



**OGK-2 GROUP
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS (IFRS)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Translation from the Russian original

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Translation from the Russian original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC "OGK-2"

Opinion

We have audited the consolidated financial statements of JSC "OGK-2" (the Company) (OGRN 1052600002180, Bld. 1, Letter A, 66 Peterburgskoe Shosse, St. Peterburg, 196140) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements for the year ended 31 December 2018, which comprise a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Estimation of allowance for doubtful debts

We paid special attention for determining the allowance for doubtful debts because of the complex appraisal process and management requirements for making significant assumptions.

Our audit procedures for management estimates in respect of accounts receivable impairment have included:

- review of application the “expected credit losses” model in relation to Group accounts receivable;
- review of aggregation the trade receivables based on the general credit risk characteristics, type of debt and terms of delay;
- review of calculation the expected rates of losses for accounts receivables based on historical data.

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

Assessment of impairment of property, plant and equipment

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

Our audit procedures included, but not be limited to, the involvement of an valuation expert to assist us in assessing the assumptions and methodology used by the Group. We also focused our audit procedures on the analyzing the assumptions applied by the Group in analyzing the cash flows to which the results of the impairment test are the most sensitive and have the most significant effect on the determination of the recoverable amount of property, plant and equipment.

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

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

Translation from the Russian original

Other Information

Managing Director of the Company (management) is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

Translation from the Russian original

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

The translation is true and correct.

Signed by:

The engagement partner on the audit resulting
in this independent auditor's report is



A.B. Baliakin

Audit company:

BDO Unicon Aktsionernoe Obshchestvo

Main State Registration Number: 1037739271701

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Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association)

Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: 11603059593

6 March 2019

OGK-2 Group
Consolidated Statement of Financial Position as at 31 December 2018
(in thousands of Russian Roubles unless noted otherwise)



	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	176,494,377	184,267,282
Intangible assets	7	615,685	718,174
Deferred income tax assets	14	353,948	357,168
Other non-current assets	8	975,615	908,728
Total non-current assets		178,439,625	186,251,352
Current assets			
Cash and cash equivalents	9	6,577,568	5,140,926
Trade and other receivables	10	13,354,095	13,472,830
Inventories	11	12,004,239	11,129,570
Income tax prepayments		5,893	65,106
Other current assets	12	3,000,000	-
Total current assets		34,941,795	29,808,432
TOTAL ASSETS		213,381,420	216,059,784
EQUITY AND LIABILITIES			
Equity			
Share capital	13		
Ordinary shares		40,057,009	40,057,009
Treasury shares		(3,706,973)	(3,821,383)
Share premium		28,378,693	28,378,693
Retained earnings and other reserves		62,586,843	56,398,279
Equity attributable to the shareholders of JSC "OGK-2"		127,315,572	121,012,598
Total equity		127,315,572	121,012,598
Non-current liabilities			
Deferred income tax liabilities	14	12,987,413	12,192,821
Non-current debt	15	38,460,157	57,891,843
Retirement benefit obligations	16	1,599,543	1,820,404
Restoration provision	17	959,157	1,075,463
Other long-term liabilities	18	4,874,049	561,975
Total non-current liabilities		58,880,319	73,542,506
Current liabilities			
Current debt and current portion of non-current debt	19	8,611,170	1,443,237
Trade and other payables	20	15,467,251	18,404,720
Other taxes payable	21	2,907,214	1,577,399
Restoration provision	17	72,280	79,324
Income tax payable		127,614	-
Total current liabilities		27,185,529	21,504,680
Total liabilities		86,065,848	95,047,186
TOTAL EQUITY AND LIABILITIES		213,381,420	216,059,784

Managing Director

Chief Accountant



[Handwritten signature]

A.V. Semikolenov

L.V. Klishch

6 March 2019

The consolidated statement financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 52

OGK-2 Group
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2018
(in thousands of Russian Roubles unless noted otherwise)



	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Revenues	22	143,227,002	141,307,552
Operating expenses	23	(127,505,233)	(122,213,244)
Impairment loss on financial assets		(1,755,758)	(3,597,008)
Operating profit		13,966,011	15,497,300
Finance income	24	694,635	592,987
Finance costs	25	(4,268,260)	(5,942,573)
Profit before income tax		10,392,386	10,147,714
Income tax charge	14	(2,087,561)	(2,946,853)
Profit for the year		8,304,825	7,200,861
Other comprehensive income / (loss):			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurements of retirement benefit obligation, net of tax	14,16	130,536	(145,879)
Total comprehensive income for the year		8,435,361	7,054,982
Profit for the year attributable to:			
Shareholders of JSC "OGK-2"		8,304,825	7,200,861
		8,304,825	7,200,861
Total comprehensive income for the year attributable to:			
Shareholders of JSC "OGK-2"		8,435,361	7,054,982
		8,435,361	7,054,982
Earnings per ordinary share attributable to the shareholders of JSC "OGK-2" – basic and diluted (in Russian Roubles)			
	26	0.08	0.07

Managing Director

Chief Accountant



A.V. Semikolenov

L.V. Klishch

6 March 2019

OGK-2 Group
Consolidated Statement of Cash Flows for the year ended 31 December 2018
(In thousands of Russian Roubles unless noted otherwise)



	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		10,392,386	10,147,714
Adjustments to reconcile profit before income tax:			
Depreciation and amortisation of property, plant, equipment and intangible assets	23	12,970,321	11,265,422
Charge / (reversal) of property, plant and equipment impairment	6, 23	3,976,534	(851,829)
Impairment loss on financial assets		1,755,758	3,597,008
(Reversal) / charge of provision for inventory obsolescence	23	(23,992)	204,028
Finance income	24	(694,635)	(592,987)
Finance costs	25	4,268,260	5,942,573
Non-state pensions and other long-term benefits	23	(86,302)	(500,909)
Loss on disposal of assets, net	23	1,071,632	963,742
Other non-cash items		(743,940)	35,377
Operating cash flows before working capital changes and income tax paid		32,886,022	30,210,139
Working capital changes:			
Increase in trade and other receivables		(2,280,398)	(2,561,577)
Increase in inventories		(658,675)	(1,399,235)
Increase in trade and other payables		801,370	409,431
Increase / (decrease) in taxes payable, other than income tax		1,329,815	(654,910)
Decrease in retirement benefit obligations		(129,434)	(94,044)
Income tax paid		(1,008,371)	(1,169,193)
Net cash generated from operating activities		30,940,329	24,740,611
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(8,885,026)	(10,081,417)
Proceeds from sale of property, plant and equipment		46,387	19,899
Purchase of intangible assets		(160,710)	(157,783)
Increase in deposits		(3,000,000)	-
Proceeds from loans issued		78,200	-
Interest received		464,648	431,792
Net cash used in investing activities		(11,456,501)	(9,787,509)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings	19	8,300,000	-
Proceeds from long-term borrowings	15	14,110,000	45,710,000
Repayment of short-term borrowings	19	(1,061,907)	(32,100,000)
Repayment of long-term borrowings	15	(33,526,899)	(21,369,500)
Interest paid	19	(4,258,592)	(5,688,980)
Payments under finance lease	19	(11,651)	(5,235)
Dividend paid to shareholders of JSC "OGK-2"		(1,722,189)	(869,438)
Net cash used in financing activities		(18,169,238)	(14,323,153)
Net increase in cash and cash equivalents		1,314,590	629,949
Effect of exchange rate changes on cash and cash equivalents		122,052	(27,707)
Cash and cash equivalents at the beginning of the year	9	5,140,926	4,538,684
Cash and cash equivalents at the end of the year	9	6,577,568	5,140,926

Managing Director

Chief Accountant



A.V. Semikolenov

L.V. Klishch

6 March 2019

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 52

OGK-2 Group
Consolidated Statement of Changes in Equity for the year ended 31 December 2018
(In thousands of Russian Roubles unless noted otherwise)



	Share capital	Treasury shares	Share premium	Retained earnings and other reserves	Equity attributable to the shareholders of JSC "OGK-2"	Total equity
At 1 January 2017	40,057,009	(3,961,865)	28,378,693	50,317,063	114,790,900	114,790,900
Profit for the year	-	-	-	7,200,861	7,200,861	7,200,861
Remeasurements of retirement benefit obligations, net of tax	-	-	-	(145,879)	(145,879)	(145,879)
<i>Total comprehensive income for the year</i>	-	-	-	<i>7,054,982</i>	<i>7,054,982</i>	<i>7,054,982</i>
Dividends (Note 13)	-	-	-	(874,173)	(874,173)	(874,173)
Payment of remuneration (Note 13)	-	134,904	-	(99,593)	35,311	35,311
Other transactions	-	5,578	-	-	5,578	5,578
At 31 December 2017	40,057,009	(3,821,383)	28,378,693	56,398,279	121,012,598	121,012,598
The effect of applying new standards (Note 3)	-	-	-	(430,269)	(430,269)	(430,269)
At 1 January 2018	40,057,009	(3,821,383)	28,378,693	55,968,010	120,582,329	120,582,329
Profit for the year	-	-	-	8,304,825	8,304,825	8,304,825
Remeasurements of retirement benefit obligations, net of tax	-	-	-	130,536	130,536	130,536
<i>Total comprehensive income for the year</i>	-	-	-	<i>8,435,361</i>	<i>8,435,361</i>	<i>8,435,361</i>
Dividends (Note 13)	-	-	-	(1,729,820)	(1,729,820)	(1,729,820)
Restoration of unclaimed dividends	-	-	-	3,192	3,192	3,192
Payment of remuneration (Note 13)	-	114,410	-	(89,900)	24,510	24,510
At 31 December 2018	40,057,009	(3,706,973)	28,378,693	62,586,843	127,315,572	127,315,572

Managing Director

Chief Accountant



A.V. Semikolenov

L.V. Klishch

6 March 2019

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 52



Note 1. The Group and its operations

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

The primary activities of the Company are generation and sale of electric and heat power. The Company consists of the following power stations (plants): Troitskaya GRES, Stavropolskaya GRES, Pskovskaya GRES, Serovskaya GRES, Surgutskaya GRES-1, Kirishskaya GRES, Ryazanskaya GRES, Novochercasskaya GRES, Krasnoyarskaya GRES-2, Cherepovetskaya GRES, Groznenskaya TES, Adlerskaya TES.

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

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

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

	Ownership interest (%)	
	31 December 2018	31 December 2017
LLC "OGK-2 Finance"	100%	100%
LLC "Centr 112"	100%	100%
LLC "OGK-Investproekt"	100%	100%

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 28). During 2018 the Russian economy continued to be negatively impacted by international sanctions against certain Russian companies and individuals.

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

Relations with the state and current regulation. JSC "OGK-2" is part of the GAZPROM Group (www.gazprom.ru), which includes PJSC "GAZPROM" and its subsidiaries. PJSC "Centerenergyholding" owns 73.42% of the shares of JSC "OGK-2" as at 31 December 2018 (as at 31 December 2017: 73.42%).

GAZPROM Group, in its turn, is controlled by the Russian Federation, therefore, the Russian Government is the ultimate controlling party of the Group as at 31 December 2018 and 31 December 2017.

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

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

As described in Note 28, the government's economic, social and other policies could have material effects on the operations of the Group.

Note 2. Basis of preparation

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

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

Basis of measurement. The financial statements are prepared on the historical cost basis except financial instruments measured at fair value at initial recognition.

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

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

Impairment of property, plant and equipment

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the consolidated statement of comprehensive income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 6. As described in Notes 1 and 28, the Government's economic, social and other policies could have material effects on the operations of the Group.

Useful lives of property, plant and equipment

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

Tax contingencies

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently (Note 28). Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in these consolidated financial statements.

Restoration provision

The Group reviews its decommissioning liability, representing site restoration provisions, at each reporting date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account

in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur. See effect of these critical accounting estimates and assumptions in Note 17.

Classification of lease agreement as finance and operating lease

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

Note 3. New accounting developments

The Group has adopted all new standards, amendments to standards and interpretations that were effective from 1 January 2018.

Application of new IFRSs

IFRS 9 Financial Instruments (issued in November 2009 and effective for annual periods beginning on or after 1 January 2018)

A summary of the main accounting policies for the Standard is provided in Note 4.

a) Classification and measurement of financial assets

There are no changes in classification of financial assets that previously were also measured at amortised cost.

b) Impairment of financial assets

The Group has introduced a new model of recognition of impairment losses - the expected credit loss model. The Group applies the "expected credit loss" model to financial assets measured at amortised cost or at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets.

c) Classification and measurement of financial liabilities

Changes of the standard do not have significant effect on accounting of financial liabilities of the Group as the new requirements mainly concern accounting of financial liabilities measured at fair value through profit or loss which are absent in the Group.

Thus, application of IFRS 9 Financial Instruments has not had a significant effect on the consolidated financial statements of the Group. The Group applied IFRS 9 Financial Instruments retrospectively and used an option not to restate prior periods in respect of new requirements. The effect of applying IFRS 9 Financial Instruments net of tax (Note 14) was recognized in the opening balance of retained earnings and other reserves as at 1 January 2018 in the consolidated statement of changes in equity of the Group for the year ended 31 December 2018.

	Balance as at 31 December 2017	Effect of initial application of IFRS 9	Restated balance as at 1 January 2018
Retained earnings and other reserves	56,398,279	(430,269)	55,968,010
Total equity	121,012,598	(430,269)	120,582,329

According to the new requirements of the standard credit losses in relation to trade and other receivables are presented separately in the consolidated statement of comprehensive income. The Group has applied this requirement in relation to current period and also reclassified comparable data of recognized credit losses in the amount of RR 3,597,008 thousand from the line "Operating expenses" into the line "Impairment loss on financial assets" in the consolidated statement of comprehensive income for the year ended 31 December 2017.

- **IFRS 15 Revenue from Contracts with Customers.** IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 Revenue, IAS 11 Construction Contracts, and the related interpretations on Revenue recognition. As a result of the analysis performed by the Company, the conclusion was made that the standard has no significant impact on the consolidated financial statements.
- **Amendments to IFRS 2 Share-based Payment** entitled Classification and Measurement of Share-based Payment Transactions. The amendments provide requirements for the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; sharebased payment transactions with a net settlement feature for withholding tax obligations; a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments did not have a material impact on the consolidated financial statements.
- **Amendments to IFRS 4 Insurance Contracts** entitled Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. The amendments address concerns Insurance Contracts accounting arising from implementing the new financial instruments Standard, IFRS 9, before implementing the IFRS 4. Standard that the Board is developing for IFRS 4. The amendments introduce two approaches, which should reconcile the timing of the application of the two new standards. Under the first approach, the amendments become effective on the date of first-time adoption of IFRS 9; under the second, the amendments become effective for annual periods beginning on or after January 1, 2018. The amendments did not have a material impact on the consolidated financial statements.
- **Amendments to IAS 40 Investment Property** entitled Transfers of Investment Property. The amendments clarify the requirements for transfers to, or from, investment property. The amendments did not have a material impact on the consolidated financial statements.
- **IFRIC 22 Interpretation** entitled *Foreign Currency Transactions and Advance Consideration*. The IFRIC 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 of it) on the de-recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The interpretation did not have a material impact on the consolidated financial statements as its requirements were already previously incorporated in the accounting policy of the Company.

The Group has reviewed these interpretations and amendments to standards while preparing consolidated financial statements. The interpretations and amendments to standards have no significant impact on the Group's consolidated financial statements.

Standards, Interpretations and Amendments to existing Standards that are not yet effective and have not been early adopted by the Group

Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2019. In particular, the Group has not early adopted the standards and amendments:

IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in statement of financial position equal current accounting of the financial lease and oblige lessees to recognize assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. The group intends to apply a modified retrospective approach without recalculating comparative information which implies recognition of the cumulative effect of the initial application of the standard at the date of initial application, that is 1 January 2019. According to preliminary estimates of the Group a one-time increase in non-current assets and liabilities as at 1 January 2019 will be within 1% of the Group's assets.

In June 2017, the IASB issued IFRIC 23 Interpretation entitled Uncertainty over Income Tax Treatments. The IFRIC clarifies that for the purposes of calculating current and deferred tax, companies should use a tax treatment of uncertainties, which will probably be accepted by the tax authorities. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The Company does not expect the interpretation to have a material impact on the consolidated financial statements.

In October 2017, the IASB issued amendments to IFRS 9 Financial instruments named Prepayment Features with Negative Compensation. The amendments relate to financial assets with an option of early prepayment, the conditions of which allow early prepayment in a variable amount, which in turn may



exceed as well as may be lower than remaining outstanding cash flows. The amendments allow to measure such prepayable financial assets with so-called negative compensation at amortized cost or at fair value through other comprehensive income if a specified condition is met – instead of at fair value through profit or loss. The amendments are effective for annual periods beginning on or after January, 2019. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*. IFRS 17 establishes a single framework for the accounting for insurance contracts and contains requirements for related disclosures. The new standard replaces IFRS 4 *Insurance Contracts*. The standard is effective for annual periods beginning on or after January 1, 2021. The Company does not expect the standard to have a material impact on the consolidated financial statements.

In February 2018, the IASB issued amendments to IAS 19 *Employee benefits* named *Plan Amendment, Curtailment or Settlement*. The amendments specifies how companies determine pension expenses when changes to a defined benefit pension plan occur. The amendments are effective for annual periods beginning on or after January 2019. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In March 2018, the IASB issued a revised version of *Conceptual Framework for Financial Reporting*. In particular, the revised version introduces new definitions of assets and liabilities, as well as amended definitions of income and expenses. The new version is effective for annual periods beginning on or after January 1, 2020. The Company is currently assessing the impact of the revised version of *Conceptual Framework* on the consolidated financial statements.

In October 2018, the IASB issued amendments to IFRS 3 *Business Combinations*. The amendments enhance definition of a business set out by the standard. The amendments are effective for acquisitions to occur on or after January 1, 2020; earlier application is permitted. Possible impact of the amendments on the consolidated financial statements as well as the necessity of early adoption will be assessed in course of accounting support for future significant transactions.

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors*. The amendments to IAS 1 and IAS 8 introduce new definition of material. The amendments are effective on or after January 1, 2020; earlier application is permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

Note 4. Summary of significant accounting policies

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

A) Subsidiaries

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



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

B) Transactions eliminated on consolidation

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

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

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

The official Russian Rouble to US dollar exchange rates as determined by the Central Bank of the Russian Federation were 69.4706 and 57.6002 as at 31 December 2018 and 31 December 2017, respectively. The official RR to EURO exchange rates as determined by the Central Bank of the Russian Federation were 79.4605 and 68.8668 as at 31 December 2018 and 31 December 2017, respectively.

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

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

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

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

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

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition

expected at the end of its useful life. The assets residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period.

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

Classes of property, plant and equipment	31 December 2018	31 December 2017
Production buildings	18-48	19-49
Constructions	5-33	6-34
Energy machinery and equipment	11-37	12-38
Other machinery and equipment	1-27	1-28
Other	1-11	1-12

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

Financial instruments - key measurement terms.

a) Classification and measurement of financial assets

The Group classifies financial assets into three measurement categories: those measured subsequently at amortised cost, those measured subsequently at fair value with changes recognised in other comprehensive income, and those measured subsequently at fair value with changes recognised in profit or loss.

Classification of financial assets depends on the business-model used by the Group for management of financial assets and contractual cash flows.

Financial assets measured subsequently at amortised cost

Such category of financial assets includes assets held to obtain contractual cash flows and it is expected that they will result in cash flows being solely payments of principal and interest, specifically loans, accounts receivable and investments held-to maturity.

Financial assets measured subsequently at fair value with changes recognised in other comprehensive income

Such category of financial assets includes debt-type assets held within business models whose objective is achieved by both collecting contractual cash flows and selling financial assets and it is expected that they will result in cash flows being payments of principal and interest. The Group does not have such financial assets.

Changes in the fair value of equity instruments are recognized in other comprehensive income as these instruments are considered to be long-term strategic investments that are not expected to be sold in the short and medium term. Other comprehensive income / expense from changes in the fair value of such instruments cannot be subsequently reclassified to profit or loss in the consolidated statement of comprehensive income.

Financial assets measured at fair value through profit or loss

Financial assets that do not meet the criteria of recognition as financial assets measured at amortised cost or measured at fair value through other comprehensive income are measured at fair value through profit or loss. Such financial assets of the Group include certain equity instruments for which the Group has not decided to recognize changes in their fair value in other comprehensive income.

b) Impairment of financial assets

The Group applies the "expected credit loss" model to financial assets measured at amortised cost or at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets.

The allowance for expected credit losses for a financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition.

If at the reporting date the credit risk on a financial asset has not increased significantly since initial recognition, the allowance for expected credit losses for that financial asset is measured at an amount equal to 12-month expected credit losses.



For all accounts receivable of the Group a simplified approach is applied which assumes always measuring the loss allowance at an amount equal to lifetime expected credit losses. To estimate expected credit losses, trade receivables are grouped based on characteristics of total credit risk, the type of receivables and default period. The Group calculates expected rates of credit losses for accounts receivables based on historic data that assume reasonable approximation of rates for actual losses taking into account external factors and projected values.

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

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

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

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

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

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

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

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

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

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

Value added tax on purchases and sales (VAT). Output VAT related to sales is payable to tax authorities on the earlier of (a) receipt of advance from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable by each taxpayer of the Group against output VAT upon receipt of

goods or services and the respective VAT invoice. Input VAT from advances paid to suppliers after 1 January 2009 is recoverable upon advance payment provided the receipt of respective VAT invoice.

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

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

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

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

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

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

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

Classes of intangible assets	31 December 2018	31 December 2017
SAP software	3-9	1-9
Other intangibles	1-10	1-10

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

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

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

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

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

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

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

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

The Group has an obligation to restore the surface of ash dumps when they are full, including dismantling of the constructions located on the territory of the ash dump (Note 17).

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

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

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

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

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

Defined benefit plans determine the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the reporting date. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest

rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related retirement benefit obligations.

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

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

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

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

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

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

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

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

Note 5. Related Parties

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

Transactions with GAZPROM Group and its associates

Transactions with GAZPROM Group and its associates were as follows:

Revenues

	Year ended 31 December 2018	Year ended 31 December 2017
Electricity and capacity	3,504,316	3,187,872
Heating	4,881	4,712
Other	269,802	184,850
Total	3,778,999	3,377,434

Operating expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Fuel	37,967,856	37,788,313
Repairs	3,425,892	3,383,098
Rent	2,274,496	2,376,784
Transport	650,049	632,782
Insurance	213,006	241,206
Purchased electricity, capacity and heat	180,583	195,361
Penalties and fines	132,198	99,619
Consulting, legal and audit services	74,993	62,840
Loss on disposal of assets, net	(1,490)	(532)
Other expenses	1,300,424	1,239,540
Total operating expenses	46,218,007	46,019,011

Finance income

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income on bank deposits and current bank account balances	61,733	107,794
Interest income on loans issued	5,896	12,551
Effect of discounting of long-term promissory notes received	-	695
Total finance income	67,629	121,040

Finance costs

	Year ended 31 December 2018	Year ended 31 December 2017
Interest expense on debt	2,844,629	3,316,081
Effect of discounting of long-term payables	37,914	2,920
Interest expense under finance lease agreements	7,080	4,882
Total finance costs	2,889,623	3,323,883



Purchase of non-current and current assets

	Year ended 31 December 2018	Year ended 31 December 2017
Acquisition of property, plant and equipment including capitalized borrowing costs from related parties	4,494,927	4,536,077
Purchases of materials	107,228	385,486
Purchases of intangible assets	1,590,381	1,548,025
	63,169	100,590
Total purchase of non-current and current assets	6,148,477	6,184,692

Other transactions

	Year ended 31 December 2018	Year ended 31 December 2017
Impairment loss on financial assets	4,680	-
Proceeds from borrowings	-	29,600,000
Repayment of borrowings (excluding interest)	12,173,558	37,359,500
Repayment of loans issued (excluding interest)	78,200	-

The Group has not entered into transactions with PJSC "Centerenergyholding" for the years ended 31 December 2018 and 31 December 2017.

Balances

	31 December 2018	31 December 2017
Long-term loan issued (Note 8)	40,270	131,101
Cash and cash equivalents (Note 9)	4,331	3,973,595
Trade and other receivables	1,665,604	1,034,244
Advances for property, plant and equipment (net of VAT)	126,588	341,457
Debt (Note 15,19)	22,874,485	35,101,718
Trade and other payables	13,549,763	10,807,732

As at 31 December 2018 the Group has capital commitments to GAZPROM Group and its associates (including VAT) of RR 10,941,834 thousand (as at 31 December 2017: RR 9,401,445 thousand).

Operating lease rentals (excluding contingent rent) to GAZPROM Group are payable as follows:

	31 December 2018	31 December 2017
Not later than one year	2,647,238	2,528,479
Later than one year and not later than five years	460,975	662,372
Total	3,108,213	3,190,851



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

In the normal course of business the Group enters into transactions with other entities under Government control (in addition to transactions with GAZPROM Group), including sales of electricity and capacity, heat, purchases of electricity and capacity resources, services and other transactions.

Transactions with the state-controlled entities were as follows:

Revenues

	Year ended 31 December 2018	Year ended 31 December 2017
Electricity and capacity	26,856,351	20,839,892
Heating	1,015,206	1,054,783
Other	2,452,318	1,885,354
Total	30,323,875	23,780,029

Operating expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Electricity transit (Note 23)	2,296,363	1,993,656
Dispatcher's fees (Note 23)	2,047,581	2,049,057
Penalties and fines	770,834	389,550
Purchased electricity, capacity and heat	650,274	514,695
Ecological payments	69,352	72,693
Rent	22,953	71,660
Transport	6,399	3,631
Consulting, legal and audit services	5,559	16,375
Repairs	3,914	2,835
Other expenses	785,880	239,276
Total operating expenses	6,659,109	5,353,428

Finance income

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income on bank deposits and current bank account balances	294,845	289,659
Total finance income	294,845	289,659

Finance costs

	Year ended 31 December 2018	Year ended 31 December 2017
Interest expense on debt	266,329	808,581
Total finance costs	266,329	808,581

Purchase of non-current and current assets

	Year ended 31 December 2018	Year ended 31 December 2017
Acquisition of property, plant and equipment including capitalized borrowing costs from related parties	606,435	147,225
Other purchases	600,956	139,996
	70,264	229,779
Total purchase of non-current and current assets	676,699	377,004

Other transactions

	Year ended 31 December 2018	Year ended 31 December 2017
Impairment loss on financial assets	675,426	1,485,177
Proceeds from borrowings	17,410,000	16,110,000
Repayment of borrowings (excluding interest)	14,110,000	16,110,000

Balances

	31 December 2018	31 December 2017
Trade and other receivables	4,353,231	4,059,912
Advances for property, plant and equipment (net of VAT)	1,085	19,967
Cash and cash equivalents (Note 9)	2,560,189	542,377
Trade and other payables	920,964	847,212
Debt (Note 15, 19)	17,424,956	14,119,203

As at 31 December 2018 the Group has capital commitments to state-controlled entities (including VAT) of RR 1,148,849 thousand (as at 31 December 2017: RR 1,148,754 thousand).

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

	31 December 2018	31 December 2017
Not later than one year	8,440	69,960
Later than one year and not later than five years	221,032	271,392
Later than five years and not later than ten years	274,663	336,979
Later than ten years	1,774,465	2,308,363
Total	2,278,600	2,986,694

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



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

	Year ended 31 December 2018	Year ended 31 December 2017
Sales of electricity and capacity	59,785,573	64,034,408
Purchases of electricity and capacity	11,683,681	11,900,863
Other income	1,726	3,361
Other expenses	20,077	21,032

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

	31 December 2018	31 December 2017
Trade and other receivables	2,464,732	2,370,953
Trade and other payables	693,328	592,376

Transactions with key management

Short-term remuneration includes remuneration to members of the Board of Directors for the performance of their duties in these positions and participation in meetings of the Board of Directors, as well as members of the Company's Management Board before transferring the powers of the sole executive body to the management organization Gazprom Energoholding LLC on 4 July 2018 for performing their duties for positions held on an ongoing basis and consisted of a monthly salary, bonuses, taxes charged on them and other obligatory payments to relevant budgets, medical insurance costs.

Information on remuneration to members of the Board of Directors and the Management Board is presented below:

	Year ended 31 December 2018		Year ended 31 December 2017	
	Expenses	Accrued liabilities	Expenses	Accrued liabilities
Short-term remuneration	91,218	-	106,899	3,331
Additional remuneration paid by treasury shares (Note 13)	24,510	-	35,311	-
Retirement benefit obligations	-	-	2,377	15,254

The remuneration of the management company Gazprom Energoholding LLC for 2018 amounted to RR 34,604 thousand.

Note 6. Property, plant and equipment

	Production buildings	Constructions	Energy machinery and equipment	Other machinery and equipment	Other	Construction in progress	Total
Cost							
Opening balance as at 1 January 2018	60,495,050	36,937,220	106,502,387	40,963,438	3,144,039	23,334,899	271,377,033
Additions	216	-	415	77,612	87,565	10,431,780	10,597,588
Transfer	1,027,683	2,142,436	3,569,614	11,739,928	409,888	(18,889,549)	-
Disposals	(130,504)	(1,177,773)	(1,246,942)	(254,046)	(69,577)	(763,759)	(3,642,601)
Closing balance as at 31 December 2018	61,392,445	37,901,883	108,825,474	52,526,932	3,571,915	14,113,371	278,332,020
Accumulated depreciation (including impairment)							
Opening balance as at 1 January 2018	(22,100,635)	(15,294,091)	(31,786,790)	(16,091,069)	(1,513,473)	(323,693)	(87,109,751)
Charge for the period	(1,440,257)	(1,390,038)	(5,513,449)	(3,970,875)	(404,912)	-	(12,719,531)
Disposals	103,422	792,296	551,343	238,079	64,211	218,822	1,968,173
Transfer	-	-	(751)	(6,874)	(594)	8,219	-
Charge of impairment	(1,049,110)	(389,527)	(1,984,199)	(464,672)	(109,504)	(13,502)	(4,010,514)
Reversal of impairment	8,597	1,367	4,130	668	76	19,142	33,980
Closing balance as at 31 December 2018	(24,477,983)	(16,279,993)	(38,729,716)	(20,294,743)	(1,964,196)	(91,012)	(101,837,643)
Net book value as at 31 December 2018	36,914,462	21,621,890	70,095,758	32,232,189	1,607,719	14,022,359	176,494,377
Net book value as at 31 December 2017	38,394,415	21,643,129	74,715,597	24,872,369	1,630,566	23,011,206	184,267,282
Cost							
Opening balance as at 1 January 2017	58,497,690	36,112,087	103,412,077	39,716,012	2,331,679	23,608,759	263,678,304
Additions	-	34,192	690	166,416	50,437	11,199,744	11,451,479
Transfer	2,024,484	937,651	4,377,268	1,329,181	845,105	(9,513,689)	-
Disposals	(27,124)	(146,710)	(1,287,648)	(248,171)	(83,182)	(1,959,915)	(3,752,750)
Closing balance as at 31 December 2017	60,495,050	36,937,220	106,502,387	40,963,438	3,144,039	23,334,899	271,377,033
Accumulated depreciation (including impairment)							
Opening balance as at 1 January 2017	(21,500,308)	(14,105,982)	(27,929,643)	(13,017,407)	(1,356,506)	(969,272)	(78,879,118)
Charge for the period	(1,211,013)	(1,353,967)	(4,998,873)	(3,268,985)	(230,801)	-	(11,063,639)
Disposals	21,086	137,082	854,162	228,625	81,376	658,846	1,981,177
Transfer	(560)	(3,204)	-	(7,383)	(330)	11,477	-
Charge of impairment	(10,783)	(66,552)	(18,532)	(70,712)	(14,418)	(24,744)	(205,741)
Reversal of impairment	600,943	98,532	306,096	44,793	7,206	-	1,057,570
Closing balance as at 31 December 2017	(22,100,635)	(15,294,091)	(31,786,790)	(16,091,069)	(1,513,473)	(323,693)	(87,109,751)
Net book value as at 31 December 2017	38,394,415	21,643,129	74,715,597	24,872,369	1,630,566	23,011,206	184,267,282
Net book value as at 31 December 2016	36,997,382	22,006,105	75,482,434	26,698,605	975,173	22,639,487	184,799,186

Construction in progress as at 31 December 2018 and 31 December 2017 includes advances for property, plant and equipment in the amount of RR 303,222 thousand and RR 1,692,416 thousand respectively.

For the year ended 31 December 2018 the Group capitalized borrowing costs attributable to the acquisition, construction or production of an asset in the amount of RR 804,958 thousand (for the year ended 31 December 2017: RR 683,585 thousand), with an average capitalisation rate of 7.56% (for the year ended 31 December 2017: 9.71%).

Impairment

Management identified indication of impairment of the Group's property, plant and equipment as at 31 December 2018. For the purposes of impairment test assets of the Group were grouped into 12 cash-generating units. Each power station of the Group was considered as separate cash-generating unit: Troitskaya GRES, Stavropolskaya GRES, Serovskaya GRES, Surgutskaya GRES-1, Kirishskaya GRES, Novochercasskaya GRES, Ryazanskaya GRES, each of which is a separate reportable segment and, Krasnoyarskaya GRES-2, Cherepovetskaya GRES, Pskovskaya GRES, Adierskaya TES, LLC "OGK-Investproekt" which included in other operating segments of the Group (Note 30).

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

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

As at 31 December 2018 Management of the Group concluded on the impairment of certain cash-generating unit - Kirishskaya GRES in the amount of RR 3,121,988 thousand, Stavropolskaya GRES in the amount of RR 838,386 thousand, Cherepovetskaya GRES in the amount of RR 50,140 thousand and on necessity of reversal of impairment of certain cash-generating unit - Pskovskaya GRES in the amount of RR 33,980 thousand. As a result in operating expenses in consolidated statement of comprehensive income for the year ended 31 December 2018 the impairment loss in the amount of RR 3,976,534 thousand (net) was recognised (for the year ended 31 December 2017 reversal of impairment loss in the amount of RR 851,829 thousand was recognised).

The impairment provision balance in relation to property, plant and equipment and assets under construction is included in accumulated depreciation as at 31 December 2018 in the amount of RR 7,321,224 thousand (as at 31 December 2017: RR 3,572,353 thousand).

Finance lease

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

	31 December 2018	31 December 2017
Other machinery and equipment	31,246	36,924
Total	31,246	36,924

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

Operating lease

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

Operating lease rentals are payable as follows:

	31 December 2018	31 December 2017
Not later than one year	2,666,344	2,761,801
Later than one year and not later than five years	686,046	933,764
Later than five years and not later than ten years	278,702	336,979
Later than ten years	1,774,465	2,308,363
Total	5,405,557	6,340,907

Note 7. Intangible assets

	SAP software	Other intangibles	Total
Cost			
Balance as at 1 January 2018	862,292	567,230	1,429,522
Additions	-	163,829	163,829
Disposals	-	(74,074)	(74,074)
Balance as at 31 December 2018	862,292	656,985	1,519,277
Amortisation			
Balance as at 1 January 2018	(480,201)	(231,147)	(711,348)
Charge for the period	(90,756)	(175,562)	(266,318)
Disposals	-	74,074	74,074
Balance as at 31 December 2018	(570,957)	(332,635)	(903,592)
Net book value as at 31 December 2018	291,335	324,350	615,685
Net book value as at 31 December 2017	382,091	336,083	718,174
	SAP software	Other intangibles	Total
Cost			
Balance as at 1 January 2017	1,279,057	410,090	1,689,147
Additions	-	174,463	174,463
Disposals	(416,765)	(17,323)	(434,088)
Balance as at 31 December 2017	862,292	567,230	1,429,522
Amortisation			
Balance as at 1 January 2017	(587,118)	(169,496)	(756,614)
Charge for the period	(140,032)	(78,974)	(219,006)
Disposals	246,949	17,323	264,272
Balance as at 31 December 2017	(480,201)	(231,147)	(711,348)
Net book value as at 31 December 2017	382,091	336,083	718,174
Net book value as at 31 December 2016	691,939	240,594	932,533

Note 8. Other non-current assets

	Notes	31 December 2018	31 December 2017
Long-term promissory notes (nominal value of promissory notes is RR 458,993 thousand as at 31 December 2018 and RR 460,210 thousand as at 31 December 2017)	10	260,197	240,635
Long-term loans issued	10	40,270	131,101
Long-term trade and other receivables (net of provision for impairment of RR 21,476 thousand as at 31 December 2018 and RR 3,337 thousand as at 31 December 2017, and the effect of discounting of 0 thousand as at 31 December 2018 and RR 7,046 thousand as at 31 December 2017)	10	20,483	14,749
Financial assets		320,950	386,485
Deposits for pensions	16	500,536	498,131
Long-term advances to suppliers	10	153,491	17,019
Long-term input VAT from advances paid	10	195	-
Other		443	7,093
Total		975,615	908,728

Note 9. Cash and cash equivalents

	Currency	31 December 2018	31 December 2017
Current bank accounts	RR	54,538	4,267,106
Current bank accounts	KZT	-	63
Bank deposits with maturity three months or less	RR	5,488,500	350,500
Bank deposits with maturity three months or less	EUR	1,034,530	-
Bank deposits with maturity three months or less	USD	-	523,194
Other cash and cash equivalents	RR	-	63
Total		6,577,568	5,140,926

The Group has current bank accounts in the following banks:

Cash in bank	Credit rating on 31 December 2018*	31 December 2018	Credit rating on 31 December 2017*	31 December 2017
Sberbank	ba1 / Stable	25,591	ba1 / Positive	18,842
"BANK "ROSSIYA"	WR / Ratings Withdrawn	24,540	WR / Ratings Withdrawn	274,373
Bank GPB (JSC)	b1 / Stable	4,331	b1 / Positive	3,973,595
VTB Bank (PJSC)	b1 / Stable	68	b1 / Positive	341
AO "ALFA-BANK"	ba2 / Stable	8	ba2 / Stable	18
Total cash in bank		54,538		4,267,169

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

Credit quality of bank deposits is presented below:

Bank deposits with maturity of three months or less	Currency	Interest rate	Credit rating on 31 December 2018*	31 December 2018	Currency	Interest rate	Credit rating on 31 December 2017*	31 December 2017
"BANK "ROSSIYA"	RR	6,75% - 7,75%	WR / Ratings Withdrawn	3,988,500	RR	6.55%	Ratings Withdrawn	350,500
JSC VTB Bank	RR	7,65%	Non Prime	1,500,000	-	-	-	-
JSC VTB Bank	EUR	0,37%	Non Prime	1,034,530	-	-	-	-
Sberbank	USD	-	-	-	USD	0.84%	Non-Prime	523,194
Total bank deposits with maturity of three months or less				6,523,030				873,694

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

Note 10. Trade and other receivables

	Notes	31 December 2018	31 December 2017
Trade receivables		10,859,532	10,779,181
(net of provision for impairment of RR 10,590,673 thousand as at 31 December 2018 and RR 8,855,893 thousand as at 31 December 2017)			
Other receivables		877,001	1,547,651
(net of provision for impairment of RR 6,862,723 thousand as at 31 December 2018 and RR 6,312,701 thousand as at 31 December 2017, and the effect of discounting of RR 0 thousand as at 31 December 2018 and RR 7,228 thousand as at 31 December 2017)			
Promissory notes		262,487	242,938
(nominal value of promissory notes is RR 461,427 thousand as at 31 December 2018 and RR 462,644 thousand as at 31 December 2017)			
Loans issued		40,270	131,101
Interest receivable		28,367	3,034
Financial assets		12,067,657	12,703,905
Advances to suppliers		1,598,739	842,256
(net of provision for impairment of RR 5,023 thousand as at 31 December 2018 and RR 13,337 thousand as at 31 December 2017)			
Input VAT		142,013	314,890
Prepaid other taxes and social funds contribution		20,322	15,283
Total		13,828,731	13,876,334
Less: Long-term promissory notes	8	(260,197)	(240,635)
Long-term loans issued	8	(40,270)	(131,101)
Long-term advances to suppliers	8	(153,491)	(17,019)
Long-term trade and other receivables	8	(20,483)	(14,749)
Long-term input VAT from advances paid	8	(195)	-
Total		13,354,095	13,472,830

As at 31 December 2018 and 31 December 2017 the effective interest rate on the loans issued was 12.10%.

Breakdown of promissory notes is presented below:

Bank	Effective interest rate	Credit rating on 31 December 2018*	31 December 2018	Credit rating on 31 December 2017*	31 December 2017
AO "ALFA-BANK"	8.11%-9.50%	ba2 /Stable	259,378	ba2 /Stable	238,927
Other	12.67%	-	3,109	-	4,011
Total promissory notes			262,487		242,938

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

Note 11. Inventories

	31 December 2018	31 December 2017
Spare parts	5,978,064	5,154,814
Fuel supplies	4,384,625	4,580,962
Materials and supplies	1,641,550	1,393,794
Total	12,004,239	11,129,570

Inventories are presented net of provision for obsolescence of RR 197,953 thousand and RR 221,945 thousand as at 31 December 2018 and 31 December 2017, respectively.

Note 12. Other current assets

	31 December 2018	31 December 2017
Short-term deposits	3,000,000	-
Total	3,000,000	-

Credit quality of bank deposits is presented below:

Bank deposits with maturity more than three months but within one year	Interest rate	Credit rating on 31 December 2018*	31 December 2018	Credit rating on 31 December 2017*	31 December 2017
"BANK ROSSIYA"	7.00%	WR / Ratings Withdrawn	3,000,000	-	-
Total bank deposits with maturity more than three months but within one year			3,000,000	-	-

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

Note 13. Equity

Share capital

	Number of ordinary shares 31 December 2018	Number of ordinary shares 31 December 2017	Number of ordinary shares 31 December 2016
Issued shares	110,441,160,870	110,441,160,870	110,441,160,870
Treasury shares	(4,373,963,548)	(4,440,913,118)	(4,520,954,629)
Total outstanding shares	106,067,197,322	106,000,247,752	105,920,206,241

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

As at 31 December 2018 and 31 December 2017 the number of authorised for issue but not issued ordinary shares is 58,886,766,090 shares.

Dividends

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

In June 2018 the Company declared final dividends for the year ended 31 December 2017 of RR 0.016319020075 per ordinary share for RR 1,729,820 thousand. These dividends were recognized as liability and deducted from equity.

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

Treasury shares

On June 2018 the Annual General Meeting of Shareholders of JSC "OGK-2" decided to pay an additional remuneration to the Board members in the form of ordinary shares of JSC "OGK-2" held by JSC "OGK-2", in the total number of 66,949,570 shares. The payment of additional remuneration in the form of JSC "OGK-2" shares was carried at their fair value of RR 24,510 thousand. The fair value was defined as the shares' weighted average price calculated by the Russian organizer of trade in the securities market (stock exchange) based on the results of the organized trading on the date of payment. The difference of RR 89,900 thousand between the fair value of the above shares and their carrying amount was recognized in retained earnings.

The similar additional remuneration to the Board members was paid in 2017: number of shares - 78,941,511, fair value RR 35,311 thousand, the difference between the fair value of the above shares and their carrying amount was RR 99,593 thousand

Note 14. Income tax

<i>Income tax charge</i>	Year ended 31 December 2018	Year ended 31 December 2017
Current income tax charge	(1,353,250)	(1,214,316)
(Charge) / refund of income tax for prior periods	158,327	(5,187)
Deferred income tax expense	(892,638)	(1,727,350)
Total income tax charge	(2,087,561)	(2,946,853)

During the year ended 31 December 2018 the Group was subject to a 20% income tax rate on taxable profits (for the year ended 31 December 2017: 20%).

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

	Year ended 31 December 2018	Year ended 31 December 2017
Profit before income tax	14,368,921	10,147,714
Theoretical tax charge at the statutory tax rate of 20%	(2,078,477)	(2,029,543)
Charge of income tax for prior periods	-	(5,187)
Tax effects of items which are non-deductible for income tax purposes	(9,084)	(912,123)
Total income tax charge	(2,087,561)	(2,946,853)

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

Deferred income tax liabilities

	1 January 2018 (restated)	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2018
Property, plant and equipment	(14,127,816)	583,343	-	(13,544,473)
Deposits for pensions	(99,626)	(481)	-	(100,107)
Provision for impairment of trade receivables	(24,295)	(151,872)	-	(176,167)
Intangible assets	(5,258)	(2,403)	-	(7,661)
Trade and other payables	(2,679)	1,323	-	(1,356)
Total	(14,259,674)	429,910	-	(13,829,764)

Deferred income tax assets

	1 January 2018 (restated)	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2018
Unused tax losses	1,649,045	(1,164,388)	-	484,657
Trade and other payables	368,015	(159,802)	-	208,213
Restoration provision	230,957	(24,670)	-	206,287
Retirement benefit obligations	168,251	(14,369)	(12,742)	141,140
Trade and other receivables	65,700	(19,349)	-	46,351
Inventory	42,719	62,360	-	105,079
Finance lease liabilities	6,902	(2,330)	-	4,572
Total	2,531,589	(1,322,548)	(12,742)	1,196,299

	1 January 2018 (restated)	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2018
Deferred income tax liabilities	(14,259,674)	429,910	-	(13,829,764)
Deferred income tax assets	2,531,589	(1,322,548)	(12,742)	1,196,299
Deferred income tax liabilities, net, total	(11,728,085)	(892,638)	(12,742)	(12,633,465)

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

<i>deferred income tax assets, net*</i>	357,204	X	X	353,948
<i>deferred income tax liabilities, net*</i>	(12,085,289)	X	X	(12,987,413)

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

Deferred income tax liabilities

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

Deferred income tax assets

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

	31 December 2016	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2017
Deferred income tax liabilities	(13,525,819)	(841,423)	-	(14,367,242)
Deferred income tax assets	3,411,212	(885,927)	6,304	2,531,589
Deferred income tax liabilities, net, total	(10,114,607)	(1,727,350)	6,304	(11,835,653)

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

<i>deferred income tax assets, net*</i>	188,778	X	X	357,168
<i>deferred income tax liabilities, net*</i>	(10,303,385)	X	X	(12,192,821)

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

Note 15. Non-current debt

	Currency	Effective interest rate As at 31 December 2018	Due	31 December 2018	31 December 2017
Loans	RR	7.10% - 8.83%	2020 - 2025	31,768,982	47,868,982
Bonds	RR	7.11% - 7.12%	2020-2021	6,683,101	10,000,000
Finance lease liability	RR	26.52% -27.29%	2020	8,074	22,861
Total				38,460,157	57,891,843

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

Breakdown of loans is presented below:

Company	31 December 2018	31 December 2017
PJSC "GAZPROM"	13,500,000	24,600,000
MOSENERGO	9,158,982	9,158,982
Sberbank	9,110,000	6,510,000
VTB Bank (PJSC)	-	7,600,000
Total	31,768,982	47,868,982

Maturity table

	31 December 2018	31 December 2017
Due for repayment		
Between one and two years	10,801,175	14,787
Between two and three years	20,824,830	24,118,074
Between three and four years	-	26,924,830
Between four and five years	2,600,000	-
More than five years	4,234,152	6,834,152
Total	38,460,157	57,891,843

The movement of non-current debt is presented below:

	31 December 2018	31 December 2017
Non-current debt at the beginning of the year	57,891,843	34,590,389
Proceeds from finance lease liability	-	22,861
Proceeds from long-term borrowings	14,110,000	45,710,000
Repayment of long-term borrowings	(33,526,899)	(21,369,500)
Current portion of long-term loans and borrowings	(14,787)	(1,061,907)
Non-current debt at the end of the year	38,460,157	57,891,843

Note 16. Retirement benefit obligations

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

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

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

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

Due to the post employment program the Company pays contributions to non-state pension funds (NPF), which are accumulated on pension accounts, which were opened under NPF contracts. In accordance with the terms of the treaty there is a possibility to abrogate a contract and receive the redemption amount of the depositor. In that way NPF funds do not meet the plan assets criteria. So they are recognized as a separate asset of the Group. The amount of that asset equals RR 500,536 thousand as at 31 December 2018 (as at 31 December 2017: 498,131 thousand) (Note 8).

As at 31 December 2018, there were 8,464 active employees eligible to participate in the post retirement defined benefit program of the Company and 6,873 recipients of the financial support benefits (as at 31 December 2017: 8,617 and 6,891 respectively).

The last independent actuarial valuation of pension and other post-employment and long-term benefits in accordance with the provisions of IAS 19 Employee Benefits was performed as at 31 December 2018 using individual members' census data as at the valuation date.

From 2019, the provisions of the Federal Law of 03.10.2018 N 350-FZ "On Amendments to Certain Legislative Acts of the Russian Federation on the Assignment and Payment of Pensions" come into force, providing for raising the State pension age for men from 60 to 65 years and for women from 55 to 60 years with a transitional period from 2019 to 2028, which leads to a change in the conditions of defined benefit pension plans and a decrease in the Company's obligations as at December 31, 2018. In 2017, the Company changed the pension program, which led to a decrease in the Company's liabilities as at 31 December 2017.

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

	31 December 2018	31 December 2017
Present value of defined benefit obligation	1,223,605	1,499,735
Present value of other long-term employee benefit obligation	375,938	320,669
Total defined benefit liability	1,599,543	1,820,404

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

	Present value of defined benefit obligation	Present value of other long- term employee benefit obligation	Total
At 1 January 2017	1,913,643	293,903	2,207,546
Current service cost	52,553	21,352	73,905
Past service cost	(585,583)	-	(585,583)
Interest expense	116,663	26,638	143,301
Remeasurements:			
Experience losses / (gains)	43,814	(7,916)	35,898
Loss from change in financial assumptions	108,369	18,685	127,054
Benefits paid	(149,724)	(31,993)	(181,717)
At 31 December 2017	1,499,735	320,669	1,820,404
Current service cost	62,070	23,164	85,234
Past service cost	(219,541)	56,880	(162,661)
Interest expense	107,668	21,527	129,195
Remeasurements:			
Experience (gains) / losses	(12,252)	6,176	(6,076)
Gain from change in financial assumptions	(131,026)	(15,051)	(146,077)
Benefits paid	(83,049)	(37,427)	(120,476)
At 31 December 2018	1,223,605	375,938	1,599,543

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

	Year ended 31 December 2018	Year ended 31 December 2017
Service cost	(77,427)	(511,678)
Remeasurements on present value of other long-term employee benefit obligation	(8,875)	10,769
Interest expense (Note 25)	129,195	143,301
Total	42,893	(357,608)

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

	Year ended 31 December 2018	Year ended 31 December 2017
Experience (gains) / losses	(12,252)	43,814
(Gain) / loss from change in financial assumptions	(131,026)	108,369
Total	(143,278)	152,183

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

	Year ended 31 December 2018	Year ended 31 December 2017
At the beginning of year	513,380	367,501
Movement of remeasurements	(143,278)	152,183
Tax effect (Note 14)	12,742	(6,304)
At the end of year	382,844	513,380

The key actuarial assumptions used were as follows:

	31 December 2018	31 December 2017
Discount rate	8.80%	7.60%
Future salary increases	6.10%	5.80%
Future financial support benefits increases	4.50%	4.20%
Social fund contribution rate	30.00%	27.56%
Staff turnover	3.60%	3.60%
Expected retirement age*:		
Male	62	62
Female	57	57
Mortality (employees)	Russia, 2013 adjusted 60% (to level 40%)	Russia, 2013 adjusted 60% (to level 40%)
Mortality (pensioners)	Russia, 2013 adjusted 30% (to level 70%)	Russia, 2013 adjusted 30% (to level 70%)

* The probability curve depending on age, based on empirical data for men and women

Financial actuarial assumptions are based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The average period over which the Group obligations are to be settled is 11 years.

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

	Change in assumption	Impact on defined benefit liability 31 December 2018	Impact on defined benefit liability 31 December 2017
Discount rate	Increase / decrease by 1%	Decrease / increase by 10.7%	Decrease / increase by 10%
Future salary increases	Increase / decrease by 1%	Increase / decrease by 9.7%	Increase / decrease by 8.5%
Future financial support benefits increases (inflation)	Increase / decrease by 1%	Increase / decrease by 1.3%	Increase / decrease by 1.5%
Staff turnover	Increase / decrease by 10%	Decrease / increase by 1.42%	Decrease / increase by 1.4%
Mortality level	Increase / decrease by 10%	Decrease / increase by 0.8%	Decrease / increase by 0.8%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant

actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The Group expects to contribute to the plan for the next annual reporting period RR 55,976 thousand.

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

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

Note 17. Restoration provision

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

- Average inflation per annum – 4.43% (2017: 4.20%);
- Pre-tax discount rate – 8.68% (2017: 7.10%);
- Projected restoration period – 9 years (2017: 12 years).

	31 December 2018	31 December 2017
Total carrying amount at the beginning of year	1,154,787	1,312,297
Less current portion	(79,324)	(356,333)
Non-current portion at the beginning of year	1,075,463	955,964
Unwinding of the present value discount (Note 25)	81,362	106,781
Changes in estimates adjusted against property, plant and equipment	(199,111)	34,193
Utilisation of provision for environmental and pollution expenditure	(5,602)	(298,484)
Total carrying amount at the end of year	1,031,437	1,154,787
Less current portion	(72,280)	(79,324)
Non-current portion at the end of year	959,157	1,075,463

The sensitivity of the restoration provision for ash dump restoration to changes in the principal assumptions is at the 31 December 2018:

	Change in assumption	Impact on restoration provision	Impact on restoration provision
Discount rate	Increase / decrease by 1%	Decrease by 68,614 / increase by 74,548	Decrease by 6.65% / increase by 7.23%
Restoration cost	Increase / decrease by 10%	Increase / decrease by 103,144	Increase / decrease by 10.00%

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

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

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

Note 18. Other long-term liabilities

	31 December 2018	31 December 2017
Trade payables (net of effect of discounting RR 301,528 thousand as at 31 December 2018 and 115,907 thousand as at 31 December 2017)	1,420,782	555,004
Other payables	3,453,267	6,971
Total finance liabilities	4,874,049	561,975

Note 19. Current debt and current portion of non-current debt

	Currency	Effective interest rate as at 31 December 2018	31 December 2018	31 December 2017
Current portion of long-term loans	RR	7.10% - 8.83%	8,507,598	1,317,427
Current portion of bonds	RR	7.11% - 7.12%	88,785	114,159
Current portion of finance lease liability	RR	26.52% - 27.29%	14,787	11,651
Total			8,611,170	1,443,237

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

Breakdown of loans is presented below:

Company	31 December 2018	31 December 2017
Sberbank	8,314,956	5,886
MOSENERGO	192,642	1,308,224
VTB Bank (PJSC)	-	3,317
Total	8,507,598	1,317,427

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



	31 December 2018	31 December 2017
Current debt and current portion of non-current debt at the beginning of the year	1,443,237	32,459,634
Proceeds from finance lease liability	-	16,885
Repayment of finance lease liability	(11,651)	(5,235)
Proceeds from short-term borrowings	8,300,000	-
Repayment of short-term borrowings	(1,061,907)	(32,100,000)
Interest expense	4,183,296	5,699,026
Interest paid	(4,256,592)	(5,688,980)
Current portion of long-term loans and borrowings	14,787	1,061,907
Current debt and current portion of non-current debt at the end of the year	8,611,170	1,443,237

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

Finance lease liabilities – minimum lease payments	31 December 2018	31 December 2017
Due for repayment		
Less than one year	18,731	18,731
Between one year and five years	8,615	27,346
Future finance charges on finance lease	(4,485)	(11,565)
Present value of lease liabilities	22,861	34,512

Note 20. Trade and other payables

	31 December 2018	31 December 2017
Trade payables	10,515,200	10,549,070
(net of effect of discounting RR 0 thousand as at 31 December 2018 and 23,115 as at 31 December 2017)		
Other payables	4,201,701	7,074,655
Dividends payable	11,559	9,902
Financial liabilities	14,728,460	17,633,627
Salaries and wages payable	726,456	716,839
Advances from customers	12,335	54,254
Total	15,467,251	18,404,720

Note 21. Other taxes payable

	31 December 2018	31 December 2017
Value added tax	1,952,051	840,973
Property tax	559,253	349,272
Social funds contribution	297,812	277,955
Personal income tax	68,978	64,490
Environment pollution payment	18,226	29,905
Other taxes	10,894	14,804
Total	2,907,214	1,577,399

Note 22. Revenues

	Year ended 31 December 2018	Year ended 31 December 2017
Electricity and capacity	134,544,882	133,355,500
Heating	5,233,420	5,013,541
Other	3,448,700	2,938,511
Total	143,227,002	141,307,552

Note 23. Operating expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Fuel	62,353,313	66,297,875
Depreciation and amortisation of property, plant, equipment and intangible assets	12,970,321	11,265,422
Purchased electricity, capacity and heat	12,942,890	12,966,311
Employee benefits	8,823,954	8,134,624
Repairs and maintenance	4,305,479	4,057,686
Taxes other than income tax	4,248,815	3,664,590
Charge / (reversal) of property, plant and equipment impairment	3,976,534	(851,829)
Raw materials and supplies	3,479,300	2,692,717
Rent	2,354,056	2,613,170
Penalties and fines	2,326,838	1,313,167
Electricity transit	2,296,363	1,993,656
Dispatcher's fees	2,047,581	2,049,057
Loss on disposal of property, plant, equipment	1,110,398	703,933
Transport	786,223	933,452
Consulting, legal and audit services	341,618	279,129
Insurance	213,674	241,923
Ecological payments	191,955	210,740
(Reversal) / charge of provision for inventory obsolescence	(23,992)	204,028
(Gain) / loss on disposal of other assets	(38,766)	259,809
Other expenses	2,798,679	3,183,784
Total operating expenses	127,505,233	122,213,244

Employee benefits expenses comprise the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Salaries and wages	6,627,468	6,436,803
Social funds contribution	1,953,572	1,883,482
Financial aid to employees and pensioners	322,139	287,408
Non-state pensions and other long-term benefits (Note 16)	(86,302)	(500,909)
Other expenses	7,077	27,840
Employee benefits	8,823,954	8,134,624
Average number of personnel for the period	8,878	9,085

Included in social funds contribution are statutory pension contributions of RR 1,448,637 thousand for the year ended 31 December 2018 (for the year ended 31 December 2017: RR 1,386,560 thousand).

Note 24. Finance income

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income on bank deposits and current bank account balances	471,429	432,774
Foreign currency exchange gain	187,262	77,265
Effect of discounting of long-term and short-term promissory notes received	22,297	28,009
Effect of discounting of long-term trade and other receivables	7,228	1,860
Interest income on loans	5,896	12,443
Other	523	40,636
Total finance income	694,635	592,987

Note 25. Finance costs

	Year ended 31 December 2018	Year ended 31 December 2017
Interest expense on debt	3,806,255	5,505,785
Effect of discounting of long-term payables	173,519	76,927
Interest on employee benefit obligations (Note 16)	129,195	143,301
Unwinding of the present value discount - provision for ash dump (Note 17)	81,362	106,781
Foreign currency exchange loss	70,849	104,897
Interest expense under finance lease agreements	7,080	4,882
Total finance costs	4,268,260	5,942,573

Note 26. Earnings per share

	Year ended 31 December 2018	Year ended 31 December 2017
Weighted average number of ordinary shares issued, pcs	106,023,230,714	105,945,825,366
Profit attributable to the shareholders of JSC "OGK-2" (thousands of RR)	8,304,825	7,200,861
Earnings per ordinary share attributable to the shareholders of JSC "OGK-2" – basic and diluted (in RR)	0.08	0.07

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

Note 27. Capital commitments

As at 31 December 2018 in the framework of the investment program implementation the Group has capital commitments (including VAT) of RR 14,006,510 thousand (as at 31 December 2017: RR 16,399,422 thousand).

Note 28. Contingencies

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

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

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

Tax contingency. Russian tax, currency and customs legislation are subject to varying interpretation and changes, which can occur frequently. Management's interpretation of such legislation as applied to the

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

As at 31 December 2018 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and currency positions will be sustained.

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

The Group owns an ash dump on the territory of the Republic of Kazakhstan, and is subject to the environmental regulations in this country in respect of the usage of the ash dump. As such, the Group periodically evaluates its obligations under Kazakhstan environmental regulations and accrues the respective provision (Note 17).

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

Note 29. Financial instruments and financial risks factors

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

Compliance with covenants. The Group is subject to certain covenants related primarily to its loans and borrowings. The Group was in compliance with covenants at 31 December 2018 and at 31 December 2017.

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

	Notes	31 December 2018	31 December 2017
Trade and other receivables	10	11,736,533	12,326,832
Cash and cash equivalents	9	6,577,568	5,140,926
Bank deposits	12	3,000,000	-
Promissory notes	10	262,487	242,938
Loans issued	10	40,270	131,101
Interest receivable	10	28,367	3,034
Total financial assets		21,645,225	17,844,831

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

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

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



The amount of the loss allowance for impairment of financial assets is assessed based on historical default data for each group of counterparties. The assignment of counterparties to a group of receivables is determined by the management of the Group on the basis of similar credit risk characteristics. As at 31 December 2018 identification of present value of future cash flows was done with usage of original effective discount rates, weighted averaged discount rates was 9.24% p.a. (as at 31 December 2017: 9.75% p.a.). Discounting effect is recognized as part of finance expenses (finance income). The Group estimates that discounted amount of trade and other receivables less recognized impairment provision can be collected in cash or settled against trade and other payables.

Movements in trade and other receivables impairment provision during 2018 were as follows:

Impairment provision as at 1 January 2018 (Restated)	15,706,431
Accrual of impairment provision	2,858,315
Write-off of doubtful trade and other receivables	(15,299)
Reversal of impairment provision	(1,094,520)
Impairment provision as at 31 December 2018	17,454,927

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

Impairment provision as at 1 January 2017	11,768,765
Accrual of impairment provision	4,482,537
Write-off of doubtful trade and other receivables	(183,973)
Reversal of impairment provision	(898,735)
Impairment provision as at 31 December 2017	15,168,594

As at 31 December 2018 total amount of overdue trade and other receivables which were not provided for was RR 2,182,502 thousand (as at 31 December 2017: RR 3,143,483 thousand). The reason impairment provision was not created is the absence of non-payment of respective counterparties in the past.

Cash is placed in Russian financial institutions which are considered at the time of deposit to have minimal or low risk of default. The Board of Directors of the Company has approved a list of the banks, at which deposits could be placed and rules for such placements. Also the Group continuously considers financial condition, independent agencies ratings, past experience and other factors. The list of the banks with balances and ratings, at which the Group has open current bank accounts and deposits at the reporting date, is presented in Notes 9, 12.

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

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

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

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

31 December 2018	Notes	0-6 months	6-12 months	1-2 years	2-3 years
Loans including future principal and interest payments	15, 19	1,811,076	10,020,595	13,215,694	22,175,872
Finance lease liability	15, 19	9,366	9,365	8,615	-
Trade payables	18, 20	10,515,200	-	31,750	856,567
Other payables (except for advances received and liabilities for employee compensations)	18, 20	661,580	3,762,851	3,864,455	360
Total future payments		12,997,222	13,792,811	17,120,514	23,032,799

31 December 2018	Notes	3-4 years	4-5 years	Over 5 years	Total	Carrying value
Loans including future principal and interest payments	15, 19	575,531	3,168,265	4,645,404	55,612,437	47,048,466
Finance lease liability	15, 19	-	-	-	27,346	22,861
Trade payables	18, 20	833,993	-	-	12,237,510	11,935,982
Other payables (except for advances received and liabilities for employee compensations)	18, 20	360	360	5,962	8,295,928	7,666,527
Total future payments		1,409,884	3,168,625	4,651,366	76,173,221	66,673,836

31 December 2017	Notes	0-6 months	6-12 months	1-2 years	2-3 years
Loans including future principal and interest payments	15, 19	2,613,355	3,662,277	5,102,112	28,891,700
Finance lease liability	15, 19	9,366	9,365	18,731	8,615
Trade payables	18, 20	8,986,082	1,586,103	301,941	261,413
Other payables (except for advances received and liabilities for employee compensations)	18, 20	7,136,270	180	360	360
Total future payments		18,745,073	5,257,925	5,423,144	29,162,088

31 December 2017	Notes	3-4 years	4-5 years	Over 5 years	Total	Carrying value
Loans including future principal and interest payments	15, 19	28,795,585	622,145	7,942,144	77,629,318	59,300,568
Finance lease liability	15, 19	-	-	-	46,077	34,512
Trade payables	18, 20	107,557	-	-	11,243,096	11,104,074
Other payables (except for advances received and liabilities for employee compensations)	18, 20	360	360	5,531	7,143,421	7,091,528
Total future payments		28,903,502	622,505	7,947,675	96,061,912	77,530,682

The Group has the following unutilized bank credit lines:

	31 December 2018	31 December 2017
Floating / fixed interest rate facility*:		
- expiring more than 1 year from the reporting date	6,390,000	12,490,000
Fixed interest rate facility*:		
- expiring more than 1 year from the reporting date	16,200,000	32,400,000
Total	22,590,000	44,890,000

*fixed / floating rate is agreed for every tranche withdrawal.

Interest rate risk. Profit and cash flows from operating activities of the Group are mainly independent from changes in market interest rates. The Group is exposed to changes in interest rates risk only in respect of changes in market value of interest bearing loans and borrowings and interest bearing deposits. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity. Significant interest bearing assets and liabilities of the Group are disclosed in Notes 9, 12, 15, 18, 19, 20. These assets and liabilities have fixed interest rate and therefore are not exposed to risk of difference between fixed interest rate and market interest rate.

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

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

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

As at 31 December 2018 and 31 December 2017, the Group has been in compliance with the above share capital requirements. The Group's objectives when managing capital are to safeguard the Group's ability as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital defined on the basis of Company's statutory financial statements that the Company managed as at 31 December 2018 was RR 129,684,340 thousand (as at 31 December 2017: RR 120,149,020 thousand).

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

The gearing ratios, calculated on the basis of the Company's statutory financial statements prepared in accordance with RAR at 31 December 2018 and 31 December 2017 were as follows:

	31 December 2018	31 December 2017
Total liabilities	55,572,457	67,806,207
Equity * 1.4	181,558,076	168,208,628
Gearing ratio, %	0.31	0.40

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

(i) Recurring fair value measurements

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

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

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

	Notes	Level 1	Level 2	Level 3	Fair value	Carrying value
31 December 2018						
Financial assets						
Promissory notes	10	-	275,188	-	275,188	262,487
Loan issued	10	-	38,659	-	38,659	40,270
Total financial assets		-	313,847	-	313,847	302,757
Financial liabilities						
Debt (including finance lease liabilities)	15, 19	(6,588,237)	(40,300,977)	-	(46,889,214)	(47,071,327)
Trade and other payables	18, 20	-	(19,477,770)	-	(19,477,770)	(19,602,509)
Total financial liabilities		(6,588,237)	(59,778,747)	-	(66,366,984)	(66,673,836)
31 December 2017						
Financial assets						
Promissory notes	10	-	283,785	-	283,785	242,938
Loan issued	10	-	128,034	-	128,034	131,101
Total financial assets		-	411,819	-	411,819	374,039
Financial liabilities						
Debt	15, 19	(11,136,462)	(50,962,794)	-	(62,099,256)	(59,335,080)
Trade and other payables	18, 20	-	(18,242,685)	-	(18,242,685)	(18,195,602)
Total financial liabilities		(11,136,462)	(69,205,479)	-	(80,341,941)	(77,530,682)

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

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

Note 30. Segment information

The Management of the Company controls and allocates economic resources of the Group between segments and evaluates segments' operating efficiency. Primary activity of the Group is production of electric and heat power and capacity which covers 97.6% of the Group revenue in 2018 (97.9% in 2017). The Group operates in Russian Federation.

The technology of electricity and heat production does not allow segregation of electricity and heat segments. The Company's branches are managed separately due to significant decentralization and distances between them, as a result the Group discloses seven reporting segments: Kirishskaya GRES, Surgutskaya GRES-1, Novocherkasskaya GRES, Stavropolskaya GRES, Troitskaya GRES, Ryazanskaya GRES, Serovskaya GRES. All reporting segments are located on the territory of Russian Federation. In the process of evaluation of segments, results and allocation of economic resources of the Group the Management uses financial information provided below prepared in accordance with RAR. The differences between the above-mentioned financial indicators analyzed by the Management and IFRS financial information are caused by different approaches applied in IFRS and RAR. The main differences relate to the respective carrying values of the value of property, plant and equipment. The Group does not have inter-segment revenue. The main contractor of the Group is JSC "FSC" which generates 42% of the Group revenue for the year ended 31 December 2018 (for the year ended 31 December 2017: 46%).

OGK-2 Group
Notes to Consolidated Financial Statements for the year ended 31 December 2018
(in thousands of Russian Roubles unless noted otherwise)



Year ended 31 December 2018	Kirishskaya GRES	Surgutskaya GRES-1	Novocherkasskaya GRES	Stavropolskaya GRES	
Revenue	26,525,060	21,656,115	21,078,609	17,575,895	
Depreciation of property, plant, equipment*	1,397,798	476,426	1,763,138	176,453	
Segment operating profit / (loss)*	7,699,191	2,355,126	1,027,255	(337,073)	
Capital expenditure**	605,481	628,013	466,722	342,411	
Year ended 31 December 2018	Troitskaya GRES	Ryazanskaya GRES	Serovskaya GRES	Other operating segments	Total operating segments
Revenue	13,465,158	10,585,868	6,508,493	25,831,904	143,227,002
Depreciation of property, plant, equipment*	3,339,156	743,325	1,175,749	2,011,691	11,083,736
Segment operating profit / (loss)*	3,521,538	2,824,447	331,119	3,359,204	20,780,807
Capital expenditure**	4,614,946	665,707	2,524,604	1,191,905	11,039,789
Year ended 31 December 2017	Kirishskaya GRES	Surgutskaya GRES-1	Novocherkasskaya GRES	Stavropolskaya GRES	
Revenue	20,353,735	23,165,801	21,467,462	19,188,232	
Depreciation of property, plant, equipment*	1,412,657	385,480	1,718,017	163,123	
Segment operating profit / (loss)*	4,620,542	3,137,982	457,140	37,588	
Capital expenditure**	373,409	984,168	483,272	105,306	
Year ended 31 December 2017	Troitskaya GRES	Ryazanskaya GRES	Serovskaya GRES	Other operating segments	Total operating segments
Revenue	12,784,752	12,038,340	6,890,168	25,419,062	141,307,552
Depreciation of property, plant, equipment*	2,531,019	828,245	1,188,035	1,958,668	10,185,244
Segment operating profit / (loss)*	3,471,462	3,244,180	(755,068)	2,391,188	16,605,014
Capital expenditure**	4,317,910	517,175	648,224	1,582,449	9,011,913

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

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

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

	Year ended 31 December 2018	Year ended 31 December 2017
Segment operating profit	20,780,807	16,605,014
Adjustments, arising from different accounting policy:	(4,343,758)	1,446,404
Provision for impairment of trade and other receivables	209,864	15,578
Retirement benefit obligations adjustment	208,659	594,953
Finance lease	18,731	10,117
(Loss) / gain on disposal of assets	(137,758)	496,144
Depreciation adjustment	(720,471)	(778,606)
Impairment of property, plant and equipment (Note 23)	(3,976,534)	851,829
Other adjustments	53,751	256,389
Unallocated expenses:	(2,471,038)	(2,554,118)
Consulting, legal and audit services	(209,250)	(117,190)
Rent	(214,433)	(285,582)
Employee benefits	(877,986)	(819,656)
Provision for impairment of trade and other receivables	(1,387,513)	(1,271,697)
Other (income) / expenses	218,144	(59,993)
Operating profit (IFRS)	13,966,011	15,497,300

Segment's assets are disclosed below:

	Kirishskaya GRES	Surgutskaya GRES-1	Novocherkasskaya GRES	Stavropolskaya GRES	
31 December 2018	20,391,910	5,667,904	36,189,308	2,893,530	
	Troitskaya GRES	Ryazanskaya GRES	Serovskaya GRES	Other operating segments	Total assets
31 December 2018	57,491,989	14,463,601	21,409,651	27,603,069	186,110,962
	Kirishskaya GRES	Surgutskaya GRES-1	Novocherkasskaya GRES	Stavropolskaya GRES	
31 December 2017	20,988,147	5,515,593	37,619,739	3,381,361	
	Troitskaya GRES	Ryazanskaya GRES	Serovskaya GRES	Other operating segments	Total assets
31 December 2017	57,220,749	15,024,540	20,386,788	28,616,720	188,753,637

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

	31 December 2018	31 December 2017
Total assets for segments	186,110,962	188,753,637
Unallocated assets	22,870,997	17,962,672
Adjustments, arisen from different accounting policy:	4,399,461	9,343,475
Property, plant and equipment adjustment	4,849,053	9,193,469
Deposits for pensions (Note 8)	500,536	498,131
Deferred tax	-	(486)
Discounting of promissory notes (Note 10)	(197,409)	(219,706)
Impairment of trade and other receivables	(331,440)	(3,467)
Discounting of trade and other receivables (Note 10)	-	(7,228)
Discounting of trade and other payables (Note 18, 20)	(392,896)	(58,658)
Other adjustments	(28,383)	(58,580)
Total assets (IFRS)	213,381,420	216,059,784

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

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

Note 31. Events after the reporting date

There were no significant subsequent events that can influence the Group's financial position, cash flows or operating results which took place during the period between reporting date and date of signing of the Group's consolidated financial statements for the year ended 31 December 2018.

Managing Director

Chief Accountant



A.V. Semikolenov

L.V. Klishch

6 March 2019