) cannot be reliably estimated. Tax disputes (if any) may have an impact on the Group's financial position and results.

Management believes that as at 30 June 2018, its interpretation of the relevant legislation was appropriate and the Group's tax positions would be sustained.

Environmental matters. The Group's subsidiaries and their predecessor entities have operated in the utilities industry of the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is periodically being reconsidered. The Group's subsidiaries regularly evaluate their obligations under environmental regulations. Group accrued assets retirement obligation for ash dumps used by the Group which is included in other non-current liabilities and other accounts payable and comprised RR 1,397 million as at 30 June 2018 (31 December 2017: RR 1,348 million).

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 damage.

Guarantees. In February 2018 the Group signed an agreement on the termination of the surety agreement with SC Vnesheconombank with regard to performance by PJSC Boguchanskaya HPP of its obligations under the loan agreement, which did not have a significant impact on the Condensed Consolidated Interim Financial Information of the Group. The nominal value of of the guarantees issued is shown in the table below:

Counterparty	**30 June 2018**	**31 December 2017**
for PJSC Boguchanskaya HPP:		
State Corporation Vnesheconombank	-	25,935
Total guarantees issued	**-**	**25,935**

Note 27. Financial instruments and financial risk management

Financial risks. The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk), credit risk and liquidity risk.

This Condensed Consolidated Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements; it should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2017.

There have been no changes in the Group's risk management policies during the six months ended 30 June 2018.

(in millions of Russian Rubles unless noted otherwise)

Presentation of financial instruments by measurement category. The following table provides a reconciliation of classes of financial assets with the measurement categories of IFRS 9 Financial instruments and information about the rest of special funds on the accounts of the Federal Treasury as at 30 June 2018 and 31 December 2017. Reclassifications of financial assets by measurement categories as at 1 January 2018 are presented in Note 2.

As at 30 June 2018	Financial assets at amortised cost	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
Assets				
Other non-current assets (Note 8)	**11,261**	**-**	**-**	**11,261**
Promissory notes	10,774	-	-	10,774
Long-term loans issued	487	-	-	487
Financial assets at fair value through profit or loss (Note 7)	**-**	**743**	**-**	**743**
Financial assets at fair value through other comprehensive income	**-**	**-**	**539**	**539**
Trade and other receivables (Note 10)	**39,878**	**-**	**-**	**39,878**
Trade receivables	36,847	-	-	36,847
Other financial receivables	3,031	-	-	3,031
Other current assets (Note 12)	**8,443**	**-**	**-**	**8,443**
Special funds	3,919	-	-	3,919
Deposits and promissory notes	4,499	-	-	4,499
Short-term loans issued	25	-	-	25
Cash and cash equivalents (Note 9)	**72,401**	**-**	**-**	**72,401**
Total financial assets	**131,983**	**743**	**539**	**133,265**
Non-financial assets				**906,859**
Non-current assets classified as held for sale	**-**	**20,883**	**-**	**20,883**
Total assets				**1,061,007**

As at 31 December 2017	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 8)	**10,394**	**-**	**10,394**
Promissory notes	9,862	-	9,862
Long-term loans issued	532	-	532
Available-for-sale financial assets	**-**	**18,495**	**18,495**
Trade and other receivables (Note 10)	**37,370**	**-**	**37,370**
Trade receivables	34,708	-	34,708
Other financial receivables	2,662	-	2,662
Other current assets (Note 12)	**4,244**	**-**	**4,244**
Special funds	3,429	-	3,429
Deposits and promissory notes	790	-	790
Short-term loans issued	25	-	25
Cash and cash equivalents (Note 9)	**70,156**	**-**	**70,156**
Total financial assets	**122,164**	**18,495**	**140,659**
Non-financial assets			**887,592**
Total assets			**1,028,251**

As at 30 June 2018 financial liabilities of the Group valued at fair value are represented by the non-deliverable forward contract for shares in the amount of RR 21,536 million (Note 16) (31 December 2017: RR 20,716 million).

All other financial liabilities of the Group are carried at amortised cost and are represented mainly by the current and non-current debt (Note 15), trade payables, accounts payable under factoring agreements and other accounts payable (Note 18).

(in millions of Russian Rubles unless noted otherwise)

Note 28. Fair value of assets and liabilities

a) 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.

The levels in the fair value hierarchy into which the recurring fair value measurements are categorized, are as follows:

30 June 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Non-current assets classified as held for sale	20,883	-	-	**20,883**
Financial assets at fair value through profit or loss	743	-	-	**743**
Financial assets at fair value through other comprehensive income	-	-	539	**539**
Non-financial assets				
Property, plant and equipment (except for construction in progress, office buildings and land)	-	-	529,894	**529,894**
Total assets recurring fair value measurements	**21,626**	**-**	**530,433**	**552,059**
Financial liabilities				
Non-deliverable forward contract for shares	-	-	21,536	**21,536**
Total liabilities recurring fair value measurements	**-**	**-**	**21,536**	**21,536**

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	18,022	-	473	**18,495**
Non-financial assets				
Property, plant and equipment (except for construction in progress, office buildings and land)	-	-	527,363	**527,363**
Total assets recurring fair value measurements	**18,022**	**-**	**527,836**	**545,858**
Financial liabilities				
Non-deliverable forward contract for shares	-	-	20,716	**20,716**
Total liabilities recurring fair value measurements	**-**	**-**	**20,716**	**20,716**

There were no changes in the valuation techniques, inputs and assumptions for recurring fair value measurements during the six months ended 30 June 2018.

As at 30 June 2018 and 31 December 2017 the fair value of the forward contract in line “Non-deliverable forward contract for shares” is determined based on the Monte-Carlo model, taking into account adjustments and using unobservable inputs, and included in Level 3 of fair value hierarchy (Note 16).

The valuation of the Level 3 financial liability and the related sensitivity to reasonably possible changes in unobservable and observable inputs are as follows at 30 June 2018:

	Fair value	Valuation technique	Significant unobservable /observable inputs	Reasonable possible change	Reasonable possible values	Sensitivity of fair value measurement
Financial liability						
Non-deliverable forward contract for shares	21,536	Monte-Carlo model	Dividend yield	-2%	3.10 percent	(356)
				+2%	7.10 percent	460
			Market value of the share	-20%	RR 0.5457	7,174
				+20%	RR 0.8185	(7,188)

Based on management's estimate, the possible changes of unobservable inputs do not have a significant impact on the fair value of the non-deliverable forward contract.

The fair value estimate of the non-deliverable forward contract is significantly influenced by observable inputs, in particular, by the market value of the shares which was RR 0.6821 as at 30 June 2018 (Note 16).

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

Financial assets carried at amortised cost. The Group considers that the fair value of cash, cash equivalents and short-term deposits (Level 2 of the fair value hierarchy), short-term accounts receivable (Level 3 of the fair value hierarchy) approximates their carrying value. The fair value of long-term accounts receivable, other non-current and current assets is estimated based on future cash flows expected to be received including expected losses (Level 3 of the fair value hierarchy); the fair value of these assets approximates their carrying value.

Liabilities carried at amortised cost. The fair value of floating rate liabilities approximates their carrying value. The fair value of bonds is based on quoted market prices (Level 1 of the fair value hierarchy). Fair value of the fixed rate liabilities is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity (Level 3 of the fair value hierarchy).

The fair value of current liabilities carried at amortised cost approximates their carrying value.

As at 30 June 2018, the fair value of bonds exceeded their carrying value by RR 659 million (31 December 2017: by RR 1,073 million).

As at 30 June 2018 the carrying value of non-current fixed rate debt was RR 44,050 million and exceeded their fair value by RR 441 million. As at 31 December 2017 the carrying value of non-current fixed rate debt was RR 39,396 million and exceeded their fair value by RR 925 million.

Note 29. Subsequent events

Sale of shares of PJSC Inter RAO. On 5 July 2018 the Group completed the transaction to sell 5,131,669,622 shares of PJSC Inter RAO owned by the Group (4.915 percent of share capital) to JSC Inter RAO Capital (Note 7). The result of the transaction will be recorded within equity. The selling price of one share is RR 3.3463. The total consideration for all PJSC Inter RAO shares sold is RR 17,172 million. Under the contracts the consideration receivable will be settled by instalments.