RUSHYDRO GROUP

Consolidated Financial Statements prepared in accordance with IFRS with independent auditor's report

As at and for the year ended 31 December 2017

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC RusHydro and its subsidiaries (together – the "Group") as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Our audit approach

Overview

PJSC RusHydro's shares are listed on the Moscow Exchange. The Group's principal business operations are generation and sales of electricity, capacity and heat energy in the Russian wholesale and retail markets. The Group companies are also involved in other operations, including electricity transmission and distribution, construction, repairs and provision of other services.

- Overall group materiality: Russian Roubles ("RUB") 3,800 million, which represents 1% of total revenues and government grants.

- We conducted audit procedures in respect of those companies of the Group that were considered significant components based on their individual share in the Group's revenue, which exceeds 15%: PJSC RusHydro, PJSC DEK, JSC DGK.
- Our audit scope covered *inter alia* 74% of the Group's revenues and 81% of the Group's total carrying value of property, plant and equipment.

Key audit matters

- Assessment of impairment of property, plant and equipment
- Assessment of impairment of accounts receivable
- Recognition of the non-deliverable forward contract for shares

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of the concept of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality	RUB 3,800 million
How we determined it	1% of total revenues and government grants
Rationale for the materiality benchmark applied	We chose total revenues and government grants as the benchmark because, in our view, it is the benchmark which best represents the Group's performance. We chose 1% as the materiality level, which falls within the range of quantitative materiality thresholds used for companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the accompanying consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Assessment of impairment of property, plant and equipment	
For matters requiring disclosure and related significant accounting policies, judgements and accounting estimates see Notes 2, 7 and 32 to the consolidated financial statements. At 31 December 2017, the Group's aggregate carrying amount of property, plant and equipment was RUB 799,855 million. This is the most significant asset on the Group's balance sheet, accounting for 78% of the total assets. The Group management performed an analysis of the business performance, industry outlook and operational plans and then assessed the recoverable value of property, plant and equipment by cash generating unit for the purpose of impairment testing. Impairment arises when the recoverable amount, which is determined as the higher of the fair value less costs of disposal and its value in use, is below the carrying amount of the analysed assets. Management's testing identified impairment of a number of cash generating units, and the Group accrued an impairment loss of RUB 24,000 million in the consolidated income statement for the year ended 31 December 2017.	We obtained and examined the financial models that management used for assessing impairment of property, plant and equipment. We engaged our valuation experts to form our conclusion on the assumptions and methodology that were used in the impairment assessment. Our audit procedures related to the management's assessment of impairment of property, plant and equipment, included the following: • assessment of the methodology used by the Group management for the impairment test; • examination, on a test basis, of key assumptions used in financial models and whether they are in line with the approved budgets and business plans, available reliable external sources (including macroeconomic forecasts, information on regulated and market electricity and capacity prices, etc.) and our industry-specific expertise; • assessment of competence, skills, experience and objectivity of the management's experts; • examination, on a test basis, of accuracy and relevance of inputs that management incorporated in the financial models for

Key audit matter	How our audit addressed the Key audit matter
The recognition of additional loss also led to a decrease of RUB 1,043 million (net of tax) in the property, plant and equipment revaluation reserve in the consolidated statement of comprehensive income. There was no basis for accrual of impairment loss for those cash generating units for which management concluded, based on its assessment, that their recoverable amount is higher than or equals their carrying amount. We focused on the property, plant and equipment impairment assessment as this process is complicated, requires significant management's judgements and is based on assumptions that are affected by the projected future market and economic conditions that are inherently uncertain. The impairment test is sensitive to reasonably possible changes in assumptions. The most significant judgements are related to the applied discount rate together with the assumptions supporting the relevant forecast cash flows, in particular those concerning the electricity and capacity tariff rates and volumes of investments.	assessing the impairment of property, plant and equipment; • examination, on a test basis, of mathematical accuracy of financial models used by management to assess the impairment of property, plant and equipment ; • consideration of potential impact of reasonably possible changes in key assumptions; • obtaining and reviewing management's written representations related to their property, plant and equipment impairment test. As a result of the above procedures, we believe that the key assumptions used by the management are acceptable for the purposes of preparing the accompanying consolidated financial statements. Acceptability of management's current estimates regarding the property, plant and equipment impairment for the purpose of preparing the financial statements for the year ended 31 December 2017 does not guarantee that future events that are inherently uncertain would not lead to a significant change in these estimates. We note that the management's financial models are to a significant extent sensitive to the changes in key assumptions. It could reasonably be expected, that if actual results differ from assumptions made, accordingly, there could arise either additional losses from impairment in the future or gains from the release of previously recognised impairment charges. We also assessed the compliance of disclosures in Notes 2, 7 and 32 to the consolidated financial statements with the disclosure requirements of IAS 36 'Impairment of Assets'. As a result of our procedures, we have not identified any evidence that would require significant adjustments to the recorded amount of impairment of property, plant and equipment or to the respective disclosures in the consolidated financial statements.

Key audit matter	How our audit addressed the Key audit matter
Assessment of impairment of accounts receivable	
For matters requiring disclosure, and related significant accounting policies, judgements and accounting estimates see Notes 2, 12 and 32 to the consolidated financial statements. At 31 December 2017, the carrying amount of the Group's trade receivables was RUB 34,708 million (RUB 61,279 million less an impairment provision of RUB 26,571 million). Thus, the receivables that are assessed by the Group management as doubtful, account for a significant portion within the structure of trade receivables (at 31 December 2017, the Group accrued an impairment provision amounting to 43% of the total trade receivables). The Group management establishes a provision for doubtful debts based on the assessment of deterioration of the specific customer's solvency position, their individual specifics, payment dynamics, subsequent payments after the end of the reporting period as well as future cash inflow forecast analysis by reference to the conditions existing at the reporting date. The degree of accuracy of the management's estimate will be confirmed or rebutted depending on the future developments that are inherently uncertain. We focused on receivables impairment assessment as this process is complicated and requires significant management's judgements, and the amount of impairment is significant.	Our audit procedures related to management's assessment of trade receivables impairment included: • review of management's collectability analysis taking into account counterparty solvency analysis and its deterioration as of the reporting date, intention, if any, to allow payment by instalments, subsequent payments after the end of the reporting period, existence of security and its quality, as well as other factors considered by management; • analysis of the receivables turnover the results of which were used inter alia to examine the management's collectability analysis; • sample testing of past due but not impaired trade receivables for assessing the management's conclusion that there is no impairment considering the prospects and timing of collection of such receivables; • sample testing of underlying documents for management's assessment of the probability of collection of receivables, such as payment orders supporting payments received in 2018; • review of external information from the regulators of the wholesale electricity (capacity) market, including the Supervisory Board of NP Market Council, which regularly takes decisions on excluding companies from the register of participants in the wholesale electricity (capacity) market; among those there are the Group's customers of its electricity (capacity) , with deteriorated solvency as expected; • obtaining and reviewing management's written representations related to receivables impairment test.

Key audit matter	How our audit addressed the Key audit matter
	We also assessed the compliance of disclosures in Notes 2, 12 and 32 to the consolidated financial statements with the disclosure requirements of IFRS 7 'Financial Instruments: Disclosures'. Acceptability of management's current estimates regarding the receivables impairment for the purpose of preparing the consolidated financial statements for the year ended 31 December 2017 does not guarantee that future events that are inherently uncertain would not lead to significant changes in these estimates. As a result of our procedures, we have not identified any evidence that would require significant adjustments to the amount of impairment of accounts receivable or to the respective disclosures in the accompanying consolidated financial statements.
Recognition of the non-deliverable forward contract for shares *For matters requiring disclosure, and related significant accounting policies, judgements and accounting estimates see Notes 2, 19 and 32 to the consolidated financial statements.* In March 2017, PAO RusHydro simultaneously signed a contract with Bank VTB (PAO) under which the Bank acquired 55 billion ordinary shares of PAO RusHydro, and a non-deliverable forward contract for these shares for a five-year period. Following the analysis performed, the Group management decided to treat the above transactions separately and to recognise the sale of shares in equity and a derivative financial instrument. As at 31 December 2017, the liability under the forward contract of RUB 20,716 million is recorded as a long-term derivative financial instrument at fair value through profit or loss. At the initial recognition date (3 March 2017) the fair value of this non-deliverable forward contract amounted to RUB 10,013 million and was recorded within equity as it arose on the transaction with shareholders.	We obtained and reviewed the models that were used to measure the fair value of the non-deliverable forward contract at its initial recognition date and at 31 December 2017. We engaged valuation experts in order to form our conclusion on the assumptions and the methodology used in the fair value assessment. Our audit procedures in respect of the recognition of the non-deliverable forward contract for shares included: • assessing reasonableness of the assumptions that the Group management applied to determine the treatment of the non-deliverable forward contract in the consolidated financial statements; • assessing validity and appropriateness of the methodology used by the Group management to develop fair value models for the non-deliverable forward contract; • testing accuracy and relevance of the key assumptions and source data used in the models, and their consistency with other information obtained during the audit, with

Key audit matter	How our audit addressed the Key audit matter
We focused on the treatment of this non-deliverable forward contract in the consolidated financial statements of the Group due to the complexity of its accounting treatment and of the assessment of the instrument's fair value, which requires management to exercise professional judgement, and because the liability recognised under the forward contract and the corresponding effects on the consolidated statement of profits and losses and on equity are material.	available reliable external information and our expert knowledge of industry specifics; • assessing competence, skills, experience and objectivity of the management's experts; • testing the mathematical accuracy of financial instrument's fair value calculation; • considering and assessing potential impact of reasonably possible changes in key assumptions; • obtaining and analysing management's written representations related to the treatment of the non-deliverable forward contract. Following the results of our procedures, we believe that the estimates and judgements made by management with regard to the recognition of the non-deliverable forward contract are appropriate for the purposes of preparation of the accompanying consolidated financial statements. In addition we assessed compliance of the disclosures in Notes 2, 19 and 32 to the consolidated financial statements with the presentation and disclosure requirements of IAS 39 'Financial Instruments: Recognition and Measurements', IFRS 7 'Financial Instruments: Disclosures' and IFRS 13 'Fair Value Measurement". As a result of our procedures, we have not identified any evidence that would require significant adjustments in respect of recognition of the non-deliverable forward contract or the respective disclosures in the accompanying consolidated financial statements.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls as well as the specific nature of the industry in which the Group operates.

The Group's consolidated financial statements are prepared based on the financial information of its components, i.e. individual companies of the Group. If we considered a component to be significant, we audited its financial information based on the materiality level established for each such component.

Similar to the determination of the overall materiality, significance of components was assessed based on the component's individual share in the Group's revenue. We determined the following significant components, which individually account for more than 15% of the Group's total revenue: PJSC RusHydro, PJSC DEK, JSC DGK.

If we did not consider that the procedures performed at the level of significant components provided adequate audit evidence for expressing our opinion on the consolidated financial statements as a whole, we performed analytical procedures at the Group level and audit procedures in respect of individual balances and types of operations for other components of the Group.

We chose other components of the Group for audit procedures in respect of individual balances and types of operations separately for each financial statement line item included in the scope of our audit, and our choice depended inter alia on the following factors: level of audit evidence obtained from the audit of significant components and level of concentration of balances and types of operations in the Group's structure. We also change our selection of a number of other components on a rotation basis.

On the whole, our audit procedures that were performed at the level of significant and other components of the Group and included, in particular, detailed testing and testing of controls on a sample basis, in our opinion, provided adequate coverage of individual line items in the consolidated financial statements. Thus, for example, our procedures covered 74% of the Group's revenue and 81% of the total carrying value of the Group's property, plant and equipment.

When performing the audit procedures the audit team engaged specialists in taxation, IFRS methodology, as well as experts in valuation of property, plant and equipment and pension liabilities.

We believe that the results of procedures performed on a sample basis at the level of the Group's components, analytical procedures at the Group's level and procedures over the consolidated financial reporting have provided sufficient and appropriate audit evidence for expressing our opinion on the Group's consolidated financial statements as a whole.

Other information

Management is responsible for the other information. Other information includes PJSC RusHydro's Annual Report for 2017 and Issuer's Report of PJSC RusHydro for Q1 2018, but does not include the consolidated financial statements and our auditor's report thereon. PJSC RusHydro's Annual Report for 2017 and Issuer's Report of PJSC RusHydro for Q1 2018 are expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The certified auditor responsible for the audit resulting in this independent auditor's report, is Alexey Sergeevich Ivanov.

AO PricewaterhouseCoopers Audit

26 March 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

RusHydro Group
Consolidated Statement of Financial Position
(in millions of Russian Rubles unless noted otherwise)

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	7	799,855	765,047
Investments in associates and joint ventures	8	20,097	20,278
Available-for-sale financial assets	9	18,495	21,181
Deferred income tax assets	16	9,354	6,640
Other non-current assets	10	25,331	21,847
Total non-current assets		**873,132**	**834,993**
Current assets			
Cash and cash equivalents	11	70,156	67,354
Income tax receivable		3,839	889
Accounts receivable and prepayments	12	51,201	47,076
Inventories	13	25,523	24,037
Other current assets	14	4,400	9,097
Total current assets		**155,119**	**148,453**
TOTAL ASSETS		**1,028,251**	**983,446**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	426,289	386,255
Treasury shares	15	(4,613)	(22,578)
Share premium		39,202	39,202
Retained earnings and other reserves		231,967	243,790
Equity attributable to the shareholders of PJSC RusHydro		**692,845**	**646,669**
Non-controlling interest		2,719	4,263
TOTAL EQUITY		**695,564**	**650,932**
Non-current liabilities			
Deferred income tax liabilities	16	41,695	39,086
Non-current debt	18	90,912	158,046
Non-deliverable forward contract for shares	19	20,716	-
Other non-current liabilities	20	28,116	18,726
Total non-current liabilities		**181,439**	**215,858**
Current liabilities			
Current debt and current portion of non-current debt	18	78,613	41,757
Accounts payable and accruals	21	55,625	58,784
Current income tax payable		976	858
Other taxes payable	22	16,034	15,257
Total current liabilities		**151,248**	**116,656**
TOTAL LIABILITIES		**332,687**	**332,514**
TOTAL EQUITY AND LIABILITIES		**1,028,251**	**983,446**

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

Chief Accountant Y. G. Medvedeva

Публичное акционерное общество «Федеральная гидрогенерирующая компания–РусГидро» 660017, Красноярский край, г. Красноярск, ул. Дубровинского, д.43, корпус 1 ОГРН 1042401810494 (ПАО «РусГидро») РусГидро

26 March 2018

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	23	348,119	374,072
Government grants	24	32,745	17,250
Other operating income	4, 7, 9, 10	690	12,422
Operating expenses (excluding impairment losses)	25	(303,805)	(315,705)
Operating profit excluding impairment losses		**77,749**	**88,039**
Impairment of property, plant and equipment	7	(24,000)	(26,525)
Impairment of accounts receivable, net		(5,957)	(7,133)
Impairment of financial assets	10	-	(4,464)
Impairment of loans issued	14	-	(2,378)
Operating profit		**47,792**	**47,539**
Finance income	26	8,443	9,943
Finance costs	26	(21,133)	(9,041)
Share of results of associates and joint ventures	8	417	6,682
Profit before income tax		**35,519**	**55,123**
Income tax expense	16	(13,068)	(15,372)
Profit for the year		**22,451**	**39,751**
Attributable to:			
Shareholders of PJSC RusHydro		24,013	40,205
Non-controlling interest		(1,562)	(454)
Earnings per ordinary share for profit attributable to the shareholders of PJSC RusHydro – basic and diluted (in Russian Rubles per share)	27	0.0596	0.1095
Weighted average number of shares outstanding – basic and diluted (thousands of shares)	27	402,655,108	367,138,482

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Profit for the year		22,451	39,751
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss			
Impairment of revalued property, plant and equipment	7	(1,043)	(4,920)
Remeasurement of pension benefit obligations	17	344	(274)
Total items that will not be reclassified to profit or loss		**(699)**	**(5,194)**
Items that may be reclassified subsequently to profit or loss			
(Loss) / profit arising on available-for-sale financial assets	9	(2,561)	15,050
Reclassification of accumulated loss on available-for-sale financial assets to profit or loss	9	(19)	-
Other comprehensive (loss) / income		(8)	5
Total items that may be reclassified subsequently to profit or loss		**(2,588)**	**15,055**
Other comprehensive (loss) / income		**(3,287)**	**9,861**
Total comprehensive income for the year		**19,164**	**49,612**
Attributable to:			
Shareholders of PJSC RusHydro		20,809	50,082
Non-controlling interest		(1,645)	(470)

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**35,519**	**55,123**
Depreciation of property, plant and equipment and amortisation of intangible assets	7, 25	25,023	24,130
Loss on disposal of property, plant and equipment, net	25	1,006	555
Share of results of associates and joint ventures	8	(417)	(6,682)
Other operating income	4, 7, 9, 10	(690)	(12,422)
Finance income	26	(8,443)	(9,943)
Finance costs	26	21,133	9,041
Impairment of property, plant and equipment	7	24,000	26,525
Impairment of accounts receivable, net		5,957	7,133
Impairment of financial assets		-	4,464
Impairment of loans issued		-	2,378
Other loss / (income)		468	(758)
Operating cash flows before working capital changes, income tax paid and changes in other assets and liabilities		**103,556**	**99,544**
Working capital changes:			
Increase in accounts receivable and prepayments		(13,483)	(9,243)
Decrease / (increase) in other current assets		859	(3,403)
Increase in inventories		(1,604)	(28)
(Decrease) / increase in accounts payable and accruals		(2,236)	1,013
Increase / (decrease) in other taxes payable		891	(199)
Increase in other non-current assets		(1,592)	(7,083)
Increase in other non-current liabilities		7,674	3,549
Income tax paid		(15,940)	(12,777)
Net cash generated by operating activities		**78,125**	**71,373**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(71,693)	(60,957)
Proceeds from sale of property, plant and equipment		213	266
Investment in bank deposits and purchase of other investments		(19,837)	(9,993)
Redemption of bank deposits and proceeds from sale of other investments		23,428	25,477
Proceeds from sale of subsidiaries, net of disposed cash		28	3,559
Proceeds from sale of dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs		-	10,950
Placement of special funds on special accounts		-	(6,998)
Return of special funds from special accounts		-	6,098
Purchase of shares of subsidiary		-	(414)
Interest and dividends received		7,848	7,094
Net cash used in investing activities		**(60,013)**	**(24,918)**

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from share issue	15	40,000	33
Proceeds from sale of treasury shares	15	15,000	-
Payments for non-deliverable forward for shares	19	(3,243)	-
Proceeds from current debt	18	55,773	64,855
Proceeds from non-current debt	18	63,499	71,829
Repayment of debt	18	(149,976)	(128,291)
Interest paid		(15,794)	(20,271)
Dividends paid to the shareholders of PJSC RusHydro		(19,673)	(14,228)
Dividends paid by subsidiaries to non-controlling interest holders		(127)	(234)
Finance lease payments		(523)	(530)
Net cash used in financing activities		**(15,064)**	**(26,837)**
Effect of foreign exchange differences on cash and cash equivalents balances		(246)	(289)
Increase in cash and cash equivalents		**2,802**	**19,329**
Cash and cash equivalents at the beginning of the year		**67,354**	**48,025**
Cash and cash equivalents at the end of the year	**11**	**70,156**	**67,354**

(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 2016		**386,255**	**(26,092)**	**39,202**	**(135,075)**	**(474)**	**188,552**	**1,952**	**689**	**147,470**	**602,479**	**11,440**	**613,919**
Profit for the year		-	-	-	-	-	-	-	-	40,205	40,205	(454)	39,751
Profit arising on available-for-sale financial assets	9	-	-	-	-	-	-	14,957	-	-	14,957	93	15,050
Remeasurement of pension benefit obligations	17	-	-	-	-	-	-	-	(230)	-	(230)	(44)	(274)
Impairment of revalued property, plant and equipment	7	-	-	-	-	-	(4,822)	-	-	-	(4,822)	(98)	(4,920)
Other comprehensive income		-	-	-	-	(64)	34	-	-	2	(28)	33	5
Total other comprehensive income		-	-	-	-	(64)	(4,788)	14,957	(230)	2	9,877	(16)	9,861
Total comprehensive income		-	-	-	-	**(64)**	**(4,788)**	**14,957**	**(230)**	**40,207**	**50,082**	**(470)**	**49,612**
Dividends	15	-	-	-	-	-	-	-	-	(14,278)	(14,278)	(234)	(14,512)
Offer for shares of JSC RAO ES East	15	-	3,514	-	-	-	-	-	-	4,872	8,386	(6,694)	1,692
Transfer of revaluation reserve to retained earnings		-	-	-	-	-	(796)	-	-	796	-	-	-
Effect of changes in non-controlling interest	15	-	-	-	-	-	-	-	-	-	-	213	213
Other movements		-	-	-	-	-	-	-	-	-	-	8	8
As at 31 December 2016		**386,255**	**(22,578)**	**39,202**	**(135,075)**	**(538)**	**182,968**	**16,909**	**459**	**179,067**	**646,669**	**4,263**	**650,932**

(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 year		-	-	-	-	-	-	-	-	24,013	24,013	(1,562)	22,451
Loss arising on available-for-sale financial assets	9	-	-	-	-	-	-	(2,534)	-	-	(2,534)	(27)	(2,561)
Accumulated loss on available for-sale financial assets recycled to the Income Statement	9	-	-	-	-	-	-	(19)	-	-	(19)	-	(19)
Remeasurement of pension benefit obligations	17	-	-	-	-	-	-	-	188	-	188	156	344
Impairment of revalued property, plant and equipment		-	-	-	-	-	(831)	-	-	-	(831)	(212)	(1,043)
Other comprehensive loss		-	-	-	-	(9)	-	-	-	1	(8)	-	(8)
Total other comprehensive loss		-	-	-	-	(9)	(831)	(2,553)	188	1	(3,204)	(83)	(3,287)
Total comprehensive income		**-**	**-**	**-**	**-**	**(9)**	**(831)**	**(2,553)**	**188**	**24,014**	**20,809**	**(1,645)**	**19,164**
Share issue	15	40,034	-	-	-	-	-	-	-	-	40,034	-	40,034
Sale of treasury shares	15	-	17,965	-	-	-	-	-	-	(2,965)	15,000	-	15,000
Dividends	15	-	-	-	-	-	-	-	-	(19,696)	(19,696)	(127)	(19,823)
Non-deliverable forward contract for shares	19	-	-	-	-	-	-	-	-	(10,013)	(10,013)	-	(10,013)
Transfer of revaluation reserve to retained earnings		-	-	-	-	-	(974)	-	-	974	-	-	-
Effect of changes in non-controlling interest	15	-	-	-	-	-	-	-	-	-	-	228	228
Other movements		-	-	-	-	-	-	-	-	42	42	-	42
As at 31 December 2017		**426,289**	**(4,613)**	**39,202**	**(135,075)**	**(547)**	**181,163**	**14,356**	**647**	**171,423**	**692,845**	**2,719**	**695,564**

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. The Russian economy showed signs of recovery in 2017, after the economic downturn of 2015 and 2016. The economy is negatively impacted by low oil prices, 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.

Relations with the Government and current regulation. As at 31 December 2017 the Russian Federation owned 60.56 percent of the total voting ordinary shares of the Company (31 December 2016: 66.84 percent). The Russian Federation's participatory interest in the Company's equity decreased following the additional issue of shares in favour of PJSC Bank VTB that is also controlled by the Russian Federation (Note 15). As at 31 December 2017, PJSC Bank VTB owned 13.34 percent of the Company's shares.

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 6).

In addition, the Government influences the Group's operations through:
- participation of its representatives in the Company's Board of Directors;
- regulation of tariffs for electricity, capacity and heating;
- approval and monitoring of the Group's investment programme, including volume and sources of financing.

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

Overview of the electricity and capacity market. In 2017 the following significant changes were made to the rules of electricity and capacity wholesale and retail markets, their operation procedures and pricing mechanisms:

- Russian Government Resolution No. 895 "On achievement of basic rates (tariffs) for electric power (capacity) in the territories of the Far East Federal region" provides for a premium to the price of capacity sold by the Company in the price zones for 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 (Note 2).
- Federal Law No.451-FZ of 29 December 2017 establishes the obligation to carry out electricity sales activity only on the basis of relevant licenses, and the administrative responsibility for violating license terms or performing electricity sales without a license.
- Russian Government Resolution No. 624 of 24 May 2017 introduced changes to the Rules for full and (or) partial limitation of electricity consumption that make implementation of power supply limitation much easier and provide an option of imposing a full limitation of power consumption on so called 'non-disconnectable' consumers.
- Russian Government Resolution No. 863 of 21 July 2017 establishes the regulator's duty to set up sales mark-ups for guaranteeing suppliers using a method of compared analogues (the method of standard costs). The Guidelines for Calculating Guaranteeing Suppliers' Sales Markup were approved by FAS Order No.1554/17 of 21 November 2017.

- Under Russian Government Resolution No.1365 of 11 November 2017, a guaranteeing supplier can be deprived of this status because of its debts to grid companies.
- Federal Law No. 279-FZ of 29 July 2017 introduces changes to the Federal Law "On Heat Supply". These changes allow to include cities and districts into heat supply price zones in which prices for heat (capacity) provided to consumers by a single heat supplier are capped by the maximum level of heat (capacity) prices for consumers (the Law "On Alternative Boiler Plant"). In the maximum price level framework, a single heat supplier provides heat energy (capacity) to its consumers at prices agreed by the parties.
- The Rules of establishing maximum price levels for heat (capacity) in these price zones were approved on 15 December 2017 under Russian Government Resolution No.1562.

Note 2. Summary of significant accounting policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the financial instruments initially recognised at fair value, revaluation of property, plant and equipment and available-for-sale financial assets. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Each company of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with Russian standards of accounting (hereinafter referred to as "RSA"). These consolidated financial statements are based on the statutory records with adjustments and reclassifications made for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency. The functional currency of the Company and its subsidiaries, and the presentation currency for these consolidated financial statements is the national currency of the Russian Federation, the Russian Ruble.

Foreign currency translation. Monetary assets and liabilities, which are held by the Group's entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Rubles at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

As at 31 December 2017, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between Russian Ruble and US Dollar (hereinafter referred to as "USD") was RR 57.60: USD 1.00 (31 December 2016: RR 60.66: USD 1.00), between Russian Ruble and Euro was RR 68.87: EUR 1.00 (31 December 2016: RR 63.81: EUR 1.00).

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns.

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

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

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill" or a "bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all the liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between the Group's entities are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest, that do not result in a loss of control. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Acquisition of subsidiaries from parties under common control. Acquisitions of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or the date when the combining entities were first brought under common control if later. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to merger reserve within equity. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented, i.e. retrospectively except for acquisition of subsidiaries acquired exclusively with a view for resale which are accounted for using predecessor values method prospectively from the acquisition date.

Investments in associates and joint ventures. Investments in associates and joint ventures are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as profit or loss in respect of associates and joint ventures, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, and (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the profit or loss in respect of associates and joint ventures.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is defined by the making of decisions about the relevant activities requiring the unanimous consent of the parties sharing control.

The Group discontinues the use of the equity method from the date on which it ceases to have joint control over, or have significant influence on joint ventures and associates.

Unrealised gains on transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the entity, unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in the carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Property, plant and equipment. Property, plant and equipment in the statement of financial position includes assets under construction for future use as property, plant and equipment. Property, plant and equipment except for office buildings, land and assets under construction are stated at revalued amounts less accumulated depreciation and provision for impairment (where required). Office buildings owned by the Group are stated at historical cost less accumulated depreciation and accumulated impairment; land and assets under construction are stated at historical cost less accumulated impairment.

Property, plant and equipment except for office buildings, land and assets under construction are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset.

The revaluation surplus included in equity is transferred directly to retained earnings when the revaluation surplus is realised on disposal of the asset.

The Group charges deferred tax liabilities in respect of revaluation of property, plant and equipment directly to other comprehensive income.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is highly probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year.

Depreciation. Depreciation on items of property, plant and equipment (except for land and assets under construction) is calculated using the straight-line method over their estimated useful lives.

The useful lives of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful lives are accounted for as a change in an accounting estimate prospectively.

The average useful lives of property, plant and equipment by type of facility, in years, were as follows:

Type of facility	Average useful lives
Production buildings	25–80
Facilities	10–100
Plant and equipment	5–40
Other	3–30

Depreciation is charged once an asset is available for use. Land and assets under construction are not depreciated.

Impairment of property, plant and equipment. Impairment reviews for property, plant and equipment are carried out when there is an indication that impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts (Note 7). If such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs of disposal and its value in use. Fair value less costs of disposal represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.

The carrying amount of the asset is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a positive change in the estimates used to determine the asset's value in use or fair value less costs of disposal.

Intangible assets and goodwill. The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software. Intangible assets are amortised using the straight-line method over their useful lives. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

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

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. The Group uses such valuation techniques of fair value which are the most acceptable in the circumstances and as much as possible use the observable basic data.

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- level 3 measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

For disclosure of information on fair value the Group classified assets and liabilities on the basis of an appropriate level of hierarchy of fair value as it is stated above (Note 32).

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. Financial assets have the following categories: (i) loans and receivables; (ii) available-for-sale financial assets; (iii) financial assets held to maturity and (iv) financial assets at fair value through profit or loss. The description of categories of financial assets of the Group is given below.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments.

Financial assets at fair value through profit or loss. This category is presented by derivative financial instruments which are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

All other financial assets are included in the *available-for-sale* category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (i) financial liabilities at fair value through profit or loss and (ii) other financial liabilities. All financial liabilities of the Group including loans are categorised as other and carried at amortized cost.

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

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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

Impairment losses on available-for-sale investments are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale financial assets. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year.

Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred: (i) any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems; (ii) the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains; (iii) the counterparty considers bankruptcy or a financial reorganisation; (iv) there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or (v) the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within the profit or loss for the year.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the

Group has obtained control of the asset and it is highly probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. Cost of inventory that is expensed is determined on the weighted average basis.

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

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns.

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

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

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

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

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

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

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

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

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

Interest payments capitalised as part of the cost of an assets are classified as cash outflows from financing activities in Consolidated Statement of Cash Flows.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Defined benefit plans. The Group operates defined benefit plans that cover the majority of its employees. Defined benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service, minimum tariff rate of remuneration and others.

The net liability recognised in the statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the end of the reporting period less fair value of plan assets.

The defined benefit obligations are calculated by independent actuary using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from remeasurement of pension benefit obligations are recognised in other comprehensive income. Past service cost is immediately recognised in profit or loss within operating expenses.

Defined contribution plans. For defined contribution plans, the Group pays contributions and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses and payroll taxes in the consolidated income statement.

Other post-employment benefit obligations. The Group pays a one-off financial aid on occasion of an employee's jubilee. The amount of the benefit depends on one or more factors, such as the age, length of service in the company, salary and others.

For the purpose of calculating benefit obligations of these types, actuarial gains and losses arising as a result of adjustments or changes in actuarial assumptions are recognised within profit or loss in the consolidated statement of income in the period when they arise. All other aspects of accounting for these obligations are similar to those of accounting for defined benefit obligations.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the payment is highly probable and reliable estimates exist.

Revenue recognition. Revenue is recognised on the delivery of electricity and heat, provision of capacity, supply of services and on the dispatch of goods during the period. Revenue from retail operations is recognised on delivery of electricity and heat to the customer. Revenue amounts are presented exclusive of value added tax.

Revenue transactions under free bilateral contracts are shown net of related purchases of equivalent electricity volumes which the market participant is obliged to make in accordance with the industry regulations. For the year ended 31 December 2017 additional resale turnover in the amount of RR 244 million was shown net for presentation purposes to reflect the economic substance of transactions. For the year ended 31 December 2016 there was no additional turnover.

Government grants. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets. Government grants are included in cash flows from operating activities.

Earnings per share. The earnings per share are determined by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group.

Share capital. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the placement value over the par value of shares issued is recorded as share premium in equity.

Treasury shares. Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are reissued, disposed of or cancelled. In case the consideration paid is non-cash asset, the treasury shares received are recognised at the fair value of this asset. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing of amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

Social expenditure. To the extent that the Group's contributions to social programmes benefit the community at large without creating constructive obligations to provide such benefits in the future and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

Financial guarantees. Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition, and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Critical accounting estimates and judgments in applying accounting policies

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

Sale of shares subject to entering into a non-deliverable forward contract for the shares. The management treats the transaction on acquisition by PJSC Bank VTB (the "Bank") of 55 billion of the Company's ordinary shares – 40 billion of additionally issued shares and 15 billion of treasury shares carried on the Group subsidiaries' balance sheet (Note 15) and entering into a non-deliverable forward contract for these shares (Note 19) in March 2017 as two separate transactions. The sale of shares is recorded in equity and a derivative financial instrument is recognised.

The terms and conditions of the share sale imply transfer of risks and rewards in connection with these shares, such as dividend payments received by the Bank and participation in the Company's management. No obligations for their repurchase and conversion into a different financial instrument, guarantees or binding agreements arise for the Company. Given the above and the fact that the international financial reporting standards do not prescribe accounting treatment for the risks and rewards transfer procedure for treasury shares, the Group management concluded that the transaction should be presented on the basis that the Bank is the beneficial owner of the Company's shares.

In the Group management's opinion, the decrease in the prepaid forward value by the amounts equivalent to dividends received by the Bank does not directly represent return of dividends, and, therefore, does not limit the Bank in terms of obtaining rewards from share ownership. According to the forward contract, there will be significant delays in the offset of cash flows (for a period exceeding three months from the date when dividends are received by the Bank), and the Bank will be able to place the received dividends not only in cash and cash equivalents but other instruments for the period exceeding three months as well, and it will be able to receive income and subsequently reinvest it multiple times.

As the issue of shares is recorded in equity and also as both the issue of shares and the conclusion of the non-deliverable forward contract are carried out by decision and in the interests of the state as the ultimate controlling party, the initial recognition of the non-deliverable forward contract for these shares is also recorded in equity as a shareholder transaction.

Recognition of a premium to the price of capacity with subsequent transfer of the collected amounts to the budgets of the respective regions. In July 2017 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" became effective. This Resolution 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.

Constituent regions are obliged to use these contributions to compensate the guaranteeing suppliers of the Far East Federal region for the reduction in tariffs which were made consistent with the basic level. According to the Resolution tariffs were reduced retrospectively starting from 1 January 2017.

The amount of the premium that should be transferred to the budgets of the Far East Federal region in the form of free-of-charge targeted contributions is stipulated by the Resolution of the Russian Government and for the year ended 31 December 2017 was RR 23 995 million. Taking into account that the Group collects the premium and subsequently transfers it to the respective budgets on behalf of the Russian Government, the management of the Group concluded that revenue from the sales of capacity in the amount of the premium should be presented in the consolidated income statement net of related free-of-charge targeted contributions.

Government subsidies receivable by the Group's companies – guaranteeing suppliers under the rules of the Resolution of the Russian Government No. 895 are recognised in government grants (Note 24). Government grants are recognised when there is a reasonable assurance that the grant will be received and the Group will be able to comply with all attached conditions (Note 12).

Impairment of non-financial assets. Accounting for impairment of non-financial assets includes impairment of property, plant and equipment and impairment of investments in associates.

The effect of these critical accounting estimates and assumptions is disclosed in Notes 7 and 8.

Recognition of deferred tax assets. At each reporting date management assesses recoverability of deferred tax assets arising from operating losses and asset impairments in the context of the current economic environment, particularly when current and expected future profits have been adversely affected by market conditions. Management considers first the future reversal of existing deferred tax liabilities and then considers future taxable profits when evaluating deferred tax assets. The assessment is made on a taxpayer basis. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plans of the Group companies prepared by management and extrapolated results thereafter.

Management considered the recoverability of recognised deferred tax assets, including those on tax losses carried forward, as probable due to existence of taxable temporary differences which recoverability is expected in future and of high probability of deferred tax assets being recoverable by the future taxable profits (Note 16).

Useful life of property, plant and equipment. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets and other factors. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear, warranty terms as well as the environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates which can affect the reported income.

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

Adoption of New or Revised Standards and Interpretations

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

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 18.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

Note 3. New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted. These standards and interpretations have been approved for adoption in the Russian Federation unless noted otherwise.

IFRS 9, Financial Instruments: Classification and Measurement *(amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).* Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the management of the Group expects the adoption of the new standard will not have a significant impact on the consolidated financial statements from the adoption of the new standard on 1 January 2018 and will result in the following changes in the consolidated financial statements for the year ending 31 December 2018:.

- As a result of the recalculation of the provision for impairment of the Group's accounts receivable in accordance with the expected credit losses (ECL) model, the provision for impairment of accounts receivable as at January 1, 2018 will be reduced by RR 705 million according to preliminary estimates and, accordingly, accounts receivable will increase by the same amount.
- No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL in the consolidated financial statements for the year ending 31 December 2018 that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

IFRS 15, Revenue from Contracts with Customers *(amended in April 2016 and effective for the periods beginning on or after 1 January 2018).* The new standard replaces all existing IFRS requirements for revenue recognition. 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. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

In accordance with the transition provisions in IFRS 15 the Group management intends to apply the simplified transition method with the effect of the transition to be recognised as at 1 January 2018 in the consolidated financial statements for the year ending 31 December 2018 which will be the first year when the Group will apply IFRS 15.

The Group plans to apply the practical expedient available for the simplified transition method. IFRS 15 will be applied retrospectively only to contracts that are outstanding at the date of initial recognition (1 January 2018).

In accordance with the current accounting policies, the Group recognises revenue upon delivery of electricity, heat and provision of capacity and upon sale of other goods and provision of services during the period. Revenue is recognised at the fair value of the consideration receivable. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. 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.

Based on the analysis of the Group's recurrent inflows for the year ended 31 December 2017, terms of individual contracts, and facts and circumstances that exist at that date, the Group expects that adoption of IFRS 15 will not have a significant impact on its consolidated financial statements as at 1 January 2018 and will result in the following changes in the accounting policies and the following adjustments in the consolidated financial statements for the year ending 31 December 2018:

Received compensation of losses in grids. The Group currently recognises revenue from compensation of transmission losses and expenses on power distribution under contracts with grid companies on a gross basis. Compensation of transmission losses that the Group receives from grid companies are not treated as separate performance obligations 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 the year ended 31 December 2017 amounted to RR 4,237 million. Expenses on power distribution under contracts with grid companies totalled RR 47,719 million for the year ended 31 December 2017.

Purchase of electricity for own needs. The wholesale electricity and capacity market (WEM) has a number of sectors varying in their contractual terms and conditions and delivery timeframes: sector of regulated contracts, day-ahead market, sector of unregulated bilateral contracts and the balancing market. Under the WEM rules, the Group does not have direct contracts with final customers in the day-ahead and balancing markets and sells electricity under contracts with JSC Centre of Financial Settlements (CFS), who further sells it to final customers. At the same time, the Group has contracts with CFS for the purchase of electricity based on the results of the competitive selection of price bids on the day-ahead market and for the purposes of balancing the system.

The Group treats electricity supply contracts with CFS as contracts with a customer (represented by the whole market) covered by IFRS 15. Therefore, an electricity supply contract with CFS and an electricity purchase contract with CFS are treated as contracts signed with one customer - the wholesale electricity and capacity market.

The Group is unable to function normally without ensuring power supply to its production facilities. This indicates direct interrelation between the purchased volume of electricity and its generation and delivery to WEM. The fact that the Group buys electricity at WEM does not mean that the Group is a customer in the context of IFRS 15. Consequently, 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. This compensation should be 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 totalled RR 583 million for the year ended 31 December 2017.

Given that management of the Group has not finalised its analysis of the impact of the adoption of IFRS 15, the above disclosure is preliminary and it is possible that the impact on the consolidated financial statements may differ from the above. The Group expects to finalise the IFRS 15 adoption by the date of issue of the condensed consolidated interim financial information for the three months ended 31 March 2018.

IFRS 16, Leases *(issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).* The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 17, Insurance Contracts *(issued in May 2017 and effective for annual periods beginning on or after 1 January 2021).* IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRIC 22, Foreign currency transactions and advance consideration *(issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).* The Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from advance consideration in foreign currency. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances where an entity recognises the non-monetary asset or non-monetary liability arising from an advance consideration in foreign currency. IFRIC 22 does not contain any practical guidance on identifying an accounting item as monetary or non-monetary. Generally, a payment or receipt of consideration made as advance payment would result in recognition of a non-monetary asset or non-monetary liability. However, they can also give rise to a monetary asset or liability. An entity may require professional judgement to determine if a specific accounting item is monetary or non-monetary. The Group is currently assessing the impact of the Interpretation on its consolidated financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments *(issued in June 2017 and effective for annual periods beginning on or after 1 January 2019).* IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

(in millions of Russian Rubles unless noted otherwise)

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019.
- Annual Improvements to IFRSs 2015-2017 cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- 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).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

Note 4. 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 shares of limited liability companies (LLC).

The Group operates in the three main reportable segments one of which is represented by the Group's parent company – PJSC RusHydro (Note 5). The principal subsidiaries are presented below according to their allocation to the reportable segments as at 31 December 2017 and 31 December 2016.

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.

	31 December 2017		31 December 2016	
	% 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%

In December 2016 the Group completed the sale transaction of 100 percent shares of LLC ESC Bashkortostan (electricity sales company, guaranteeing supplier of electricity in the Republic of Bashkortostan) to Inter RAO Group. Profit from the sale of LLC ESC Bashkortostan in the amount of RR 3,048 million is included in other operating income for the year ended 31 December 2016.

(in millions of Russian Rubles unless noted otherwise)

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:

	31 December 2017		31 December 2016	
	% 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%

** In October 2017 shares of RAO Energy Systems of the East were de-listed on the Moscow Exchange. In December 2017 changes to the Charter were registered that eliminated indication of the company's public status in the company's name. Voting and ownership percent interests in JSC RAO ES East as at 31 December 2016 include 15.59 percent interest held by the Group's subsidiary LLC Vostok-Finance.*

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

Other segments

Other segments include:

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

Principal subsidiaries included in other segments are presented below:

	31 December 2017		31 December 2016	
	% 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	99.65%	99.65%	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%

(in millions of Russian Rubles unless noted otherwise)

Non-controlling interest

Summarised financial information related to subsidiaries with significant amount of non-controlling interest before elimination of operations between the Group's subsidiaries is presented below:

	RAO ES East subgroup		including DEK subgroup	
Financial position	**31 December 2017**	**31 December 2016**	**31 December 2017**	**31 December 2016**
Share of non-controlling interest	0.02%	0.02%	47.89%	47.89%
Share of voting rights, attributable to non-controlling interest	0.02%	0.02%	47.83%	47.83%
Non-current assets	121,463	114,628	69,998	65,407
Current assets	64,971	57,587	28,470	25,645
Non-current liabilities	(89,872)	(87,668)	(63,069)	(61,392)
Current liabilities	(89,500)	(74,421)	(40,998)	(33,433)
Net assets / (liabilities)	**7,062**	**10,126**	**(5,599)**	**(3,773)**
Carrying value of non-controlling interest	**5,778**	**3,014**	**1,686**	**(421)**
Financial results	**Year ended 31 December 2017**	**Year ended 31 December 2016**	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Revenue	168,714	175,545	123,406	119,179
(Loss) / profit for the year	(13,403)	(6,184)	(7,491)	1,573
Total comprehensive (loss) / income for the year	(14,149)	(6,397)	(7,297)	1,744
(Loss)/ profit for the year, attributable to non-controlling interest	(1,690)	(221)	(1,576)	1,641
Changes in other comprehensive income / (loss), attributable to non-controlling interest	56	(110)	3,459	114
Cash flows				
Cash generated by operating activities	13,815	12,982	6,844	11,397
Cash used in investing activities	(18,904)	(17,632)	(8,077)	(6,093)
Cash generated by / (used in) financing activities	7,922	(355)	2,579	(4,980)
Increase / (decrease) in cash and cash equivalents	**2,833**	**(5,005)**	**1,346**	**324**

The rights of the non-controlling shareholders of the presented subgroups are determined by the Federal Law "On Joint Stock Companies" and the charter documents of JSC RAO ES East and PJSC DEK.

Note 5. 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 4). 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 insurance compensation, depreciation of property, plant and equipment and amortisation of intangible assets, impairment of property, plant and equipment, impairment of financial assets, impairment of loans issued and accounts receivable, gain / loss on disposal of property, plant and equipment, gain / loss on disposal of subsidiaries and associates, profit on disposal of other non-current assets 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 amount of debt as these indicators are analysed by the CODM. Intersegment debt's balances are excluded.

Other information provided to the CODM complies with the information presented in the consolidated financial statements.

Intersegment sales are carried out at market prices.

Segment information for the years ended 31 December 2017 and 31 December 2016 and as at 31 December 2017 and 31 December 2016 is presented below:

(in millions of Russian Rubles unless noted otherwise)

Year ended 31 December 2017	PJSC RusHydro	ESC RusHydro subgroup	RAO ES East subgroup	Other segments	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	**120,493**	**61,817**	**168,714**	**29,039**	**380,063**	**(31,944)**	**348,119**
including:							
from external companies	*111,091*	*61,799*	*168,398*	*6,831*	*348,119*	*-*	*348,119*
sales of electricity	*77,059*	*60,657*	*102,867*	*826*	*241,409*	*-*	*241,409*
sales of heat and hot water sales	*158*	*-*	*38,747*	*2*	*38,907*	*-*	*38,907*
sales of capacity	*33,723*	*-*	*6,856*	*302*	*40,881*	*-*	*40,881*
other revenue	*151*	*1,142*	*19,928*	*5,701*	*26,922*	*-*	*26,922*
from intercompany operations	*9,402*	*18*	*316*	*22,208*	*31,944*	*(31,944)*	*-*
Government grants	-	-	32,567	178	32,745	-	32,745
Other operating income (excluding non-monetary items)	259	-	-	431	690	-	690
Operating expenses (excluding depreciation and other non-monetary items)	(44,026)	(60,239)	(177,959)	(27,174)	(309,398)	31,882	(277,516)
EBITDA	**76,726**	**1,578**	**23,322**	**2,474**	**104,100**	**(62)**	**104,038**
Depreciation of property, plant and equipment and amortisation of intangible assets	(14,656)	(221)	(7,964)	(2,393)	(25,234)	211	(25,023)
Other non-monetary items of operating income and expenses	(3,946)	(1,017)	(13,293)	(12,961)	(31,217)	(6)	(31,223)
including:							
impairment of property, plant and equipment	*(2,394)*	*-*	*(8,950)*	*(12,656)*	*(24,000)*	*-*	*(24,000)*
impairment of accounts receivable, net	*(1,324)*	*(1,011)*	*(3,385)*	*(237)*	*(5,957)*	*-*	*(5,957)*
loss on disposal of property, plant and equipment, net	*(268)*	*(6)*	*(647)*	*(79)*	*(1,000)*	*(6)*	*(1,006)*
gain / (loss) on disposal of subsidiaries and associates	*40*	*-*	*(311)*	*11*	*(260)*	*-*	*(260)*
Operating profit / (loss)	**58,124**	**340**	**2,065**	**(12,880)**	**47,649**	**143**	**47,792**
Finance income							8,443
Finance costs							(21,133)
Share of results of associates and joint ventures							417
Profit before income tax							**35,519**
Income tax expense							(13,068)
Profit for the year							**22,451**
Capital expenditure	**25,661**	**156**	**23,133**	**38,492**	**87,442**	**(175)**	**87,267**
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)

Year ended 31 December 2016	PJSC RusHydro	ESC RusHydro subgroup	RAO ES East subgroup	Other segments	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	**115,037**	**88,748**	**175,545**	**29,502**	**408,832**	**(34,760)**	**374,072**
including:							
from external companies	*104,441*	*88,715*	*174,716*	*6,200*	*374,072*	*-*	*374,072*
sales of electricity	*74,802*	*87,595*	*109,586*	*599*	*272,582*	*-*	*272,582*
sales of heat and hot water sales	*168*	*-*	*38,681*	*-*	*38,849*	*-*	*38,849*
sales of capacity	*28,881*	*-*	*7,795*	*392*	*37,068*	*-*	*37,068*
other revenue	*590*	*1,120*	*18,654*	*5,209*	*25,573*	*-*	*25,573*
from intercompany operations	*10,596*	*33*	*829*	*23,302*	*34,760*	*(34,760)*	*-*
Government grants	-	-	17,184	66	17,250	-	17,250
Other operating income (excluding non-monetary items)	29	1	82	340	452	(17)	435
Operating expenses (excluding depreciation and other non-monetary items)	(41,857)	(85,869)	(168,917)	(29,788)	(326,431)	35,015	(291,416)
EBITDA	**73,209**	**2,880**	**23,894**	**120**	**100,103**	**238**	**100,341**
Insurance indemnity	-	-	-	1,737	1,737	-	1,737
Depreciation of property, plant and equipment and amortisation of intangible assets	(13,641)	(752)	(7,747)	(2,247)	(24,387)	257	(24,130)
Other non-monetary items of operating income and expenses	(3,078)	881	(12,501)	(15,711)	(30,409)	-	(30,409)
including:							
impairment of property, plant and equipment	*(6,743)*	*-*	*(5,581)*	*(14,201)*	*(26,525)*	*-*	*(26,525)*
profit on disposal of other non-current assets	*7,202*	*-*	*-*	*-*	*7,202*	*-*	*7,202*
impairment of financial assets	*-*	*(243)*	*(3,120)*	*(1,101)*	*(4,464)*	*-*	*(4,464)*
impairment of loans issued	*(2,378)*	*-*	*-*	*-*	*(2,378)*	*-*	*(2,378)*
impairment of accounts receivable, net	*(1,014)*	*(1,911)*	*(3,968)*	*(240)*	*(7,133)*	*-*	*(7,133)*
loss on disposal of property, plant and equipment, net	*(145)*	*(13)*	*(228)*	*(169)*	*(555)*	*-*	*(555)*
gain on disposal of subsidiaries and associates	*-*	*3,048*	*396*	*-*	*3,444*	*-*	*3,444*
Operating profit / (loss)	**56,490**	**3,009**	**3,646**	**(16,101)**	**47,044**	**495**	**47,539**
Finance income							9,943
Finance costs							(9,041)
Share of results of associates and joint ventures							6,682
Profit before income tax							**55,123**
Income tax expense							(15,372)
Profit for the year							**39,751**
Capital expenditure	**29,987**	**210**	**20,809**	**30,132**	**81,138**	**(73)**	**81,065**
31 December 2016							
Non-current and current debt	**107,274**	**550**	**86,912**	**5,067**	**199,803**	**-**	**199,803**

(in millions of Russian Rubles unless noted otherwise)

Note 6. 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.

The Group's principal related parties for the years ended 31 December 2017 and 31 December 2016 were joint ventures, associates of the Group (Note 8) and government-related entities.

Joint ventures

The Group had the following balances with its joint ventures:

	Note	31 December 2017	31 December 2016
Promissory notes	10	6,880	6,269
Advances to suppliers		172	800
Loans issued		8	15
Loans received		750	750

The Group had the following transactions with its joint ventures:

	Year ended 31 December 2017	Year ended 31 December 2016
Sales of electricity and capacity	337	931
Other revenue	622	648
Purchased electricity and capacity	2,835	2,811

Associates

The Group had the following balances with its associates:

	31 December 2017	31 December 2016
Trade and other receivables	456	491
Accounts payable	1,277	781

The Group had the following transactions with its associates:

	Year ended 31 December 2017	Year ended 31 December 2016
Sales of electricity and capacity	2,673	2,679
Other revenue	153	137
Rent	605	521
Purchased electricity and capacity	15	17

Government-related entities

In the normal course of business the Group enters into transactions with the entities related to the Government.

The Group had transactions during the years ended 31 December 2017 and 31 December 2016 and balances outstanding as at 31 December 2017 and 31 December 2016 with the following government-related banks: SC Vnesheconombank, PJSC Sberbank, JSC Rosselkhozbank, Bank GPB (JSC), PJSC VTB Bank, PJSC VTB24 (Notes 10, 11, 14, 18). All transactions are carried out at market rates. The Company had an additional issue of shares and sold treasury shares of its subsidiaries (Note 15). The Company also entered into a non-deliverable forward transaction of its treasury shares with PJSC VTB Bank (Note 19).

The Group's sales of electricity, capacity and heat to government-related entities comprised approximately 30 percent of total sales of electricity, capacity and heat for the year ended 31 December 2017 (for the year ended 31 December 2016: approximately 30 percent). Sales of electricity and capacity under the regulated contracts are conducted directly to the consumers, within the day-ahead market (DAM) – through commission agreements with JSC Centre of Financial Settlements (CFS). Electricity and capacity supply tariffs under the regulated contracts and electricity and heating supply tariffs in non-pricing zone of the Far East are approved by FTS and by regional regulatory authorities of the Russian Federation. On DAM the price is determined by balancing the demand and supply and such price is applied to all market participants.

During the period the Group received government subsidies in amount of RR 32,745 million (in 2016 in the amount of RR 17,250 million) (Note 24).

Government subsidies receivable comprised RR 3,401 million as at 31 December 2017 (31 December 2016: RR 2,108 million) (Note 12). There were no accounts payable on free-of-charge targeted contributions of the Group as at 31 December 2017 and 31 December 2016.

The Group’s purchases of electricity, capacity and fuel from government-related entities comprised approximately 30 percent of total expenses on purchased electricity, capacity and fuel for the year ended 31 December 2017 (for the year ended 31 December 2016: approximately 20 percent).

Electricity distribution services provided to the Group by government-related entities comprised approximately 80 percent of total electricity distribution expenses for the year ended 31 December 2017 (for the year ended 31 December 2016: 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 their capacity and for attending Board meetings is paid depending on the results for the year and is calculated based on specific 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.

Main compensation for Key management of the Group generally is short-term excluding 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 year ended 31 December 2017 comprised RR 1,877 million including an accrual for bonuses in the amount of RR 400 million (for the year ended 31 December 2016: RR 1,419 million including accrual for bonuses in the amount of RR 165 million). The accrual for bonuses for the year ended 31 December 2017 includes remuneration under the Company’s key management long-term motivation Program as expected based on the 2017 results.

(in millions of Russian Rubles unless noted otherwise)

Note 7. Property, plant and equipment

Revalued amount / cost	Buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Balance as at 31 December 2016	**91,324**	**407,267**	**311,929**	**292,889**	**14,286**	**1,117,695**
Impairment of revalued property, plant and equipment	(136)	(1,034)	(137)	-	-	(1,307)
Reclassification	539	4,782	(5,458)	245	(108)	-
Additions	112	17	1,326	84,849	963	87,267
Transfers	10,221	23,011	47,445	(80,755)	78	-
Disposals of subsidiaries	(272)	(87)	(176)	(27)	(127)	(689)
Disposals and write-offs	(312)	(1,432)	(1,635)	(639)	(615)	(4,633)
Balance as at 31 December 2017	**101,476**	**432,524**	**353,294**	**296,562**	**14,477**	**1,198,333**
Accumulated depreciation (including impairment)						
Balance as at 31 December 2016	**(35,459)**	**(143,461)**	**(133,736)**	**(32,224)**	**(7,768)**	**(352,648)**
Impairment charge	(4,068)	(7,877)	(8,699)	(3,830)	(109)	(24,583)
Reversal of impairment	-	-	-	597	-	597
Depreciation charge	(2,041)	(8,770)	(13,393)	-	(1,148)	(25,352)
Transfers	(430)	(3,524)	673	3,416	(135)	-
Disposals of subsidiaries	267	86	167	6	85	611
Disposals and write-offs	136	676	1,266	479	340	2,897
Balance as at 31 December 2017	**(41,595)**	**(162,870)**	**(153,722)**	**(31,556)**	**(8,735)**	**(398,478)**
Net book value as at 31 December 2017	**59,881**	**269,654**	**199,572**	**265,006**	**5,742**	**799,855**
Net book value as at 31 December 2016	**55,865**	**263,806**	**178,193**	**260,665**	**6,518**	**765,047**

Revalued amount / cost	Buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Balance as at 31 December 2015	**83,887**	**398,693**	**268,513**	**285,292**	**13,646**	**1,050,031**
Impairment of revalued property, plant and equipment	(262)	(4,941)	(943)	-	(4)	(6,150)
Reclassification	(105)	(313)	(2,240)	2,790	(132)	-
Additions	71	1,307	1,591	76,876	1,220	81,065
Transfers	8,247	13,218	49,052	(70,675)	158	-
Disposals of subsidiaries	(352)	(129)	(452)	(34)	(125)	(1,092)
Disposals and write-offs	(162)	(568)	(3,592)	(1,360)	(477)	(6,159)
Balance as at 31 December 2016	**91,324**	**407,267**	**311,929**	**292,889**	**14,286**	**1,117,695**
Accumulated depreciation (including impairment)						
Balance as at 31 December 2015	**(31,803)**	**(131,656)**	**(105,881)**	**(29,192)**	**(6,914)**	**(305,446)**
Impairment charge	(1,729)	(6,227)	(13,317)	(11,692)	(134)	(33,099)
Reversal of impairment	786	3,284	2,433	70	9	6,582
Depreciation charge	(2,018)	(8,294)	(12,621)	-	(1,191)	(24,124)
Transfers	(794)	(719)	(6,554)	8,065	2	-
Disposals of subsidiaries	47	53	343	28	95	566
Disposals and write-offs	52	98	1,861	497	365	2,873
Balance as at 31 December 2016	**(35,459)**	**(143,461)**	**(133,736)**	**(32,224)**	**(7,768)**	**(352,648)**
Net book value as at 31 December 2016	**55,865**	**263,806**	**178,193**	**260,665**	**6,518**	**765,047**
Net book value as at 31 December 2015	**52,084**	**267,037**	**162,632**	**256,100**	**6,732**	**744,585**

As at 31 December 2017, included in the net book value of the property, plant and equipment are office buildings and plots of land owned by the Group in the amount of RR 7,486 million (31 December 2016: RR 7,745 million) which are stated at cost.

Assets under construction represent the expenditures for property, plant and equipment that are being constructed, including hydropower plants under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2017 such advances amounted to RR 36,577 million (31 December 2016: RR 47,105 million).

Additions to assets under construction included capitalised borrowing costs in the amount of RR 11,584 million, the capitalisation rate was 9.50 percent (for the year ended 31 December 2016: RR 14,276 million, the capitalisation rate was 10.55 percent).

Additions to assets under construction included capitalised depreciation in the amount of RR 732 million (for the year ended 31 December 2016: RR 1,042 million).

Other property, plant and equipment include motor vehicles, land, office fixtures and other equipment.

Management of the Group considers that the carrying amount of property, plant and equipment as at 31 December 2017 and 31 December 2016 does not differ materially from their fair value at the end of the reporting period.

Assessment of fair value of property, plant and equipment

Management of the Group determines the fair value of property, plant and equipment as follows.

The Group's property, plant and equipment are mainly represented by specialised property: the Group's key assets are represented by unique hydro engineering structures and power equipment manufactured under certain technical specifications for each power plant; such equipment is rarely sold in the market.

The Group management determines the value of the specialised property on a regular basis, using the cost approach. The cost approach is based on the economic concept which implies that a buyer will pay no more for an asset than it would cost to develop or obtain another asset with the same functionality. The total costs of replacement or reproduction of the analysed asset resulting from such measurement are decreased by the amount of physical, functional and economic depreciation.

The replacement costs are determined based on specialised reference books, regulatory documents, construction rates, manufacturer’s prices in effect as of the valuation date; physical and functional depreciation is measured based on the age of the assets, their actual condition and operating mode, etc.

To determine the economic depreciation of specialised assets, the Group management calculates the recoverable amount using the income approach. It is based on discounted cash flow method, and the Group uses certain assumptions when building the cash flow forecast. In particular, these assumptions are used to determine the expected cash flows, capital expenditures and discount rates for each cash generating unit. The Group management determines the forecast horizon, and net cash inflows from the asset's operation are calculated for each period of this horizon. The recoverable amount of the cash generating unit is determined by recalculating the discounted net cash flows. The Group management believes that the Group subsidiaries and Company's branches are separate cash generating units.

If the recoverable amount of the cash generating unit is higher than the replacement cost less physical and functional depreciation of property, plant and equipment included in this cash generating unit, it is concluded that there is no economic depreciation. If this is not the case and if the recoverable amount is less than the carrying amount of cash generating unit, the economic impairment is determined as the difference between the recoverable amount and the carrying amount.

(in millions of Russian Rubles unless noted otherwise)

Impairment of property, plant and equipment as at 31 December 2017 and 31 December 2016

The following key assumptions were used in the impairment testing for the years ended 31 December 2017 and 31 December 2016:

Key assumptions used in the impairment testing	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Information used	Actual operating results for 2017 and business plans for 2018–2023	Actual operating results for 2016 and business plans for 2017–2022
Forecast period*	For existing plants 10 years (2018–2027) For plants under construction - 20 years after commissioning and before the completion of capacity sale contracts (2018–2041) For cash-generating units of the Far East - 11-25 years (2018–2042)	For existing plants 10 years (2017–2026) For plants under construction - 20 years after commissioning and before the completion of capacity sale contracts (2017–2040) For cash-generating units of the Far East - 11-25 years (2017–2041)
Forecasted growth rates in terminal period	4.22 percent	3.83 percent
Discount rate before tax (based on weighted average cost of capital)	12.7–15.4 percent (RR)	14.45–17.4 percent (RR)
Forecast of electricity and capacity tariffs in the isolated energy systems and in non-pricing zone of the Far East	Based on methodology of tariffs calculation adopted by regulatory authority	
Forecast of electricity and capacity prices in competitive market	Based on the forecast of JSC TSA and forecast rates on energy prices growth prepared by the Ministry of Economic Development of RF	
Forecast of capacity prices related to competitive capacity selection	For 2018–2021 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used For 2022 and after – adjusted on consumer index price and forecasts of JSC TSA	For 2017–2020 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used For 2021 and after – adjusted on consumer index price and forecasts of JSC TSA
Forecast of electricity and capacity volumes	Based on the Company's management assessment of future trends in the business	
Forecast of capital expenditures	Based on the management valuation of capital expenditures on modernisation and reconstruction programme	

** Management considers that a forecast period greater than five years is appropriate as the wholesale electricity and capacity market is expected to change significantly over the forecast period and cash flow projections will not be stabilised within five years. However a forecast period of cash flows was mainly defined by remaining useful life of assets tested. For hydroelectric power plants this period may amount up to 100 years due to the fact that key asset is a dam. In this regard the recoverable amount of assets was defined based on cash flows during the forecast period and terminal values.*

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

Management of the Group analysed the current economic situation, in which the Group operates, in order to detect the indicators of impairment of property, plant and equipment or indicators that an impairment loss recognised in prior periods no longer exists or decreased.

As a result of the impairment analysis of property, plant and equipment of the Group as at 31 December 2017 their carrying amount decreased by RR 25,890 million. As a result an impairment loss in the amount of RR 24,583 million was recognised in the Consolidated Income Statement and decrease of previously recognised revaluation reserve in the amount of RR 1,307 million (before income tax of RR 261 million) – in other comprehensive loss, the effects relate mainly to the following cash-generating units:

- Yakutskaya GRES-2 – impairment loss in the amount of RR 13,057 million;
- Yakutskenergo – impairment loss in the amount of RR 7,888 million and decrease of previous revaluation reserve in the amount of RR 1,277 million.

The sensitivity analysis of the recoverable amounts of cash-generating units for the key assumptions is presented in Note 32.

(in millions of Russian Rubles unless noted otherwise)

As a result of the impairment analysis of property, plant and equipment as at 31 December 2016 their carrying amount decreased by RR 32,667 million. As a result, impairment loss in the amount of RR 26,517 million was recognised in the Consolidated Income Statement and a decrease of previous revaluation reserve in the amount of RR 6,150 million (before income tax of RR 1,230 million) – in other comprehensive loss.

The carrying amount of each class of property, plant and equipment that would have been recognised had the assets been carried under the cost model is as follows:

	Production buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Net book value as at 31 December 2017	38,900	120,494	191,705	268,986	2,150	622,235
Net book value as at 31 December 2016	34,278	111,189	169,428	264,645	2,134	581,674

Events at Zagorskaya GAES-2. On 17 September 2013 there was a partial flooding at Zagorskaya GAES-2 which is under construction in the Moscow Region. The flooding originated from the lower reservoir via functional joints of the station block and a newly formed cavity in the right junction of the GAES-2 building foundation. Construction and assembly works as well as property, including equipment, were insured by PIJSC Ingosstrakh, JSC AlfaStrakhovanie and JSC SOGAZ. As at 31 December 2016 all insurance companies had made all payments on the insured event.

Other operating income for the year ended 31 December 2016 include insurance indemnity received from JSC SOGAZ and JSC AlfaStrakhovanie in the amount of RR 1,737 million.

For the year ended 31 December 2017 a loss on disposal of damaged equipment and assets under construction which are not recoverable and, as well as expenses on recovery works, were recognised in Operating expenses in the amount of RR 902 million (for the year ended 31 December 2016: RR 1,600 million).

At the consolidated financial statements signing date management of the Group cannot reliably estimate future expenses that may be necessary to eliminate consequences of the technical incident. However, these expenses may be material for the Group.

Management of the Group believes that property, plant and equipment at Zagorskaya GAES-2 is not impaired as at 31 December 2017 as there were capacity supply contracts concluded in respect of new power generation facilities of Zagorskaya GAES-2, that guarantee the payback period of 20 years for the total cost of construction for the period. The carrying amount of Zagorskaya GAES-2 property, plant and equipment is RR 61,235 million.

Leased equipment. As at 31 December 2017 the net book value of assets held under finance lease and included in property, plant and equipment was RR 1,372 million (31 December 2016: RR 1,964 million). Assets held under finance lease were mainly represented by plant and equipment.

Operating lease. The Group leases a number of land areas owned by local governments and production buildings under non-cancellable operating lease agreements. Land lease payments are determined by lease agreements. The land areas leased by the Group are the territories on which the Group's hydropower plants and other assets are located. According to the Land Code of the Russian Federation such land areas are limited in their alienability and cannot become private property. The Group's operating leases typically run for an initial period of 5–49 years with an option to renew the lease after that date. Lease payments are reviewed regularly.

The future payments under non-cancellable operating leases in accordance with rates as at the reporting period end are as follows:

	31 December 2017	31 December 2016
Less than one year	2,115	2,175
Between one and five years	7,774	7,404
After five years	32,582	30,524
Total operating lease	**42,471**	**40,103**

Pledged assets. As at 31 December 2017 RR and 31 December 2016 no property, plant and equipment have been pledged as collateral for borrowings.

(in millions of Russian Rubles unless noted otherwise)

Note 8. Investments in associates and joint ventures

The Group's interests in associates and joint ventures and its carrying value were as follows:

	Place of business	% held 31 December 2017	% held 31 December 2016	Carrying value 31 December 2017	Carrying value 31 December 2016
Associates					
OJSC Irkutsk Electronetwork Company (OJSC IENC)	Russia	42.75%	42.75%	7,656	7,528
OJSC Sakhalin Energy Company (OJSC SEC)	Russia	34.62%	36.09%	1,928	1,982
Other				145	193
Total associates				**9,729**	**9,703**
Joint ventures					
BoGES Group	Russia	50.00%	50.00%	8,990	9,230
BALP Group	Russia	50.00%	50.00%	-	-
Other				1,378	1,345
Total joint ventures				**10,368**	**10,575**
Total investments in associates and joint ventures				**20,097**	**20,278**

The amounts in respect of associates and joint ventures recognised in the Income Statement are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Associates		
OJSC IENC	129	(249)
OJSC SEC	(53)	(1,447)
Other	(50)	24
Total associates	**26**	**(1,672)**
Joint ventures		
BoGES Group	357	8,546
BALP Group	-	-
Other	34	(192)
Total joint ventures	**391**	**8,354**
Share of results of associates and joint ventures	**417**	**6,682**

Associates

OJSC Irkutsk Electronetwork Company (OJSC IENC)

OJSC IENC maintains electric power transmission grids with voltage of 220-500 kV and distribution grids with voltage of 0.4-110 kV in the Irkutsk region. The total length of overhead and cable power lines is over 40,000 km. OJSC IENC also maintains and ensures operation of over 10,000 transforming substations of 6-500 kV in voltage and over 28,000 MVA in total capacity. The core activities of OJSC IENC include provision of services in the area of electric power transmission and distribution, technological connection of consumers to power grids and maintenance of power grids' operating capacity. OJSC IENC's controlling shareholder is EN+ Group.

The Group's investment in OJSC IENC is non-core and considered for sale.

OJSC Sakhalin Energy Company (OJSC SEC)

OJSC SEC is a special project developer company involved in construction of a number of new power sector assets in the Sakhalin region to be financed from the federal and regional budgets. OJSC SEC's major project was construction of Power Generating Unit No. 4 (with total capacity of 139 MWt) at Yuzhno-Sakhalinsk Thermal Power Plant-1 (that was put into operation in the fourth quarter of 2013). OJSC SEC also built a number of power supply network facilities. The above units of generation and power supply network are operated by PJSC Sakhalinenergo, the Group's subsidiary, under a lease agreement. Other OJSC SEC's shareholders, in addition to the Group, are the Russian Government represented by the Federal Agency for State Property Management, and the Sakhalin region represented by the Ministry of Land and Property Affairs of the Sakhalin region. As at 31 December 2017 the Group's participatory interest in the equity of OJSC SEC is 34.62 percent (31 December 2016: 36.09 percent).

(in millions of Russian Rubles unless noted otherwise)

The Group's investments in OJSC SEC are of strategic nature and are considered to be used in the project aimed at consolidating key energy assets of the Sakhalin region on the basis of the core vertically integrated entity PJSC Sakhalinenergo.

Summarised financial information for significant associates for the years ended 31 December 2017 and 31 December 2016 and as at 31 December 2017 and 31 December 2016:

	OJSC SEC		OJSC IENC	
As at 31 December	**2017**	**2016**	**2017**	**2016**
Non-current assets	7,058	7,407	22,960	24,169
Current assets	1,540	1,066	1,151	1,151
Non-current liabilities	-	-	(2,580)	(1,814)
Current liabilities	(59)	(543)	(5,835)	(8,111)
Net assets	**8,539**	**7,930**	**15,696**	**15,395**
For the year ended 31 December	**2017**	**2016**	**2017**	**2016**
Revenue	605	535	20,632	18,809
Impairment of property, plant and equipment	-	(4,921)	-	-
Profit / (loss) for the year	**79**	**(4,007)**	**301**	**(583)**
Total comprehensive income / (loss) for the year	**79**	**(4,007)**	**301**	**(583)**

Reconciliation of the summarised financial information presented to the carrying value of interest in associates:

	OJSC SEC	OJSC IENC	Others	Total
Net assets as at 31 December 2015	**11,937**	**15,978**	**611**	**28,526**
(Loss) / profit for the year	(4,007)	(583)	90	(4,500)
Net assets as at 31 December 2016	**7,930**	**15,395**	**701**	**24,026**
Interest in associates	2,861	6,582	193	9,636
Goodwill	-	946	-	946
Additional share issues	(879)	-	-	(879)
Carrying value as at 31 December 2016	**1,982**	**7,528**	**193**	**9,703**
Net assets as at 31 December 2016	**7,930**	**15,395**	**701**	**24,026**
Profit / (loss) for the year	79	301	(202)	178
Additional share issues	530	-	-	530
Net assets as at 31 December 2017	**8,539**	**15,696**	**499**	**24,734**
Interest in associates	2,956	6,710	145	9,811
Goodwill	-	946	-	946
Additional share issues	(1,028)	-	-	(1,028)
Carrying value as at 31 December 2017	**1,928**	**7,656**	**145**	**9,729**

Joint ventures

BoGES Group and BALP Group

Starting from 2006 the Company and RUSAL Group have been jointly implementing the BEMA project based on an agreement for mutual financing, completion and subsequent operation of Boguchanskaya HPP and Boguchansky aluminium plant. Within the BEMA project on parity basis joint ventures BoGES Ltd (Cyprus) and BALP Ltd (Cyprus) were formed, which have controlling interests in PJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant.

BoGES Ltd and PJSC Boguchanskaya HPP together form BoGES Group. BALP Ltd and CJSC Boguchansky Aluminium Plant together form BALP Group.

BoGES Ltd and BALP Ltd provide corporate governance of Boguchanskaya HPP and Boguchansky Aluminium Plant in line with the parity of interests of the investors and are not engaged in other operations.

Starting from November 2012 Boguchanskaya HPP sells electricity and capacity to large consumers and utilities companies. An installed capacity of Boguchanskaya HPP is 2,997 MW, long-term average project production – 17 600 million kWh.

Project capacity of Boguchansky Aluminium Plant is almost 600 thousand tonnes of aluminium per annum. Manufacturing plant complex consists of two series with a capacity of 296 thousand tonnes each. The construction of 1-st series of Boguchansky Aluminium Plant is ongoing. The decision about construction of 2-nd series of the plant is not made by Investors. Boguchansky Aluminium Plant will become the key consumer of energy generated by Boguchanskaya HPP.

(in millions of Russian Rubles unless noted otherwise)

Summarised financial information for significant joint ventures for the years ended 31 December 2017 and 31 December 2016 and as at 31 December 2017 and 31 December 2016:

	BoGES Group		BALP Group	
As at 31 December	**2017**	**2016**	**2017**	**2016**
Non-current assets	65,961	66,472	34,411	27,476
Current assets including:	3,393	3,140	7,796	6,208
Cash and cash equivalents	815	898	1,260	1,141
Non-current liabilities including:	(43,932)	(43,932)	(103,832)	(93,907)
Non-current financial liabilities (excluding trade payables)	(38,147)	(38,021)	(103,827)	(93,907)
Current liabilities including:	(7,459)	(7,236)	(2,258)	(2,172)
Current financial liabilities (excluding trade payables)	(1,110)	(835)	(17)	(16)
Net assets	**17,963**	**18,444**	**(63,883)**	**(62,395)**
For the year ended 31 December	**2017**	**2016**	**2017**	**2016**
Revenue	15,724	16,141	17,081	23,155
Depreciation of property, plant and equipment	(1,855)	(1,192)	(1,191)	(1,717)
Impairment on financing of CJSC Boguchansky Aluminium Plant	(5,180)	(11,000)	-	-
Interest income	134	877	19	-
Interest expense	(2,893)	(3,412)	(6,230)	(7,901)
Foreign exchange differences	(4)	(2)	3,951	14,713
Reversal of property, plant and equipment	-	25,390	-	23,402
(Loss) / profit before income tax	**(400)**	**19,484**	**(1,489)**	**30,564**
Income tax expense	(81)	(3,467)	-	-
(Loss) / profit for the year	**(481)**	**16,017**	**(1,489)**	**30,564**
Total comprehensive (loss) / income for the year	**(481)**	**16,017**	**(1,489)**	**30,564**

Reconciliation of the summarised financial information presented to the carrying value of interest in joint ventures:

	BoGES Group	BALP Group	Others	Total
Net assets as at 31 December 2015	**2,427**	**(92,959)**	**2,485**	**(88,047)**
Profit for the year	16,017	30,564	44	46,625
Net assets as at 31 December 2016	**18,444**	**(62,395)**	**2,529**	**(41,422)**
Interest in joint ventures	9,222	(31,198)	1,146	(20,830)
Non-controlling interest	8	-	-	8
Accumulated losses	-	31,198	199	31,397
Carrying value as at 31 December 2016	**9,230**	**-**	**1,345**	**10,575**
Net assets as at 31 December 2016	**18,444**	**(62,395)**	**2,529**	**(41,422)**
(Loss) / profit for the year	(481)	(1,489)	102	(1,868)
Net assets as at 31 December 2017	**17,963**	**(63,884)**	**2,631**	**(43,290)**
Interest in joint ventures	8,982	(31,942)	1,173	(21,787)
Non-controlling interest	8	-	-	8
Accumulated losses	-	31,942	205	32,147
Carrying value as at 31 December 2017	**8,990**	**-**	**1,378**	**10,368**

The Group has issued guarantees for PJSC Boguchanskaya HPP for the loan facility in favour of the State Corporation Vnesheconombank (Note 29, 34).

(in millions of Russian Rubles unless noted otherwise)

Note 9. Available-for-sale financial assets

	31 December 2017		31 December 2016	
	% of ownership	Fair value	% of ownership	Fair value
PJSC Inter RAO	4.92%	17,219	4.92%	19,495
PJSC Russian Grids	0.23%	462	0.23%	638
PJSC Boguchanskaya HPP	2.89%	461	2.89%	505
PJSC FGC UES	0.13%	269	0.13%	338
Other	-	84	-	205
Total available-for-sale financial assets		**18,495**		**21,181**

The fair values of available-for-sale financial assets were calculated based on quoted market prices; for those which are not publicly traded, fair values were estimated by reference to the discounted cash flows of the investees (Note 32).

Loss arising on available-for-sale financial assets for the year ended 31 December 2017 totalled RR 2,580 million (net of tax), including revaluation of PJSC Inter RAO – RR 2,276 million, was recorded within other comprehensive income (for the year ended 31 December 2016 profit arising on available-for-sale financial assets totaled RR 15,050 million).

For the year ended 31 December 2017, the Group received dividends from PJSC Inter RAO and PJSC Russian Grids in the amount of RR 690 million and recognised them as other operating income (for the year ended 31 December 2016: RR 95 million).

Note 10. Other non-current assets

	31 December 2017	31 December 2016
Long-term promissory notes	39,549	38,931
Discount	(15,662)	(16,415)
Impairment provision	(14,025)	(14,025)
Long-term promissory notes, net	9,862	8,491
Long-term advances to suppliers	5,024	3,173
VAT recoverable	2,957	2,036
Goodwill	481	481
Other non-current assets	7,007	7,666
Total other non-current assets	**25,331**	**21,847**

Other non-current assets in the amount of RR 7,007 million (31 December 2016: RR 7,666 million) mainly include intangible assets, research and development costs and long-term accounts receivable.

	Rating	Rating agency	Effective interest rate	Maturity date	31 December 2017	31 December 2016
Interest-free long-term promissory notes						
PJSC Boguchanskaya HPP	-	-	9.75%	2029	6,880	6,269
PJSC Bank VTB	Ba1	Moody's	9.74–11.82%	2019–2021	1,044	511
PJSC ROSBANK	Ba1	Moody's	10.90–14.58%	2020–2022	1,005	888
JSC Alfa Bank	BB+	Fitch Ratings	11.90–16.35%	2020–2022	860	761
Other					73	62
Total long-term promissory notes					**9,862**	**8,491**

Promissory notes of PJSC Boguchanskaya HPP. As at 31 December 2017 the amortised cost of interest-free long-term promissory notes of PJSC Boguchanskaya HPP (payable not earlier than 31 December 2029 with total nominal value of RR 21,027 million) pledged as collateral to the SC Vnesheconombank amounted to RR 6,880 million (31 December 2016: RR 6,269 million) (Note 8).

(in millions of Russian Rubles unless noted otherwise)

Goodwill of JSC Institute Hydroproject. As at 31 December 2017 and 31 December 2016, the Group tested goodwill related to JSC Institute Hydroproject for its potential impairment. As a result the recoverable amount of JSC Institute Hydroproject as a cash generating asset was higher than the carrying amount - there is no economic impairment.

Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs. In November 2016 the Group completed the transaction to sell dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs to EuroSibEnergo Group. These dams are part of technological complex of EuroSibEnergo's cascade of hydropower plants located on the Angara river.). Profit from the dams' sale in the amount of RR 7 202 million is included in other operating income for the year ended 31 December 2016.

Peresvet Bank. As at 31 December 2017 the other non-current assets included the amortised value of subordinated bonds of Peresvet Bank of RR 254 million. As at 31 December 2016 the other non-current assets included the amortised value of cash and deposits placed with Peresvet Bank of RR 217 million The amortised value of these assets was determined using the discounted cash flows with recognition of income on discounting in the amount of RR 37 million for the year ended 31 December 2017 and impairment of financial assets in the amount of RR 4,464 million for the year ended 31 December 2016.

Note 11. Cash and cash equivalents

	31 December 2017	31 December 2016
Cash equivalents (contractual interest rate: 4.75-8.37%)	59,029	52,594
Cash at bank	11,106	14,738
Cash in hand	21	22
Total cash and cash equivalents	**70,156**	**67,354**

Cash equivalents held as at 31 December 2017 and 31 December 2016 comprised short-term bank deposits with original maturities of three months or less.

Cash and cash equivalents balances denominated in US Dollars as at 31 December 2017 were RR 576 million (31 December 2016: RR 736 million). Cash and cash equivalents balances denominated in Euros as at 31 December 2017 were RR 63 million (31 December 2016: RR 67 million).

Cash and cash equivalents are deposited in several institutions as follows:

	Rating	Rating agency	31 December 2017	31 December 2016
Cash at banks				
PJSC Sberbank	Ba1	Moody's	4,372	4,281
Bank GPB (JSC)	BB+	Fitch Ratings	3,347	7,255
BANK ROSSIYA	ruAA	Эксперт РА	1,888	17
PJSC ROSBANK	Ba1	Moody's	1,011	387
PJSC Bank VTB	Ba1	Moody's	190	2,047
PJSC VTB24	Ba1	Moody's	160	67
CJSC ARDSHINBANK	B+	Fitch Ratings	15	157
PJSC Bank FK Otkritie	-	-	-	169
Other	-	-	123	358
Total cash at banks			**11,106**	**14,738**
Bank deposits				
PJSC Bank VTB	Ba1	Moody's	35,394	23,152
Bank GPB (JSC)	BB+	Fitch Ratings	16,720	13,922
PJSC Sberbank	Ba1	Moody's	6,025	13,283
JSC Rosselkhozbank	BB+	Fitch Ratings	760	838
PJSC VTB24	Ba1	Moody's	127	322
PJSC Promsvyazbank	-	-	-	536
PJSC Bank FK Otkritie	-	-	-	525
Other	-	-	3	16
Total cash equivalents			**59,029**	**52,594**

(in millions of Russian Rubles unless noted otherwise)

Note 12. Accounts receivable and prepayments

	31 December 2017	31 December 2016
Trade receivables	61,279	56,647
Provision for impairment of trade receivables	(26,571)	(23,900)
Trade receivables, net	**34,708**	**32,747**
VAT recoverable	**7,841**	**7,329**
Advances to suppliers and other prepayments	2,944	2,617
Provision for impairment of advances to suppliers and other prepayments	(837)	(629)
Advances to suppliers and other prepayments, net	**2,107**	**1,988**
Other receivables	7,959	6,666
Provision for impairment of other receivables	(4,815)	(3,762)
Other receivables, net	**3,144**	**2,904**
Government grants receivables	3,401	2,108
Total accounts receivable and prepayments	**51,201**	**47,076**

Included in accounts receivable are government subsidies receivable from the constituent budgets of the Far East Federal region including those for compensation of the tariffs reduction under Resolution of the Russian Government No. 895 as at 31 December 2017 (Note 2).

The provision for impairment of accounts receivable has been determined based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows (Note 2). Management believes that the Group's subsidiaries will be able to realise the net receivable amount through direct collections and other non-cash settlements, and the carrying value approximates their fair value.

Movements in the impairment provision for trade and other accounts receivables are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
As at 1 January	27,662	23,352
Charge for the year	7,261	8,541
Reversal of impairment	(1,626)	(1,304)
Trade receivables written-off as uncollectible	(1,902)	(1,678)
Disposal of impairment provision due to disposal of subsidiaries	(9)	(1,249)
As at 31 December	**31,386**	**27,662**

The ageing analysis of trade and other finance accounts receivable is as follows:

	31 December 2017	Provision as at 31 December 2017	31 December 2016	Provision as at 31 December 2016
Not past due	26,802	(1,215)	27,557	(1,652)
Past due for less than 3 months	8,410	(2,112)	5,980	(1,378)
Past due for 3 months to 1 year	10,326	(5,271)	9,343	(5,228)
Past due for more than 1 year	23,213	(22,788)	20,052	(19,404)
Total	**68,751**	**(31,386)**	**62,932**	**(27,662)**

The majority of trade debtors which are neither past due nor impaired could be aggregated in several groups based on similarities in their credit quality: large industrial consumers – participants of the wholesale and retail electricity and capacity market as well as public sector entities and population.

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

(in millions of Russian Rubles unless noted otherwise)

Note 13. Inventories

	31 December 2017	31 December 2016
Fuel	16,162	14,825
Materials and supplies	6,782	6,402
Spare parts	2,466	2,539
Other materials	386	565
Total inventories before provision for impairment	**25,796**	**24,331**
Provision for impairment of inventories	(273)	(294)
Total inventories	**25,523**	**24,037**

There are no inventories pledged as collateral for borrowings as at 31 December 2017 and as at 31 December 2016.

Note 14. Other current assets

	31 December 2017	31 December 2016
Special funds	**3,429**	**3,507**
Deposits	**790**	**4,292**
Restricted cash	**-**	**826**
Loans issued	2,472	2,808
Provision for loans issued	(2,447)	(2,498)
Loans issued, net	**25**	**310**
Other short-term investments	**156**	**162**
Total other current assets	**4,400**	**9,097**

As at 31 December 2017 the balance of special funds in the amount of RR 3,429 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 2016: RR 3,507 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.

Provision for loans issued includes provision on loans issued to ZAO Verkhne-Narynskye HPPs in the amount of RR 2,328 million as at 31 December 2017 (as at 31 December 2016: RR 2,378 million) due to denouncement of agreements between Russian Government and Kyrgyzstan Republic on construction of upper Naryn cascade of hydropower plants.

	Rating	Rating agency	Effective interest rate	31 December 2017	31 December 2016
Deposits					
PJSC Sberbank	Ba1	Moody's	4.94–8.78%	642	4,140
Other	-	-	-	148	152
Total deposits				**790**	**4,292**

Note 15. Equity

	Number of issued and fully paid ordinary shares (Par value of RR 1.00)
As at 31 December 2017	426,288,813,551
As at 31 December 2016	386,255,464,890
As at 31 December 2015	386,255,464,890

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 billion 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.

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 31 December 2017 treasury shares were represented by 3,852,267,925 ordinary shares in the amount of RR 4,613 million (31 December 2016: 18,852,353,167 ordinary shares in the amount of RR 22,578 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.

Voluntary and obligatory offers to purchase shares of JSC RAO ES East. During 2016 the shareholders of JSC RAO ES East that accepted the terms of the voluntary offer, transferred 4,715,738,904 ordinary shares and 346,195,762 preference shares of JSC RAO ES East to LLC Vostok-Finance for a cash consideration of RR 34 million and in exchange for 2,934,258,766 shares of the Company in the amount of RR 3,514 million. Under the obligatory offer to purchase shares, LLC Vostok-Finance repurchased 887,217,472 ordinary shares and 312,687,580 preference shares of JSC RAO ES East for a cash consideration of RR 380 million.

Effect of changes in non-controlling interest of subsidiaries. During 2016 as a result of the voluntary and obligatory offers to purchase shares of JSC RAO ES East as described above, non-controlling interest decreased by RR 6,694 million and retained earnings of the Group increased by RR 4,872 million as a result of the treasury shares disposal, decrease in non-controlling interest and derecognition of the remaining obligation to purchase shares after they were partly purchased for cash.

In October 2017 the Group’s share in subsidiaries JSC SK Agroenergo was sold, as a result non-controlling interest increased by RR 228 million..

During 2016 Group’s subsidiaries LLC Dom-21 century and JSC HRSK went bankrupt, also in December 2016 JSC SO UPS was liquidated. As a result non-controlling interest increased by RR 213 million due to decrease of share in losses of these subsidiaries previously absorbed by shareholders of the Group.

Dividends. 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).

On 27 June 2016 the Company declared dividends for the year ended 31 December 2015 of RR 0.0389 per share in the total amount of RR 15,011 million (RR 14,278 million excluding dividends to subsidiaries).

Declared dividends of the Group’s subsidiaries in favour of non-controlling interest holders amounted to RR 127 million for the year ended 31 December 2017 (for the year ended 31 December 2016: RR 234 million).

(in millions of Russian Rubles unless noted otherwise)

Note 16. Income tax

Income tax expense is as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Current income tax expense	12,985	13,258
Deferred income tax expense	83	2,114
Total income tax expense	**13,068**	**15,372**

The income tax rate applicable to the majority of the Group's entities for the year ended 31 December 2017 is 20 percent (for the year ended 31 December 2016: 20 percent).

A reconciliation between the expected and actual income tax expense is provided below:

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before income tax	**35,519**	**55,123**
Theoretical tax expense at a statutory rate of 20 percent	(7,104)	(11,025)
Tax effect of items which are not deductible or assessable for taxation purposes	(2,344)	(1,827)
Increase in other unrecognised deferred tax assets	(3,227)	(4,003)
Change in unrecognised deferred tax assets in respect of associates and joint ventures	83	1,336
Tax effects of previous periods	(737)	-
Other	261	147
Total income tax expense	**(13,068)**	**(15,372)**

The total amount of deductible temporary differences for which deferred income tax assets have not been recognised by the Group as at 31 December 2017 was RR 97,127 million (31 December 2016: RR 80,055 million). These temporary differences mainly relate to accumulated impairment of property, plant and equipment, assets under construction, changes in the fair value of the non-deliverable forward contract for shares and pension liabilities of several Group's subsidiaries.

Deferred income tax. Differences between IFRS and statutory taxation regulations in the Russian Federation give rise to temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20 percent (for the year ended 31 December 2016: 20 percent).

	31 December 2016	Income tax charge	Charged directly to other comprehensive income	31 December 2017
Deferred income tax assets	**6,640**	**2,761**	**(47)**	**9,354**
Property, plant and equipment	4,697	1,882	-	6,579
Accounts receivable	6,444	(85)	-	6,359
Losses carried forward	980	44	-	1,024
Other	3,177	464	(47)	3,594
Deferred tax offset	*(8,658)*	*456*	-	*(8,202)*
Deferred income tax liabilities	**(39,086)**	**(2,844)**	**235**	**(41,695)**
Property, plant and equipment	(47,210)	(2,306)	261	(49,255)
Accounts receivable	(57)	(58)	-	(115)
Loans and borrowings	(351)	26	-	(325)
Other	(126)	(50)	(26)	(202)
Deferred tax offset	*8,658*	*(456)*	-	*8,202*

(in millions of Russian Rubles unless noted otherwise)

	31 December 2015	Income tax charge	Charged directly to other comprehensive income	Reclassification of discontinued operations and disposal of subsidiaries	31 December 2016
Deferred income tax assets	**5,486**	**1,144**	**53**	**(43)**	**6,640**
Property, plant and equipment	3,516	1,181	-	-	4,697
Accounts receivable	6,509	(57)	-	(8)	6,444
Losses carried forward	1,350	(370)	-	-	980
Other	3,795	(636)	53	(35)	3,177
Deferred tax offset	*(9,684)*	*1,026*	-	-	*(8,658)*
Deferred income tax liabilities	**(37,034)**	**(3,258)**	**1,189**	**17**	**(39,086)**
Property, plant and equipment	(46,041)	(2,398)	1,212	17	(47,210)
Accounts receivable	(59)	2	-	-	(57)
Loans and borrowings	(378)	27	-	-	(351)
Other	(240)	137	(23)	-	(126)
Deferred tax offset	*9,684*	*(1,026)*	-	-	*8,658*

Under the existing Group structure tax losses and current income tax assets of different Group entities may not be offset against current income tax liabilities and taxable profits of other Group entities and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred income tax assets and liabilities are offset only when they relate to the same taxable entity and the entity has legal rights to offset it.

Note 17. Pension benefit obligations

The tables below provide information about the benefit obligations and actuarial assumptions used for the years ended 31 December 2017 and 31 December 2016.

Amounts recognised in the Group's Consolidated Statement of Financial Position among other non-current liabilities (Note 20):

	31 December 2017	31 December 2016
Fair value of plan assets	(1,111)	(1,090)
Present value of defined benefit obligations	9,745	9,894
Net liability	**8,634**	**8,804**

The movements in the defined benefit liability for the years ended 31 December 2017 and 31 December 2016 are presented in the tables below:

	Present value of defined benefit obligations	Fair value of plan assets	Total
At 1 January 2017	**9,894**	**(1,090)**	**8,804**
Current service cost	428	-	428
Interest expense / (income)	788	(89)	699
Past service cost	(167)	-	(167)
Remeasurement effects (for other long-term benefits):			
Actuarial loss - changes in actuarial assumptions	18	-	18
Actuarial loss - experience adjustment	1	-	1
Recognised in profit or loss for the year ended 31 December 2017	**1,068**	**(89)**	**979**
Remeasurements (for post-employment benefits):			
Actuarial gain - change in demographic assumptions	(36)	-	(36)
Actuarial gain - change in financial assumptions	(289)	-	(289)
Actuarial (gain) / loss - experience adjustments	(124)	19	(105)
Recognised other comprehensive income for the year ended 31 December 2017 before income tax charge of RR 86 million	**(449)**	**19**	**(430)**
Employer contributions for funded pension plan	-	(233)	(233)
Benefit payments (Funding NSPF pensions)	(489)	282	(207)
Benefit payments (Non-funded pension plan)	(279)	-	(279)
At 31 December 2017	**9,745**	**(1,111)**	**8,634**

(in millions of Russian Rubles unless noted otherwise)

	Present value of defined benefit obligations	Fair value of plan assets	Total
At 1 January 2016	**9,470**	**(1,084)**	**8,386**
Decrease in liabilities related to LLC ESC Bashkortostan sale (Note 4)	(181)	10	(171)
Change in liabilities as a result of changes in the scope of valuation	17	-	17
Current service cost	403	-	403
Interest expense / (income)	875	(106)	769
Past service cost	(143)	-	(143)
Decrease in liabilities as a result of curtailments	(101)	-	(101)
Remeasurement effects (for other long-term benefits):			
Actuarial gain - changes in actuarial assumptions	(4)	-	(4)
Actuarial gain - experience adjustment	(29)	-	(29)
Recognised in profit or loss for the year ended 31 December 2016	**1,001**	**(106)**	**895**
Remeasurements (for post-employment benefits):			
Actuarial loss - change in demographic assumptions	18	-	18
Actuarial loss - change in financial assumptions	459	-	459
Actuarial (gain) / loss - experience adjustments	(196)	62	(134)
Recognised other comprehensive income for the year ended 31 December 2016 before income tax charge of RR 69 million	**281**	**62**	**343**
Employer contributions for funded pension plan	-	(236)	(236)
Benefit payments (Funding NSPF pensions)	(439)	264	(175)
Benefit payments (Non-funded pension plan)	(255)	-	(255)
At 31 December 2016	**9,894**	**(1,090)**	**8,804**

Principal actuarial assumptions for the Group are as follows:

	31 December 2017	31 December 2016
Nominal discount rate	7.50%	8.20%
Inflation rate	4.00%	5.00%
Wage growth rate	5.50%	6.50%
Staff turnover	Depending on length of service based on statistical data	
Mortality table	Russia-2014*	Russia-2014*

* *Taking into account the pull down adjustment calculated based on statistical data of mortality for employees of the Group of age till 60 years old for years 2012–2017 (31 December 2016: 2012–2016)*

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2016 is presented below:

	Change in assumption	Effect on net liability	Effect on net liability, %
Nominal discount rate	+ 1%	(781)	-8%
	- 1%	921	9%
Inflation rate	+ 1%	491	5%
	- 1%	(429)	-4%
Wage growth rate	+ 1%	461	5%
	- 1%	(389)	-4%
Staff turnover	+ 3%	(960)	-10%
	- 3%	1,418	15%
Mortality Rates	+ 10%	(142)	-1%
	- 10%	154	2%

The Group expects to contribute RR 637 million to the defined benefit plans in 2018.

The weighted average duration of the defined benefit obligation of the Group is 9 years.

(in millions of Russian Rubles unless noted otherwise)

Retirement benefit plan parameters and related risks. The Group has liabilities under retirement benefit plans in Russia. The retirement benefit plan includes benefits of the following types: lump sum payment upon retirement, jubilee benefits paid at certain age or upon completion of a certain number of years of service, financial aid and compensation to cover funeral expenses in the event of an employee's or pensioner's death, financial aid provided to pensioners, pension benefits paid to former employees through the non-state pension fund (hereinafter referred to as the "NPF").

The amount of benefits depends on the period of the employees' service (years of service), salary level over the recent years preceding retirement, predetermined fixed amount or minimum tariff rate of remuneration or salary or a combination of these factors.

As a rule, the above benefits are indexed according to the inflation rate and salary growth for benefits that depend on the salary level, excluding the retirement benefits paid through NPF, which are not indexed for the inflation rate at the time the payment is made (following the retirement of employees, all risks are borne by NPF).

In addition to the inflation risk, all retirement benefit plans of the Group are exposed to mortality and survival risks.

Plan assets held on NPF's accounts are governed in accordance with the local legislation and regulatory practices.

The Group and NPF are severally liable for plans management, including investments decisions and the contribution schedule.

NPF invests the Group's funds in a diversified portfolio. When investing pension savings and placing the pension reserves, NPF is guided by the Russian legislation that provides a strict regulation with respect to the possible list of financial instruments and restricts their utilisation, which also leads to diversification and reduces investment risks.

The Group transfers the obligation to pay lifelong non-state pension benefits to the Group's former employees to NPF and funds these obligations when awarding the pension. Therefore, the Group insures the risks related to payment of non-state pensions (investment risks and survival risks).

Note 18. Current and non-current debt

Non-current debt

	Effective interest rate	Due date	31 December 2017	31 December 2016
PJSC Sberbank	7.99–10.75%	2018–2028	54,790	56,491
Russian bonds (PJSC RusHydro) issued in February 2013	8.50%	2018*	20,650	20,645
Eurobonds (RusHydro Capital Markets DAC), issued in September 2017	8.13%	2022	20,235	-
Russian bonds (PJSC RusHydro) issued in July 2015	11.85%	2018	15,868	15,857
Russian bonds (PJSC RusHydro) issued in April 2016	10.35%	2019	15,357	15,347
Russian bonds (PJSC RusHydro) issued in June 2017	8.20%	2020	10,016	-
UniCredit Bank Austria AG	3.35%	2018–2026	5,113	5,242
PJSC Bank VTB	8.39–9.77%	2018–2019	5,046	29,516
PJSC ROSBANK	8.24–9.72%	2018–2019	4,520	8,136
Bank GPB (JSC)	8.50–9.50%	2018–2027	1,794	6,171
Municipal authority of Kamchatka region	8.57%	2018–2034	1,560	1,561
EBRD	LIBOR 6M+3.45%	2018–2027	1,350	4,791
ASIAN Development bank	LIBOR 6M+3.45%	2018–2026	1,310	1,474
Russian bonds (PJSC RusHydro) issued in April 2015	7.50%	2025**	767	10,222
Russian bonds (PJSC RusHydro) issued in April 2011	9.50%	2021	250	250
Crédit Agricole Corporate and Investment Bank Deutschland	-	-	-	4,920
Other long-term debt	-	-	836	1,776
Finance lease liabilities	-	-	1,586	1,973
Total			**161,048**	**184,372**
Less current portion of non-current			(69,877)	(25,758)
Less current portion of finance lease liabilities			(259)	(568)
Total non-current debt			**90,912**	**158,046**

** The bonds mature in 10 years with a put option to redeem them in 2018.*

*** In October 2017 holders of the bonds issued in April 2015 partly redeemed the bonds under the put option. The rest of the bonds with nominal amount of RR 767 million will mature in 2025 year.*

(in millions of Russian Rubles unless noted otherwise)

Bonds issue. In June 2017 the Group placed non-convertible interest bearing market bonds of series BO-P05 with a nominal amount of RR 10,000 million. The term of the bonds is 3 years, the coupon rate is 8.2 percent per annum.

Eurobond issue. In September 2017 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 5 years, the coupon rate is 8.125 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

	Effective interest rate	31 December 2017	31 December 2016
PJSC Sberbank	7.75–10%	5,428	5,854
PJSC ROSBANK	8.21–8.51%	930	4,755
LLC AlstomRusHydroEnergy	-*	750	750
Bank GPB (JSC)	8.50–10.19%	334	3,031
Current portion of non-current debt	-	69,877	25,758
Current portion of finance lease liabilities	-	259	568
Other current debt	-	1,035	1,041
Total current debt and current portion of non-current debt		**78,613**	**41,757**
Reference:			
Interest payable		3,012	3,044

** The loan received from a related party, the joint venture of the Group (Note 6), the interest rate on this loan - 0.00 percent per annum.*

Compliance with covenants. The Group is subject to certain covenants related primarily to its debt. As at 31 December 2017 and 31 December 2016 and during the reporting period the Group met all required covenant clauses of the credit agreements.

Finance lease liabilities. Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments as at 31 December 2017	**275**	**797**	**4,154**	**5,226**
Less future finance charges	(16)	(316)	(3,308)	(3,640)
Present value of minimum lease payments as at 31 December 2017	**259**	**481**	**846**	**1,586**
Minimum lease payments as at 31 December 2016	**601**	**855**	**4,287**	**5,743**
Less future finance charges	(33)	(373)	(3,364)	(3,770)
Present value of minimum lease payments as at 31 December 2016	**568**	**482**	**923**	**1,973**

Reconciliation of liabilities from financing activities. The table below sets out an analysis of movements in the Group's liabilities from financing activities for the year ended 31 December 2017:

	Current and non-current debt	Non-deliverable forward contract for shares	Finance lease liabilities	Total
Liabilities from financing activities as at 31 December 2016	**197,830**	**-**	**1,973**	**199,803**
Cash flows	(46,498)	(3,243)	(523)	(50,264)
Interest accrued	15,405	-	221	15,626
Recognition and change in fair value of non-deliverable forward contract for shares	-	23,959	-	23,959
Other changes	1,202	-	(85)	1,117
Liabilities from financing activities as at 31 December 2017	**167,939**	**20,716**	**1,586**	**190,241**

(in millions of Russian Rubles unless noted otherwise)

Note 19. Non-deliverable forward contract for shares

In March 2017 the Company entered into a non-deliverable forward transaction for 55 billion shares with PJSC Bank VTB for 5 years.

According to the forward contract, the forward value is determined as the purchase consideration paid by the Bank for the shares plus the amount of quarterly payments made by the Company to the Bank. The amounts of these interim payments are determined using a certain formula that *inter alia* reduces the payments by the amounts equivalent to the dividends received by the Bank over the period of the forward contract.

The Bank is assumed to sell the Company's shares at the time of final settlement under the forward contract. The difference between the proceeds that the Bank will receive from the sale of these shares, and their forward value is subject to cash settlement between the Company and the Bank. Thus, if the forward value is higher than the consideration received for the shares by the Bank, the Company will reimburse the difference to the Bank and, vice versa, if the proceeds from the sale of shares exceed the forward value, the difference will be paid by the Bank to the Company. If, for any reason, the shares will not be sold by the Bank, they will continue to be held by the Bank. If this is the case, the amount of additional payment to be made when closing the forward transaction is calculated based on the quoted market price of the Company's shares.

Thus, the payments will be made upon expiry of the forward contract or earlier, if the Bank sells the shares held. The payment can be made both by the Company to the Bank or by the Bank to the Company, depending on the level of the market value of the Company's shares at the time of sale / expiry of the transaction term and their forward value.

Note 2 describes the key estimates and judgements made by the Group management in respect of recognition and recording of this derivative financial instrument.

At 31 December 2017, the liability under the forward contract is recorded as a long-term derivative financial instrument at fair value through profit or loss in the amount of RR 20,716 million. The fair value of the forward contract at the initial recognition of the instrument was RR 10,013 million and it was recorded within equity as the result of a shareholder transaction. Deferred tax asset was not recognised based on management's probability estimate of its recoverability. Subsequent changes in the fair value of the non-deliverable forward contract is recorded within profit or loss.

A reconciliation of movements in the fair value of forward contract for the year ended 31 December 2017 is as follows:

	The fair value of the forward contract
As at the initial recognition date (as at 03 March 2017)	**10,013**
Increase in the fair value of the non-deliverable forward contract (Note 26)	13,946
Interim payments	(3,243)
As at 31 December 2017	**20,716**

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 31 December 2017**	**At the instrument's initial recognition date (as at 03 March 2017)**
Expected term of the forward transaction	4.17 years	5 years
Market value of the share	RR 0.7264	RR 0.9752
CB RF key refinancing rate	7.75 percent	10.00 percent
Volatility of shares	34.85 percent	35.25 percent
Risk-free rate	7.01 percent	8.39 percent
Discount rate	7.84 percent	12.11 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 32.

(in millions of Russian Rubles unless noted otherwise)

Note 20. Other non-current liabilities

	31 December 2017	31 December 2016
Non-current advances received	10,766	4,176
Other non-current liabilities	8,716	5,746
Pension benefit obligations (Note 17)	8,634	8,804
Total other non-current liabilities	**28,116**	**18,726**

Note 21. Accounts payable and accruals

	31 December 2017	31 December 2016
Trade payables	30,949	31,451
Advances received	11,664	9,712
Settlements with personnel	8,880	8,245
Accounts payable under factoring agreements	258	2,957
Dividends payable	159	136
Other accounts payable	3,714	6,283
Total accounts payable and accruals	**55,624**	**58,784**

All accounts payable and accruals are denominated in Russian Rubles.

Note 22. Other taxes payable

	31 December 2017	31 December 2016
VAT	10,236	9,833
Insurance contributions	3,160	2,925
Property tax	2,038	1,941
Other taxes	600	558
Total other taxes payable	**16,034**	**15,257**

Note 23. Revenue

	Year ended 31 December 2017	Year ended 31 December 2016
Sales of electricity	241,409	272,582
Sales of capacity	40,881	37,068
Sales of heat and hot water	38,907	38,849
Other revenue	26,922	25,573
Total revenue	**348,119**	**374,072**

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

Note 24. 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 year ended 31 December 2017, the Group received government subsidies of RR 32,745 million (for the year ended 31 December 2016: RR 17,250 million). The subsidies were received in the following territories: Kamchatsky territory, Sakha Republic (Yakutia), Magadan Region, Chukotka Autonomous Area and other Far East regions.

The total amount of 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" (Note 2), for the year ended 31 December 2017 amounted to RR 17,254 million.

(in millions of Russian Rubles unless noted otherwise)

Note 25. Operating expenses (excluding impairment losses)

	Year ended 31 December 2017	Year ended 31 December 2016
Employee benefit expenses (including payroll taxes and pension benefit expenses)	74,390	71,768
Fuel expenses	58,098	54,561
Electricity distribution expenses	43,482	46,722
Purchased electricity and capacity	40,747	57,610
Depreciation of property, plant and equipment and amortisation of intangible assets	25,023	24,130
Taxes other than on income	10,681	10,233
Other materials	10,170	9,115
Third parties services, including:		
Repairs and maintenance	4,634	4,507
Provision of functioning of electricity and capacity market	3,639	3,642
Purchase and transportation of heat power	3,513	3,442
Security expenses	3,391	3,369
Consulting, legal and information expenses	2,222	1,911
Rent	2,081	2,155
Services of subcontracting companies	1,982	2,465
Insurance cost	1,940	1,983
Transportation expenses	1,185	1,213
Other third parties services	8,051	8,052
Water usage expenses	3,370	3,202
Social charges	1,098	1,319
Travel expenses	843	804
Purchase of oil products for sale	642	1,065
Loss on disposal of property, plant and equipment, net	1,006	555
Other expenses	1,617	1,882
Total operating expenses (excluding impairment losses)	**303,805**	**315,705**

Note 26. Finance income, costs

	Year ended 31 December 2017	Year ended 31 December 2016
Finance income		
Interest income	7,150	6,779
Foreign exchange gain	599	2,782
Income on discounting	389	118
Other income	305	264
Total finance income	**8,443**	**9,943**
Finance costs		
Change of fair value of non-deliverable forward contract for shares (Note 19)	(13,946)	-
Interest expense	(4,019)	(6,813)
Foreign exchange loss	(1,218)	(454)
Expense on discounting	(363)	(407)
Finance lease expense	(221)	(295)
Other costs	(1,366)	(1,072)
Total finance costs	**(21,133)**	**(9,041)**

(in millions of Russian Rubles unless noted otherwise)

Note 27. Earnings per share

	Year ended 31 December 2017	Year ended 31 December 2016
Weighted average number of ordinary shares issued (thousands of shares)	402,655,108	367,138,482
Profit for the period attributable to the shareholders of PJSC RusHydro	24,013	40,205
Earnings per share attributable to the shareholders of PJSC RusHydro – basic and diluted (in Russian Rubles per share)	**0.0596**	**0.1095**

Note 28. Capital commitments

In accordance with investment programme of the Company and separate investment programmes of the subsidiaries, the Group has to invest RR 209,820 million in the period 2018-2020 for reconstruction of the existing and construction of new power plants, including RR 106,676 million for 2018, RR 60,059 million for 2019, RR 43,085 for 2020 (31 December 2016: RR 243,975 million for the period 2017-2019).

Future capital expenditures are mainly related to reconstruction of equipment of power plants: Volzhskaya HPP in the amount of RR 9,965 million, Saratovskaya HPP in the amount of RR 8,681 million, Votkinskaya HPP in the amount of RR 8,643 million; and to construction of power plants: Zaramagskie HPP in the amount of RR 17,223 million, Sakhalin GRES-2 in the amount of RR 13,824 million, Ust'-Srednekanskaya HPP in the amount of RR 6,954 million, Nizhne-Bureiskaya HPP in the amount of RR 6,642 million.

Note 29. 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.

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

Legal proceedings. The Group'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 year ended 31 December 2017, 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. 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 31 December 2017, 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 in 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 continually being reconsidered. The Group's subsidiaries periodically evaluate their obligations under environmental regulations. Group accrued assets retirement obligation for ash damps used by the Group which is included in other non-current liabilities and other accounts payable and comprised RR 1 348 million as at 31 December 2017 (31 December 2016: RR 1 048 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. The Group has issued guarantees for CJSC Boguchansky Aluminium Plant in favour of its suppliers for future equipment deliveries and for PJSC Boguchanskaya HPP in favour of the State Corporation Vnesheconombank for the loan facility:

Counterparty	**31 December 2017**	**31 December 2016**
for PJSC Boguchanskaya HPP:		
State Corporation Vnesheconombank	25,935	26,749
for CJSC Boguchansky Aluminium Plant:		
ALSTOM Grid SAS	-	31
Total guarantees issued	**25,935**	**26,780**

On February 2018 the guarantee was terminated (Note 34).

Note 30. Financial risk management

The risk management function within the Group is carried out in respect of financial and operational risks. Financial risk comprise market risk (including currency risk, interest rate risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to provide reasonable assurance for achievement of the Group's objectives by establishing Group's overall framework, identifying, analyzing and evaluating risks, establishing risk limits, and then ensuring that exposure to risks stays within these limits and in case of exceeding these limits to impact on the risks.

In order to optimise the Group's exposure to risks, the Company constantly works on their identification, assessment and monitoring, as well as the development and implementation of activities which impact on the risks, business continuity management and insurance, seeks to comply with international and national standards of advanced risk management (COSO ERM 2004, ISO 31000 and others), increases the culture of risk management and continuously improves risk management.

Credit risk. Credit risk is the risk of financial loss for the Group in the case of non-fulfillment by the Contractor of the obligations on the financial instrument under the proper contract. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the Note 32.

(in millions of Russian Rubles unless noted otherwise)

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

There is no independent rating for the Group's customers and therefore the Group considers the credit quality of customers at the contract execution stage. The Group considers their financial position and credit history. The Group monitors the existing receivables on a continuous basis and takes actions regularly to ensure collection or to minimise losses.

To reduce the credit risk in the wholesale electricity and capacity markets the Group has introduced marketing policy and procedure to calculate internal ratings of counterparties in the unregulated market, based on the frequency of default, and to establish limits based on the rating of the customers' portfolio.

The Group management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide past due accounts receivable and other information about credit risk as disclosed in Note 12.

Cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. Management of the Group approved the list of banks for deposits, as well as rules for their placement. Moreover, management constantly evaluates the financial condition, ratings assigned by independent agencies, background and other factors of such banks.

The tables in Notes 10, 11 and 14 show deposits with banks and other financial institutions and their ratings at the end of the reporting period.

Credit risk for financial guarantees is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for other financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The Group's maximum exposure to credit risk for financial guarantees was RR 25,935 million as at 31 December 2017 (31 December 2016: RR 26,780 million) (Note 29).

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (i) foreign currencies, (ii) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated.

Currency risk. Electricity and capacity produced by the Group is sold on the domestic market of the Russian Federation at the prices fixed in Russian Rubles. Hence, the Group does not have significant foreign currency exchange risk. The financial condition of the Group, its liquidity, financing sources and the results of operations do not considerably depend on currency rates as the Group operations are planned to be performed in such a way that its assets and liabilities are to be denominated in the national currency.

The table below summarises the Group's monetary financial assets and liabilities exposed to foreign currency exchange rate risk:

	31 December 2017			31 December 2016		
	Monetary financial assets	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
USD	663	(2,748)	(2,085)	840	(3,088)	(2,248)
EUR	63	(5,482)	(5,419)	67	(10,477)	(10,410)
Other	8	-	8	31	-	31
Total	**734**	**(8,230)**	**(7,496)**	**938**	**(13,565)**	**(12,627)**

The above analysis includes only monetary assets and liabilities. Equity investments and non-monetary assets are not considered to give rise to any material currency risk.

There is no significant effect of the changes of foreign currency rates on the Group's financial position.

Interest rate risk. The Group's operating profits and cash flows from operating activities are not dependent largely on the changes in the market interest rates. Borrowings issued at variable rates (Note 18) slightly expose the Group to cash flow interest rate risk.

(in millions of Russian Rubles unless noted otherwise)

As at 31 December 2017 the Group has debt financing with floating rates, which are established on the basis of the Libor rates (31 December 2017: debt financing with floating rates, which are established on the basis of the Libor, Euribor, MOSPRIME rates).

If as at 31 December 2017 and 31 December 2016 had interest rates at that date been 2 percent higher with all other variables held constant profit for the year ended 31 December 2017 and the amount of capital that the Group managed as at 31 December 2017 would have been RR 58 million (31 December 2016: RR 327 million) lower mainly as a result of higher interest expense.

The Group monitors interest rates for its financial instruments. Effective interest rates are disclosed in Note 18.

For the purpose of interest risk reduction the Group makes the following arrangements:

- credit market monitoring to identify favourable credit conditions,
- diversification of credit portfolio by raising of borrowings with fixed rates and, if necessary, floating rates.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities and the availability of funding from an adequate amount of committed credit facilities. The Group adheres to the balanced model of financing of working capital – both at the expense of short-term sources and long-term sources. Temporarily free funds are placed into short-term financial instruments, mainly bank deposits and short-term bank promissory notes. Current liabilities are represented mainly by the accounts payable to suppliers and contractors.

The Group has implemented a control system under its contract conclusion process by introducing and applying typical financial arrangements which include standardised payment structure, payment deadlines, percentage ratio between advance and final settlement, etc. In such a manner the Group controls capital maturity.

The table below shows liabilities as at 31 December 2017 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges). Such undiscounted cash flows differ from the amount included in the Consolidated Statement of Financial Position because this amount is based on the discounted cash flows.

The maturity analysis of financial liabilities as at 31 December 2017 is as follows:

	2018 year	2019 year	2020 year	2021 year	2022 year	Starting from year 2023
Liabilities						
Current and non-current debt	85,762	36,103	34,882	3,234	22,555	9,407
Trade payables (Note 21)	30,949	-	-	-	-	-
Accounts payable under factoring agreements (Note 21)	258	-	-	-	-	-
Financial guarantees (Note 29)	747	977	1,230	1,489	1,737	19,755
Obligation to JSC RAO ES East shares purchase	3	-	-	-	-	-
Dividends payable (Note 21)	159	-	-	-	-	-
Non-deliverable forward contract for shares	2,874	2,795	2,362	1,615	10,516	-
Finance lease liabilities (Note 18)	275	199	199	199	199	4,154
Total future payments, including principal and interest payments	**121,027**	**40,074**	**38,673**	**6,537**	**35,008**	**33,316**

During 2018 the maturity date for loans and borrowings totaling RR 85,762 million (Note 18). The Group's management plans to repay these borrowings both from the Group's own funds and through new financing. The group has a positive credit history, works with large credit institutions, including those controlled by the state, and also has access to public borrowings in the capital market

(in millions of Russian Rubles unless noted otherwise)

The maturity analysis of financial liabilities as at 31 December 2016 is as follows:

	2017 year	2018 year	2019 year	2020 year	2021 year	Starting from year 2022
Liabilities						
Current and non-current debt	55,373	102,732	28,490	24,992	3,600	20,210
Trade payables (Note 21)	31,451	-	-	-	-	-
Accounts payable under factoring agreements (Note 21)	2,957	-	-	-	-	-
Obligation to JSC RAO ES East shares purchase	3	-	-	-	-	-
Financial guarantees (Note 29)	800	1,008	1,269	1,536	1,791	20,376
Dividends payable (Note 21)	136	-	-	-	-	-
Finance lease liabilities (Note 18)	601	267	196	196	196	4,287
Net settled derivatives	9	8	5	2	-	-
Total future payments, including principal and interest payments	**91,330**	**104,015**	**29,960**	**26,726**	**5,587**	**44,873**

Note 31. Management of capital

Compliance with Russian legislation requirements and capital cost reduction are key objectives of the Group's capital risk management.

As at 31 December 2017 and 31 December 2016 the Company was in compliance with the share capital requirements as established under legislation.

The Group's objectives in respect of capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The amount of capital that the Group managed as at 31 December 2017 was RR 695,564 million (31 December 2016: RR 650,932million).

Consistent with others in the energy industry, the Group monitors the gearing ratio, that is calculated as the total debt divided by the total capital. Debt is calculated as a sum of non-current and current debt, as shown in the Consolidated Statement of Financial Position. Total capital is equal to the total equity, as shown in the Consolidated Statement of Financial Position. The gearing ratio was 0.24 as at 31 December 2017 (31 December 2016: 0.31).

Note 32. Fair value of assets and liabilities

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

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 level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

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**

(in millions of Russian Rubles unless noted otherwise)

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	20,619	-	562	**21,181**
Non-financial assets				
Property, plant and equipment (except for construction in progress, office buildings and land)	-	-	496,637	**496,637**
Total assets recurring fair value measurements	**20,619**	**-**	**497,199**	**517,818**

There were no changes in the valuation techniques, inputs and assumptions for recurring fair value measurements during the year ended 31 December 2017.

Fair value of available-for-sale financial assets mainly consists of the market value of PJSC Inter RAO shares. Profit or loss arising on available-for-sale financial assets recorded within other comprehensive income was mainly affected by the change in market quotes of this company's shares (Note 9).

At 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 19).

The valuation of the Level 3 financial liability and the related sensitivity to reasonably possible changes in unobservable inputs are as follows at 31 December 2017:

	Fair value	Valuation technique	Significant unobservable inputs	Reasonable change	Sensitivity of fair value measurement
Non-financial assets					
Property, plant and equipment (except for construction in progress, office buildings and land)	527,363	Discounted cash flows	Electricity and capacity prices	-10%	(30,405)
			Discount rate	+1%	(21,734)
			Capital expenditures	+10%	(15,549)

The above tables discloses sensitivity to valuation inputs for property, plant and equipment as changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly.

The valuation of the Level 3 financial liability and the related sensitivity to reasonably possible changes in unobservable inputs are as follows at 31 December 2017:

	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	20,716	Monte-Carlo model	Dividend yield	-2%	3.10 percent	(472)
				+2%	7.10 percent	618
			Market value of the share	-20%	RR 0.5811	7,502
				+20%	RR 0.8717	(7,504)

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 0.7264 as at 31 December 2017 (Note 19).

(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 (Level 1 of the fair value hierarchy), 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.

(in millions of Russian Rubles unless noted otherwise)

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 31 December 2017 fair value of bonds exceeded their carrying value by RR 1,073 million. As at 31 December 2016 fair value of bonds exceeded their carrying value by RR 92 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. As at 31 December 2016 the carrying value of non-current fixed rate debt was RR 103,817 million and exceeded their fair value by RR 4,705 million.

Note 33. Presentation of financial instruments by measurement category

The following table provides a reconciliation of classes of financial assets with the measurement categories of IAS 39 Financial instruments: Recognition and Measurement and information about the rest of special funds on the accounts of the Federal Treasury as at 31 December 2017 and 31 December 2016:

As at 31 December 2017	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 10)	**10,392**	**-**	**10,392**
Promissory notes	9,860	-	9,860
Long-term loans issued	532	-	532
Available-for-sale financial assets	**-**	**18,495**	**18,495**
Trade and other receivables (Note 12)	**37,369**	**-**	**37,369**
Trade receivables	34,707	-	34,707
Other financial receivables	2,662	-	2,662
Other current assets (Note 14)	**4,244**	**-**	**4,244**
Special funds	3,429	-	3,429
Deposits	790	-	790
Short-term loans issued	25	-	25
Cash and cash equivalents (Note 11)	**70,156**	**-**	**70,156**
Total financial assets	**122,161**	**18,495**	**140,656**
Non-financial assets	**-**	**-**	**887,595**
Total assets	**-**	**-**	**1,028,251**

As at 31 December 2016	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 10)	**8,838**	**-**	**8,838**
Promissory notes	8,491	-	8,491
Long-term loans issued	332	-	332
Net settled derivatives	15	-	15
Available-for-sale financial assets	**-**	**21,181**	**21,181**
Trade and other receivables (Note 12)	**35,268**	**-**	**35,268**
Trade receivables	32,747	-	37,747
Other financial receivables	2,521	-	2,521
Other current assets (Note 14)	**8,118**	**-**	**8,118**
Special funds	3,507	-	3,507
Deposits and promissory notes	4,292	-	4,292
Short-term loans issued	310	-	310
Net settled derivatives	9	-	9
Cash and cash equivalents (Note 11)	**67,354**	**-**	**67,354**
Total financial assets	**119,578**	**21,181**	**140,759**
Non-financial assets	**-**	**-**	**842,687**
Total assets	**-**	**-**	**983,446**

As at 31 December 2017 financial liabilities of the Group valued at fair value are represented by the non-deliverable forward contract for shares in the amount of RR 20,716 million (Note 19) (31 December 2016: there were no liabilities represented by a non-deliverable forward).

All other financial liabilities of the Group are carried at amortised cost and are represented mainly by the current and non-current debt (Note 18), trade payables, accounts payable under factoring agreements and other accounts payable (Note 21).

Note 34. Subsequent events

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.

Termination of 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 (Note 29).