OGK-2 GROUP
CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR THE YEAR ENDED 31 DECEMBER 2019

Translation from the Russian original

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Notes to Consolidated Financial Statements

Tel: +7 495 797 56 65
Fax: +7 495 797 56 60
reception@bdo.ru
www.bdo.ru

BDO Unicon AO
Suite 50, Office I, 3rd Floor, Section 11,
Block 1, Bldg. 125, Warshavskoe Shosse,
Moscow, 117587, Russia

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, Solnechnodolsk Village, Izobilnensky District, Stavropol Region, 356126) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 2019, 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 receivable based on historical data.

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

The results of applying the expected credit loss model for the Group's receivables are presented in Note 10 to the consolidated financial statements.

Assessment of impairment of property, plant and equipment

At each reporting date, the Group checks for signs of impairment of property, plant and equipment and, if necessary, conducts appropriate testing. 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 checking the initial data for the test and analyzing cash flows, to which the results of the impairment test are the most sensitive and which have the most significant effect on determining the recoverable amount of property, plant and equipment. During our audit, we engaged an expert to assist us in evaluating the assumptions and methodology used by the Group to conduct the test.

The results of the impairment test and the key assumptions used are presented in Note 6 to the consolidated financial statements.

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

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, Issuer's quarterly report for the 1st quarter of 2020, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report, Issuer's quarterly report for the 1st quarter of 2020 are expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it 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, Issuer's quarterly report for the 1st quarter of 2020 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.

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

The translation is true and correct.

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

«БДО Юникон»

Audit company:
BDO Unicon Aktsionernoe Obshchestvo
Main State Registration Number: 1037739271701
Suite 50, Office I, 3rd Floor, Section 11, Block 1, Bldg. 125, Warshavskoye Shosse, Moscow, 117587, Russia
Member of the Self-regulatory organization of auditors Association "Sodruzhestvo"
Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: 12006020340

5 March 2020

(in millions of Russian Roubles unless noted otherwise)

	Notes	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	6	162,476	176,494
Intangible assets	7	442	616
Investments in associates	1	20,000	-
Trade and other receivables	10	563	434
Deferred tax assets	14	466	354
Long-term financial assets	12	-	41
Other non-current assets		507	501
Total non-current assets		**184,454**	**178,440**
Current assets			
Inventories	11	13,486	12,004
Trade and other receivables	10	12,459	13,354
Income tax receivable		9	6
Cash and cash equivalents	9	92	6,578
Short-term financial assets	12	9,722	3,000
		35,768	**34,942**
Assets held for sale	8	**5,681**	-
Total current assets		**41,449**	**34,942**
TOTAL ASSETS		**225,903**	**213,382**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	40,057	40,057
Share premium		26,846	28,379
Treasury shares		-	(3,707)
Retained earnings and other reserves		70,423	62,587
Equity attributable to the shareholders of JSC "OGK-2"		**137,326**	**127,316**
Non-controlling interest		15	-
Total equity		**137,341**	**127,316**
Non-current liabilities			
Non-current debt	15	33,246	38,460
Employee benefit liabilities	16	2,047	1,600
Trade and other payables	19	2,210	4,874
Provisions	17	1,171	959
Deferred income tax liabilities	14	12,668	12,987
Total non-current liabilities		**51,342**	**58,880**
Current liabilities			
Current debt and current portion of non-current debt	18	19,385	8,611
Trade and other payables	19	15,390	15,468
Current income tax payable		141	128
Other taxes payable	20	2,304	2,907
Provisions	17	-	72
Total current liabilities		**37,220**	**27,186**
Total liabilities		**88,562**	**86,066**
TOTAL EQUITY AND LIABILITIES		**225,903**	**213,382**

Managing Director — A.V. Semikolenov

Chief Accountant — L.V. Klishch

5 March 2020

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

(in millions of Russian Roubles unless noted otherwise)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Revenues	21	134,579	143,227
Operating expenses	22	(116,285)	(127,388)
Impairment loss on financial assets		(456)	(1,756)
Operating profit		**17,838**	**14,083**
Finance income	23	1,122	507
Finance costs	24	(3,906)	(4,197)
Profit before income tax		**15,054**	**10,393**
Income tax charge	14	(3,029)	(2,088)
Profit for the year		**12,025**	**8,305**
Other comprehensive (loss) / income:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit pension plans, net of tax	14,16	(271)	130
Total comprehensive income for the year		**11,754**	**8,435**
Profit for the year attributable to:			
Shareholders of JSC "OGK-2"		12,022	8,305
Non-controlling interest		3	-
		12,025	**8,305**
Total comprehensive income for the year attributable to:			
Shareholders of JSC "OGK-2"		11,751	8,435
Non-controlling interest		3	-
		11,754	**8,435**
Earnings per ordinary share attributable to the shareholders of JSC "OGK-2" – basic and diluted (in Russian Roubles)	25	**0.11**	**0.08**

Managing Director A.V. Semikolenov

Chief Accountant L.V. Klishch

5 March 2020

OGK-2 Group
Consolidated Statement of Cash Flows for the year ended 31 December 2019
(in millions of Russian Roubles unless noted otherwise)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**15,054**	**10,393**
Adjustments to reconcile profit before income tax:			
Depreciation and amortisation	22	13,365	12,970
Impairment loss on financial assets		456	1,756
Impairment loss on non-financial assets	6, 22	4,321	3,953
Loss on disposal of property, plant and equipment and other assets		202	1,072
Non-state pensions and other long-term benefits	22	134	(86)
Finance income	23	(1,122)	(507)
Finance costs	24	3,906	4,197
Other non-cash items		(13)	(862)
Operating cash flows before working capital changes		**36,303**	**32,886**
Working capital changes:			
Change in trade and other receivables		(672)	(2,280)
Change in inventories		(1,794)	(659)
Change in trade and other payables		2,337	807
Change in other taxes payable		(611)	1,330
Change in provisions		(78)	(6)
Change in employee benefit liabilities		(128)	(129)
Working capital changes		**(946)**	**(937)**
Income tax paid		(3,406)	(1,008)
Interest paid	18, 19	(4,066)	(3,461)
Net cash from operating activities		**27,885**	**27,480**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment, intangible assets and other non-current assets		(9,092)	(9,046)
Proceeds from sale of property, plant and equipment and other assets		10	46
Loans issued		(12,199)	-
Proceeds from loans issued		2,852	78
Capitalized interest paid		(368)	(796)
Interest received		1,074	465
Business acquisition of subsidiaries, net of cash acquired		(1,061)	-
Increase in deposits		(3,000)	(3,000)
Proceeds from deposits		6,000	-
Investment in associate		(20,000)	-
Net cash used in investing activities		**(35,784)**	**(12,253)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	15, 18	36,050	22,410
Repayment of borrowings	15, 18	(30,463)	(34,589)
Payment of lease liabilities	19	(178)	(11)
Dividends paid to shareholders of JSC "OGK-2"		(3,886)	(1,722)
Net cash from / (used in) financing activities		**1,523**	**(13,912)**
Net (decrease) / increase in cash and cash equivalents		**(6,376)**	**1,315**
Effect of exchange rate changes on cash and cash equivalents		(110)	122
Cash and cash equivalents at the beginning of the year	9	**6,578**	**5,141**
Cash and cash equivalents at the end of the year	9	**92**	**6,578**

Managing Director — A.V. Semikolenov

Chief Accountant — L.V. Klishch

5 March 2020

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 2019
(in millions of Russian Roubles)

	Share capital	Treasury shares	Share premium	Retained earnings and other reserves	Equity attributable to the shareholders of JSC "OGK-2"	Non-controlling interest	Total equity
At 1 January 2018	**40,057**	**(3,821)**	**28,379**	**55,969**	**120,584**	**-**	**120,584**
Profit for the year	-	-	-	8,305	8,305	-	8,305
Other comprehensive income:							
Remeasurements of defined benefit pension plans, net of tax	-	-	-	130	130	-	130
Total comprehensive income for the year	-	-	-	*8,435*	*8,435*	-	*8,435*
Transactions with shareholders recognized directly in equity							
Dividends (Note 13)	-	-	-	(1,730)	(1,730)	-	(1,730)
Restoration of unclaimed dividends	-	-	-	3	3	-	3
Remuneration paid (Note 13)	-	114	-	(90)	24	-	24
At 31 December 2018	**40,057**	**(3,707)**	**28,379**	**62,587**	**127,316**	**-**	**127,316**
At 1 January 2019	**40,057**	**(3,707)**	**28,379**	**62,587**	**127,316**	**-**	**127,316**
Profit for the year	-	-	-	12,022	12,022	3	12,025
Other comprehensive loss:							
Remeasurements of defined benefit pension plans, net of tax	-	-	-	(271)	(271)	-	(271)
Total comprehensive income for the year	-	-	-	*11,751*	*11,751*	*3*	*11,754*
Transactions with shareholders recognized directly in equity							
Dividends (Note 13)	-	-	-	(3,901)	(3,901)	-	(3,901)
Restoration of unclaimed dividends	-	-	-	2	2	-	2
Acquisition of businesses under common control (Note 1)	-	-	-	(16)	(16)	12	(4)
Transfer of treasury shares (Note 13)	-	3,707	(1,533)	-	2,174	-	2,174
At 31 December 2019	**40,057**	**-**	**26,846**	**70,423**	**137,326**	**15**	**137,341**

Managing Director A.V. Semikolenov

Chief Accountant L.V. Klishch

5 March 2020

(in millions of Russian Roubles unless noted otherwise)

Note 1. The Group and its operations

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

The primary activities of the Company are generation 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 and associates form the OGK-2 Group (the "Group"):

	Ownership interest (%)	
	31 December 2019	**31 December 2018**
LLC "Centr 112"	100%	100%
LLC "OGK-Investproekt"	100%	100%
LLC "Novomichurinskoe ATP"	100%	-
OJSC "Novomichurinskoe PPGT"	75%	-
LLC "OGK-2 Finance"	-	100%
LLC "GEH Industrial Assets"	38%	-

As at 30 June 2019 the Group recognized 100% share in LLC «Novomichurinskoe ATP» and 75% share in OJSC «Novomichurinskoe ATP» for consolidation purposes. This transaction was considered as transfer of businesses from parties under common control. The assets and liabilities of the subsidiaries transferred under common control are accounted for at the predecessor entity's carrying amounts. Difference between the carrying amount of net assets and the nominal value of share capital contributed is accounted for in these financial statements as retained earnings. Value of the net assets of the acquired subsidiaries is RR 90 million. The Group's share in net assets of subsidiaries at the acquisition date is RR 78 million.

At the end of December 2019, the Group acquired 38% share in the authorized capital of LLC "GEH Industrial Assets" for the cash payment of RR 20,000 million. LLC "GEH Industrial Assets" and its subsidiaries operate primarily in the Russian Federation, their main activity is the development and production of energy-saving turbocompressor and gas pumping equipment. This investment is accounted for as an investment in an associate of the Group using the equity method as at 31 December 2019.

In December 2019 LLC "OGK-2 Finance" was liquidated.

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 27). During 2019 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 2019 (as at 31 December 2018: 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 2019 and 31 December 2018.

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

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

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

Note 2. Basis of preparation

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

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

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

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 million, 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 27, the Government's economic, social and other policies could have material effects on the operations of the Group.

Useful lives of property, plant and equipment

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

Tax contingencies

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

Restoration provision

The Group reviews its decommissioning liability, representing site restoration provisions, at each reporting date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur. See effect of these critical accounting estimates and assumptions in Note 17.

Note 3. New accounting developments

The Group has adopted all new standards, amendments to standards and interpretations that were effective from 1 January 2019.

Application of new IFRSs

IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).

The new standard defines the principles of recognition, measurement, presentation and disclosure of information in the financial statements in respect of lease agreements. The standard requires lessees to recognize right-of-use assets and lease liabilities for most lease agreements.

Right-of-use assets are initially measured at cost and depreciated by the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The cost of right-of-use assets comprises of initial measurement of the lease liability, any lease payments made before or at the commencement date and initial direct costs.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and subsequently measured at amortized cost with the interest expense recognized within finance expense in the consolidated statement of comprehensive income.

In accordance with IFRS 16, the Group elected not to apply the standard to short-term leases and leases with underlying assets of low value.

In accordance with transitional provisions of IFRS 16, the Group applied modified retrospective approach with cumulative effect of initial application of the standard recognized as at 1 January 2019. The Group followed allowed practical expedients and did not apply the new standard to leases for which the lease term ends within twelve months of the date of transition, and also applied one discount rate for a portfolio of contracts with relatively similar characteristics.

(in millions of Russian Roubles unless noted otherwise)

The table below shows the effect of the initial application of IFRS 16 Leases on the consolidated statement of financial position as at 1 January 2019:

	Balance as at 31 December 2018	Effect of initial application of IFRS 16	Balance as at 1 January 2019 (restated)
Property, plant and equipment	176,494	1,209	177,703
Other non-current assets	976	(14)	962
Total non-current assets	**178,440**	**1,195**	**179,635**
Trade and other receivables	13,354	(212)	13,142
Total current assets	**34,942**	**(212)**	**34,730**
TOTAL ASSETS	**213,382**	**983**	**214,365**
Non-current debt	38,460	(8)	38,452
Other long-term liabilities	4,874	831	5,705
Total non-current liabilities	**58,880**	**823**	**59,703**
Current debt and current portion of non-current debt	8,611	(15)	8,596
Trade and other payables	15,468	175	15,643
Total current liabilities	**27,186**	**160**	**27,346**
Total liabilities	**86,066**	**983**	**87,049**
TOTAL EQUITY AND LIABILITIES	**213,382**	**983**	**214,365**

In the consolidated statement of comprehensive income for the year ended 31 December 2019 the Group has recorded RR 209 million in depreciation and amortisation of property, plant, equipment, intangible assets and right-of-use assets (Note 22) and RR 105 million (Note 24) in finance costs in relation to leases accounted for under IFRS 16 "Leases".

Explanation of differences between operating lease commitments as at 31 December 2018 with recognized lease liabilities as at 1 January 2019 is presented below:

Operating lease commitments as at 31 December 2018 disclosed applying IAS 17	**5,406**
Recognition exemptions:	
For short-term leases	(2)
For leases with variable payments	(2,460)
Effect of applying judgment regarding terms / variable lease payments based on index or rate as at 1 January 2019	(851)
Effect of discounting of lease liabilities as at 1 January 2019	(1,099)
Lease liabilities recognized in accordance with IFRS 16 as at 1 January 2019	**994**
Finance lease liability as at 31 December 2018	23
Lease liabilities in accordance with IFRS 16 as at 1 January 2019	**1,017**

The zero-coupon yield rate of government bonds, taking into account the risk premium adjusted by the correction factor, was used as the discount rate. The weighted average rate applied was 10.59%.

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 1 January 2019.

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 1 January 2019.

In October 2017, the IASB issued an amendment to *IAS 28 Investments in Associates and Joint Ventures*. The amendment clarifies that long-term interests in associates and joint ventures that form part of the entity's net investment in an associate or joint venture should be accounted for in accordance with *IFRS 9 Financial Instruments.*

In December 2017, the IASB issued amendments to *IAS 3 Business Combinations* and *IFRS 11 Joint Arrangements*. This amendment clarifies the accounting for the acquisition of control (or joint control) over a business, which is a joint operation if the organization previously held interests in the business.

In December 2017, the IASB issued an amendment to *IAS 23 Borrowing Costs*. The amendment clarifies which borrowing costs are eligible for capitalisation in particular circumstances.

In December 2017, the IASB issued an amendment to *IAS 12 Income Taxes*. The amendment clarifies income tax consequences of payments on financial instruments classified as equity.

In February 2018, the IASB issued amendments to *IAS 19 Employee benefits* named Plan Amendment, Curtailment or Settlement. The amendments specify 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 1 January 2019.

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 2020. In particular, the Group has not early adopted the standards and amendments:

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 1 January 2021.

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 1 January 2020.

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 1 January 2020; earlier application is permitted.

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 1 January 2020; earlier application is permitted.

The Group is currently assessing how these changes will affect its financial position and results of operations.

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) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method and are recognised initially at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the period as share of income (loss) of associates, the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of income (loss) of associates. When the Group's share of losses of associates accounted for using the equity method exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

C) 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. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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. The consolidated financial statements include financial results of the acquired company from the date of the transaction. Comparative amounts are not 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 61.9057 and 69.4706 as at 31 December 2019 and 31 December 2018, respectively. The official RR to EURO exchange rates as determined by the Central Bank of the Russian Federation were 69.3406 and 79.4605 as at 31 December 2019 and 31 December 2018, 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.

(in millions of Russian Roubles unless noted otherwise)

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.

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 remaining useful lives, in years, are as follows:

Classes of property, plant and equipment	31 December 2019	31 December 2018
Production buildings	17-47	18-48
Constructions	4-32	5-33
Energy machinery and equipment	10-36	11-37
Other machinery and equipment	2-26	1-27
Other	1-10	1-11

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

Financial instruments

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. 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 trade 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 income) 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. The capitalisation rate is determined as the weighted average of the borrowing costs applicable to all borrowings of the Company that are outstanding during the period. The Company excludes from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs that the Company capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

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 investing 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.

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 and inflations. 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.

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. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

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. 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 2019	31 December 2018
SAP software	4-8	3-9
Other intangibles	1-10	1-10

Assets held for sale. Assets classify as held for sale if their value will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

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 on advances paid to capital contractors and to acquire intangible assets is included into 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.

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.

Define 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.

Leases. At inception of a contract, the Group assesses whether the contract is, or contains, a lease. In other words, the Group determines whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a common approach to recognition and merasurement of all lease agreements, except for short-term leases that have a lease term of 12 months or less and for leases for which the underlying asset is of low value. Short-term leases and leases for which the underlying asset is of low value are charged to profit or loss on a straight-line basis over the period of the lease.

Right-of-use assets. The Group recognises right-of-use assets at the commencement date, i.e. the date on which a lessor makes an underlying asset available for use by the Group. The right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. The cost of the right-of-use assets comprises the amount of the initial measurement of the lease liability, any initial direct costs incurred by the lessee; any lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are depreciated using the straight-line method to the earlier of the end of the lease term or the end of the useful life of the right-of-use asset.

The Group presents right-of-use assets within property, plant and equipment.

Lease liabilities. At the commencement date, the Group recognizes lease liabilities which are measured at the present value of the lease payments that are not paid at that date. The lease payments include fixed payments (including in-substance fixed), variable lease payments that depend on an index or a rate, and amounts expected to be payable under residual value guarantees, less any lease incentives receivable. Variable lease payments that do not depend on an index or a rate are recognized as expenses (except when incurred for producing inventories) in the period in which an event or condition occurs that leads to such payments.

(in millions of Russian Roubles unless noted otherwise)

To measure the present value of the lease payments the Group uses incremental borrowing rate at the commencement date as the interest rate implicit in the lease cannot be readily determined.

After the commencement date, the lease liabilities are increased to reflect interest and are reduced to reflect the lease payments made. Moreover, the Group remeasures the carrying amount of lease liabilities to reflect lease modifications, changes in the lease term, changes in future lease payments (e.g., a change in an index or a rate used to determine those payments) or changes in the assessment of an option to purchase the underlying asset.

The Group presents lease liabilities within trade and other payables.

Policies applicable prior to 31 December 2018.

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.

Note 5. Related Parties

In the consolidated financial statements a related party is a person or entity that has control or significant influence over the reporting entity as determined if IAS 24 Related parties.

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 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.

PJSC Gazprom is the ultimate parent company of the Group. The Russian Federation is the ultimate controlling party of the Group.

a) Transactions with GAZPROM Group and its associates

Significant transactions with Gazprom Group for the year ended 31 December 2019 and balances with these organizations as at 31 December 2019 are presented below:

Revenues

	Year ended 31 December 2019	Year ended 31 December 2018
Electricity and capacity	4,053	3,504
Heating	4	5
Other	505	270
Total	**4,562**	**3,779**

(in millions of Russian Roubles unless noted otherwise)

Operating expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Fuel	34,804	37,968
Rent	4,599	2,274
Repairs	3,086	3,426
Transport	795	650
Purchased electricity, capacity and heat	36	181
Insurance	-	213
Penalties and fines	-	132
Other expenses	1,455	1,374
Total operating expenses	**44,775**	**46,218**

Rent expense for the year ended 31 December 2019 includes expense relating to variable rental payments in the amount of RR 4,598 million and expense relating to short-term leases in the amount of RR 2 million.

Finance income

	Year ended 31 December 2019	Year ended 31 December 2018
Interest income on bank deposits and current bank account balances	144	62
Interest income on loans	19	6
Total finance income	**163**	**68**

Finance costs

	Year ended 31 December 2019	Year ended 31 December 2018
Interest expense on debt	1,866	2,845
Effect of discounting of financial instruments	118	38
Interest expense on lease liabilities	54	7
Total finance costs	**2,038**	**2,890**

Purchase of non-current and current assets

	Year ended 31 December 2019	Year ended 31 December 2018
Acquisition of property, plant and equipment	3,045	4,495
including capitalized borrowing costs from related parties	128	107
Purchases of materials	824	1,590
Purchases of intangible assets	-	63
Total purchase of non-current and current assets	**3,869**	**6,148**

Other transactions

	Year ended 31 December 2019	Year ended 31 December 2018
Impairment loss on financial assets	3	5
Proceeds from long-term borrowings	19,450	-
Repayment of long-term borrowings (excluding interest)	13,863	12,174
Repayment of loans issued (excluding interest)	-	78

(in millions of Russian Roubles unless noted otherwise)

The Group has not entered into transactions with PJSC "Centerenergyholding" for the years ended 31 December 2019 and 31 December 2018.

Balances

	31 December 2019	31 December 2018
Long-term financial assets	-	41
Short-term financial assets	9,408	-
Cash and cash equivalents	2	4
Equity securities at fair value through profit or loss	314	-
Long-term trade and other receivables	86	153
Short-term trade and other receivables	1,837	1,515
Allowance for expected credit losses of short-term trade and other receivables	-	(3)
Long-term advances for property, plant and equipment (net of VAT)	3	-
Short-term advances for property, plant and equipment (net of VAT)	73	127
Non-current debt (Note 15)	28,246	22,667
Current debt (Note 18)	186	207
Long-term trade and other payables	1,525	1,394
Short-term trade and other payables	9,692	12,156

As at 31 December 2019 the Group has capital commitments to GAZPROM Group and its associates (including VAT) of 10,021 RR million (as at 31 December 2018: RR 10,942 million).

b) 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.

Significant transactions with the state-controlled entities for the year ended 31 December 2019 and balances with these organizations as at 31 December 2019 are presented below:

Revenues

	Year ended 31 December 2019	Year ended 31 December 2018
Electricity and capacity	28,087	26,856
Heating	1,003	1,016
Other	419	2,452
Total	**29,509**	**30,324**

Operating expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Dispatcher's fees (Note 22)	2,160	2,048
Security	390	365
Purchased electricity, capacity and heat	263	650
Electricity transit (Note 22)	47	2,296
Ecological payments	39	69
Penalties and fines	(66)	771
Other expenses	567	460
Total operating expenses	**3,400**	**6,659**

(in millions of Russian Roubles unless noted otherwise)

Rent expense for the year ended 31 December 2019 includes expense relating to short-term leases.

Finance income

	Year ended 31 December 2019	Year ended 31 December 2018
Interest income on bank deposits and current bank account balances	554	295
Total finance income	**554**	**295**

Finance costs

	Year ended 31 December 2019	Year ended 31 December 2018
Interest expense on debt	1,179	266
Interest expenses on lease liabilities	51	-
Total finance costs	**1,230**	**266**

Purchase of non-current and current assets

	Year ended 31 December 2019	Year ended 31 December 2018
Acquisition of property, plant and equipment	1,506	607
including capitalized borrowing costs from related parties	158	601
Purchases of materials	947	67
Purchases of intangible assets	4	3
Total purchase of non-current and current assets	**2,457**	**677**

Other transactions

	Year ended 31 December 2019	Year ended 31 December 2018
Impairment loss on financial assets	772	675
Proceeds from borrowings	16,600	17,410
Repayment of borrowings (excluding interest)	16,600	14,110

Balances

	31 December 2019	31 December 2018
Long-term trade and other receivables	72	-
Allowance for expected credit losses of long-term trade and other receivables	(14)	-
Short-term trade and other receivables	12,330	12,163
Allowance for expected credit losses of short-term trade and other receivables	(8,568)	(7,810)
Long-term advances for property, plant and equipment	1	1
Cash and cash equivalents (Note 9)	54	2,561
Long-term trade and other payables	341	-
Short-term trade and other payables	954	921
Non-current debt (Note 15)	-	9,110
Current debt (Note 18)	17,423	8,315

(in millions of Russian Roubles unless noted otherwise)

As at 31 December 2019 the Group has capital commitments to state-controlled entities (including VAT) of 6 RR million (as at 31 December 2018: RR 1,149 million).

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 2019	Year ended 31 December 2018
Sales of electricity and capacity	55,129	59,786
Purchases of electricity and capacity	8,662	11,684
Other income	2	2
Other expenses	18	20

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

	31 December 2019	31 December 2018
Trade and other short-term receivables	1,812	2,480
Allowance for expected credit losses of short-term trade and other receivables	(17)	(16)
Trade and other short-term payables	451	693

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. After transfer of the powers of the sole executive body to the management company remuneration of the management company is included in the total amount of short-term remuneration of the key management.

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

	Year ended 31 December 2019		Year ended 31 December 2018	
	Expenses	Accrued liabilities	Expenses	Accrued liabilities
Salaries and bonuses	-	-	74	-
Social funds contribution	-	-	11	-
Board remuneration	47	-	31	-
Total	47	-	116	-

The remuneration of the management company Gazprom Energoholding LLC for year ended 31 December 2019 was RR 140 million (for year ended 31 December 2018: RR 35 million).

(in millions of Russian Roubles unless noted otherwise)

Note 6. Property, plant and equipment

	Right-of-use assets	Production buildings	Construc tions	Energy machinery and equipment	Other machinery and equipment	Other	Construc-tion in progress	Total
Cost								
Opening balance as at 1 January 2019 (Restated)	**1,249**	**61,392**	**37,902**	**108,825**	**52,487**	**3,573**	**14,113**	**279,541**
Additions	1,177	13	142	-	76	67	6,389	7,864
Transfer	-	3,669	2,924	1,355	6,260	331	(14,539)	-
Disposals	(92)	(37)	(186)	(438)	(716)	(36)	(46)	(1,551)
Reclassification	(5)	(4,823)	(1,556)	(3,537)	(1,182)	(243)	(851)	(12,197)
Closing balance as at 31 December 2019	**2,329**	**60,214**	**39,226**	**106,205**	**56,925**	**3,692**	**5,066**	**273,657**
Accumulated depreciation (including impairment)								
Opening balance as at 1 January 2019	**(9)**	**(24,478)**	**(16,280)**	**(38,729)**	**(20,286)**	**(1,965)**	**(91)**	**(101,838)**
Charge for the period	(209)	(1,447)	(1,458)	(5,849)	(3,897)	(324)	-	(13,184)
Disposals	-	20	75	409	649	36	2	1,191
Charge of impairment	(13)	(820)	(413)	(2,032)	(478)	(69)	(487)	(4,312)
Reversal of impairment	-	-	-	-	-	-	26	26
Reclassification	1	3,287	1,138	1,811	535	164	-	6,936
Closing balance as at 31 December 2019	**(230)**	**(23,438)**	**(16,938)**	**(44,390)**	**(23,477)**	**(2,158)**	**(550)**	**(111,181)**
Net book value as at 31 December 2019	**2,099**	**36,776**	**22,288**	**61,815**	**33,448**	**1,534**	**4,516**	**162,476**
Net book value as at 31 December 2018	**31**	**36,914**	**21,622**	**70,096**	**32,201**	**1,608**	**14,022**	**176,494**
Net book value as at 1 January 2019 (Restated)	**1,240**	**36,914**	**21,622**	**70,096**	**32,201**	**1,608**	**14,022**	**177,703**
Cost								
Opening balance as at 1 January 2018	-	**60,495**	**36,937**	**106,502**	**40,964**	**3,144**	**23,335**	**271,377**
Additions	-	-	-	-	77	89	10,432	10,598
Transfer	-	1,028	2,142	3,570	11,740	410	(18,890)	-
Disposals	-	(131)	(1,177)	(1,247)	(254)	(70)	(764)	(3,643)
Closing balance as at 31 December 2018	-	**61,392**	**37,902**	**108,825**	**52,527**	**3,573**	**14,113**	**278,332**
Accumulated depreciation (including impairment)								
Opening balance as at 1 January 2018	-	**(22,101)**	**(15,294)**	**(31,787)**	**(16,091)**	**(1,513)**	**(324)**	**(87,110)**
Charge for the period	-	(1,440)	(1,390)	(5,513)	(3,971)	(405)	-	(12,719)
Disposals	-	103	792	552	238	64	219	1,968
Transfer	-	-	-	(1)	(7)	-	8	-
Charge of impairment	-	(1,049)	(389)	(1,984)	(465)	(111)	(13)	(4,011)
Reversal of impairment	-	9	1	4	1	-	19	34
Closing balance as at 31 December 2018	-	**(24,478)**	**(16,280)**	**(38,729)**	**(20,295)**	**(1,965)**	**(91)**	**(101,838)**
Net book value as at 31 December 2018	-	**36,914**	**21,622**	**70,096**	**32,232**	**1,608**	**14,022**	**176,494**
Net book value as at 31 December 2017	-	**38,394**	**21,643**	**74,716**	**24,872**	**1,631**	**23,011**	**184,267**

For the year ended 31 December 2019 the Group capitalized borrowing costs attributable to the acquisition, construction or production of an asset in the amount of RR 342 million (for the year ended 31 December 2018: RR 805 million), with an average capitalisation rate of 7.70% (for the year ended 31 December 2018: 7.56%).

(in millions of Russian Roubles unless noted otherwise)

Movement of the right-of-use assets for the year ended 31 December 2019 is presented below:

	Production buildings	Constructions	Other machinery and equipment	Other	Total
Cost					
Opening balance as at 1 January 2019 (Restated)	**590**	**212**	**40**	**407**	**1 249**
Additions as a result of new leases	-	1 130	-	2	1 132
Effect of leases modification	(9)	-	-	(38)	(47)
Reclassification	-	-	-	(5)	(5)
Closing balance as at 31 December 2019	**581**	**1 342**	**40**	**366**	**2 329**
Accumulated depreciation (including impairment)					
Opening balance as at 1 January 2019 (Restated)	-	-	**(9)**	-	**(9)**
Charge for the period	(176)	-	(4)	(29)	(209)
Charge of impairment	-	-	-	(13)	(13)
Reclassification	-	-	-	1	1
Closing balance as at 31 December 2019	**(176)**	-	**(13)**	**(41)**	**(230)**
Net book value as at 31 December 2019	**405**	**1 342**	**27**	**325**	**2 099**
Net book value as at 31 December 2018	-	-	**31**	-	**31**
Net book value as at 1 January 2019 (Restated)	**590**	**212**	**31**	**407**	**1 240**

Other right-of-use assets mostly comprise rented land plots.

Impairment

Management identified indication of impairment of the Group's property, plant and equipment, assets under construction and the right-of-use assets as at 31 December 2019. For the purposes of impairment test assets of the Group were grouped into 13 cash-generating units. Each power station of the Group was considered as separate cash-generating unit: Troitskaya GRES, Stavropolskaya GRES, Serovskaya GRES, Surgutskaya GRES-1, Kirishskaya GRES, Novochercasskaya GRES, Ryazanskaya GRES, each of which is a separate reportable segment and, Krasnoyarskaya GRES-2, Cherepovetskaya GRES, Pskovskaya GRES, Adlerskaya TES, Groznenskaya TES, LLC "OGK-Investproekt" which included in other operating segments of the Group (Note 29).

Management of the Group conducted the test for the economic impairment of cash-generating units by comparing the carrying value of property, plant and equipment, assets under construction and the right-of-use assets 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 of each cash-generating unit was determined based on value in use. Value in use was 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 the following assumptions:

Indicators	31 December 2019	31 December 2018
Growth rate	3.2%	4.0%
Forecasting period (years)	5	5
Discount rate (post tax)	10.45%	12.27%

As at 31 December 2019 Management of the Group concluded on the impairment of certain cash-generating unit - Kirishskaya GRES in the amount of RR 4,142 million, Cherepovetskaya GRES in the amount of RR 170 million and on necessity of reversal of the impairment of construction in progress of Pskovskaya GRES in the amount of RR 26 million. As a result the impairment loss in the amount of RR 4,312 million was recognised in operating expenses in the consolidated statement of comprehensive income for the year ended 31 December 2019 (for the year ended 31 December 2018 impairment loss in the amount of RR 3,977 million was recognised).

The impairment provision balance in relation to property, plant, equipment, assets under construction and the right-of-use assets is included in accumulated depreciation as at 31 December 2019 in the amount of RR 11,596 million (as at 31 December 2018: RR 7,321 million).

(in millions of Russian Roubles unless noted otherwise)

Note 7. Intangible assets

	SAP software	Other intangibles	Total
Cost			
Balance as at 1 January 2019	**862**	**658**	**1,520**
Additions	-	141	141
Disposals	(247)	(251)	(498)
Balance as at 31 December 2019	**615**	**548**	**1,163**
Amortisation			
Balance as at 1 January 2019	**(571)**	**(333)**	**(904)**
Charge for the period	(61)	(168)	(229)
Disposals	247	165	412
Balance as at 31 December 2019	**(385)**	**(336)**	**(721)**
Net book value as at 31 December 2019	**230**	**212**	**442**
Net book value as at 31 December 2018	**291**	**325**	**616**

	SAP software	Other intangibles	Total
Cost			
Balance as at 1 January 2018	**862**	**567**	**1,429**
Additions	-	165	165
Disposals	-	(74)	(74)
Balance as at 31 December 2018	**862**	**658**	**1,520**
Amortisation			
Balance as at 1 January 2018	**(480)**	**(231)**	**(711)**
Charge for the period	(91)	(176)	(267)
Disposals	-	74	74
Balance as at 31 December 2018	**(571)**	**(333)**	**(904)**
Net book value as at 31 December 2018	**291**	**325**	**616**
Net book value as at 31 December 2017	**382**	**336**	**718**

Note 8. Assets held for sale

On 9 December 2019, the Board of Directors made a decision on the disposal of assets of the power station Krasnoyarskaya GRES-2, located in Zelenogorsk, Krasnoyarsk Territory.

On 31 December 2019, an agreement on sale of assets of Krasnoyarskaya GRES-2 was concluded with JSC Yenisei TGK (TGK-13).

The selling price of Krasnoyarskaya GRES-2 is RR 10,000 million (excluding VAT). The following assets were classified as held for sale in the consolidated statement of financial position as at 31 December 2019:

	31 December 2019
Property, plant and equipment	5,261
Inventories	420
Total	**5,681**

Assets held for sale are recognized in the consolidated statement of financial position as at 31 December 2019 at their carrying amounts.

(in millions of Russian Roubles unless noted otherwise)

Note 9. Cash and cash equivalents

	Currency	31 December 2019	31 December 2018
Current bank accounts	RR	48	55
Bank deposits with maturity three months or less	RR	44	5,488
Bank deposits with maturity three months or less	EUR	-	1,035
Total		**92**	**6,578**

The Group has current bank accounts in the following banks:

Cash in bank	Credit rating on 31 December 2019*	31 December 2019	Credit rating on 31 December 2018*	31 December 2018
"BANK "ROSSIYA"	WR / Ratings Withdrawn	35	WR / Ratings Withdrawn	25
Sberbank	ba1 / Stable	11	ba1 / Stable	26
Bank GPB (JSC)	b1 / Stable	2	b1 / Stable	4
Total cash in bank		**48**		**55**

* 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 2019*	31 December 2019	Currency	Interest rate	Credit rating on 31 December 2018*	31 December 2018
Sberbank	RR	3.73% - 3.89%	Prime-3	44	-	-	-	-
"BANK "ROSSIYA"	-	-	-	-	RR	6.75% - 7.75%	WR / Ratings Withdrawn	3,988
JSC VTB Bank	-	-	-	-	RR	7.65%	Non Prime	1,500
Sberbank	-	-	-	-	EUR	0.37%	Non Prime	1,035
Total bank deposits with maturity of three months or less				**44**				**6,523**

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

(in millions of Russian Roubles unless noted otherwise)

Note 10. Trade and other receivables

	31 December 2019	31 December 2018
Trade receivables (net of allowance for expected credit losses of RR 10,746 million as at 31 December 2019 and RR 10,591 million as at 31 December 2018)	10,510	10,860
Other receivables (net of allowance for expected credit losses of RR 6,801 million as at 31 December 2019 and RR 6,863 million as at 31 December 2018)	316	877
Promissory notes (nominal value of promissory notes is RR 460 million as at 31 December 2019 and RR 461 million as at 31 December 2018)	285	262
Interest receivable	-	28
Financial assets	**11,111**	**12,027**
Advances to suppliers (net of impairment allowance of RR 5 million as at 31 December 2019 and RR 5 million as at 31 December 2018)	1,713	1,599
Input VAT	180	142
Prepaid other taxes and social funds contribution	18	20
Total	**13,022**	**13,788**
Long-term trade and other receivables	**563**	**434**
including:		
Long-term trade receivables (net of allowance for expected credit losses of RR 14 million as at 31 December 2019 and RR 21 million as at 31 December 2018)	4	5
Long-term other receivables	51	16
Long-term promissory notes (nominal value of promissory notes is RR 458 million as at 31 December 2019 and RR 459 million as at 31 December 2018)	283	260
Long-term advances to suppliers	92	153
Long-term input VAT	133	-
Short-term trade and other receivables	12,459	13,354
Total	**13,022**	**13,788**

Breakdown of promissory notes is presented below:

Bank	Effective interest rate	Credit rating on 31 December 2019*	31 December 2019	Credit rating on 31 December 2018*	31 December 2018
AO "ALFA-BANK"	8.11%-9.50%	ba2 /Stable	283	ba2 /Stable	259
Other	12.67%	-	2	-	3
Total			**285**		**262**

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

(in millions of Russian Roubles unless noted otherwise)

Note 11. Inventories

	31 December 2019	31 December 2018
Spare parts	6,478	5,978
Fuel supplies	5,363	4,385
Materials and supplies	1,645	1,641
Total	**13,486**	**12,004**

Inventories are presented net of allowance for obsolescence of RR 233 million and RR 198 million as at 31 December 2019 and 31 December 2018, respectively.

Note 12. Financial assets

	31 December 2019	31 December 2018
Loans issued	-	41
Total long-term financial assets	**-**	**41**
Loans issued	9,408	-
Equity securities at fair value through profit or loss	314	-
Short-term deposits	-	3,000
Total short-term financial assets	**9,722**	**3,000**

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 2019*	31 December 2019	Credit rating on 31 December 2018*	31 December 2018
BANK "ROSSIYA"	-	-	-	WR / Ratings Withdrawn	3,000
Total bank deposits with maturity more than three months but within one year					**3,000**

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

Note 13. Equity

Share capital

	Number of ordinary shares 31 December 2019	Number of ordinary shares 31 December 2018
Issued shares	110,441,160,870	110,441,160,870
Treasury shares	-	(4,373,963,548)
Total outstanding shares	**110,441,160,870**	**106,067,197,322**

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

As at 31 December 2019 and 31 December 2018 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 millions of Russian Roubles unless noted otherwise)

In June 2019 the Company declared final dividends for the year ended 31 December 2018 of RR 0.036784587 per ordinary share for RR 3,901 million. These dividends were recognized as liability to shareholders, the main part of which was repaid in 2019.

In June 2018 the Company declared final dividends for the year ended 31 December 2017 of RR 0.016319020075 per ordinary share for RR 1,730 million. These dividends were recognized as liability to shareholders, the main part of which was repaid in 2019.

Treasury shares

In June 2019, 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 78,144,110 shares. In September 2019, the payment of additional remuneration in the form of JSC "OGK-2" shares was carried out at their fair value of RR 37 million. 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 29 million between the fair value of the shares and their carrying amount was recognized in share premium.

The similar additional remuneration to the Board members was paid in 2018: number of shares – 66,949,570, fair value RR 24 million, the difference between the fair value of the shares and their carrying amount was RR 90 million.

In August 2019, JSC "OGK-2" sold 4,295,819,438 treasury shares for their market price of RR 2,137 million. The market price was determined as the product of the number of shares and the weighted average price of one share calculated on transactions made through the organizer of trading on the securities market within one trading day on the date of conclusion of the contract. The difference of RR 1,504 million between the market value of the shares sold and their carrying amount is reflected in the share premium of the Group.

Note 14. Income tax

Income tax charge	Year ended 31 December 2019	Year ended 31 December 2018
Current income tax charge	(3,473)	(1,353)
Refund of income tax for prior periods	55	158
Deferred income tax expense	389	(893)
Total income tax charge	**(3,029)**	**(2,088)**

During the year ended 31 December 2019 the Group was subject to a 20% income tax rate on taxable profits (for the year ended 31 December 2018: 20%).

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

	Year ended 31 December 2019	Year ended 31 December 2018
Profit before income tax	**15,054**	**10,393**
Theoretical tax charge at the statutory tax rate of 20%	(3,011)	(2,079)
Charge of income tax for prior periods	122	-
Tax effects of items which are non-deductible for income tax purposes	(140)	(9)
Total income tax charge	**(3,029)**	**(2,088)**

(in millions of Russian Roubles unless noted otherwise)

Deferred income tax

The tax effect of taxable and deductible temporary differences for the year ended 31 December 2019 and for the year ended 31 December 2018 is presented in the table below:

Year ended 31 December 2019	1 January 2019	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	Effect of the acquisition of subsidiaries	Effect of the initial application of new standards	31 December 2019
Property, plant and equipment	(13,544)	698	-	-	(199)	(13,045)
Unused tax losses	485	120	-	6	-	611
Trade and other payables	213	(178)	-	1	199	235
Provisions	206	28	-	-	-	234
Employee benefit liabilities	141	7	35	-	-	183
Trade and other receivables	(129)	36	-	-	-	(93)
Inventory	105	86	-	-	-	191
Assets held for sale	-	(407)	-	-	-	(407)
Other	(110)	(1)	-	-	-	(111)
Total	**(12,633)**	**389**	**35**	**7**	**-**	**(12,202)**

Year ended 31 December 2018	1 January 2018	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	Effect of the acquisition of subsidiaries	Effect of the initial application of new standards	31 December 2018
Property, plant and equipment	(14,128)	584	-	-	-	(13,544)
Unused tax losses	1,649	(1,164)	-	-	-	485
Trade and other payables	375	(162)	-	-	-	213
Provision	231	(25)	-	-	-	206
Employee benefit liabilities	168	(14)	(13)	-	-	141
Trade and other receivables	(65)	(172)	-	-	108	(129)
Inventory	43	62	-	-	-	105
Other	(108)	(2)	-	-	-	(110)
Total	**(11,835)**	**(893)**	**(13)**	**-**	**108**	**(12,633)**

The tax effect of changes in these temporary differences is determined at the statutory rate of 20%.

Some deferred tax assets and liabilities have been set off in accordance with the Group's accounting policies. The following is the amount of deferred tax (after offset) reflected in the consolidated statement of financial position:

	31 December 2019	31 December 2018
Deferred income tax assets	466	354
Deferred income tax liabilities	(12,668)	(12,987)
Deferred income tax liabilities, net	**(12,202)**	**(12,633)**

(in millions of Russian Roubles unless noted otherwise)

Note 15. Non-current debt

	Currency	Effective interest rate As at 31 December 2019	Due	31 December 2019	31 December 2018
Loans	RR	6.25% - 8.83%	2021 - 2025	28,246	31,769
Bonds	RR	7.12%	2021	5,000	6,683
Finance lease liability	RR	-	-	-	8
Total				**33,246**	**38,460**

The above debt is obtained at fixed and floating interest rates. Floating rate is determined as the key rate of Central Bank of Russian Federation.

Breakdown of loans is presented below:

Company	31 December 2019	31 December 2018
Bank GPB (JSC)	19,450	-
MOSENERGO	8,796	9,159
PJSC "GAZPROM"	-	13,500
Sberbank	-	9,110
Total	**28,246**	**31,769**

Maturity table

	31 December 2019	31 December 2018
Due for repayment		
Between one and two years	6,962	10,801
Between two and three years	19,450	20,825
Between three and four years	2,600	-
Between four and five years	1,903	2,600
More than five years	2,331	4,234
Total	**33,246**	**38,460**

The movement of non-current debt is presented below:

	31 December 2019	31 December 2018
Non-current debt at the beginning of the year	**38,460**	**57,892**
Proceeds from long-term borrowings	19,450	14,110
Repayment of long-term borrowings	(13,863)	(33,527)
Current portion of long-term loans and borrowings	(10,793)	(15)
Reclassification of lease liability to trade and other payables	(8)	-
Non-current debt at the end of the year	**33,246**	**38,460**

Note 16. Employee benefit liabilities

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 30 (older than 25 as at 31 December 2018) 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.

(in millions of Russian Roubles unless noted otherwise)

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 507 million as at 31 December 2019 (as at 31 December 2018: RR 501 million).

As at 31 December 2019, there were 8,437 active employees eligible to participate in the post retirement defined benefit program of the Company and 6,734 recipients of the financial support benefits (as at 31 December 2018: 8,464 and 6,873 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 2019 using individual members' census data as at the valuation date.

In 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" came 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 led to a change in the conditions of defined benefit pension plans and a decrease in the Company's obligations as at 31 December 2018.

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

	31 December 2019	31 December 2018
Present value of defined benefit obligation	1,593	1,224
Present value of other long-term employee benefit obligation	454	376
Total defined benefit liability	**2,047**	**1,600**

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 2018	**1,500**	**320**	**1,820**
Current service cost	62	23	85
Past service cost	(220)	58	(162)
Interest expense	108	21	129
Remeasurements:			
Experience (gains) / losses	(12)	6	(6)
Gain from change in financial assumptions	(131)	(15)	(146)
Benefits paid	(83)	(37)	(120)
At 31 December 2018	**1,224**	**376**	**1,600**
Current service cost	45	26	71
Interest expense	100	30	130
Remeasurements:			
Gain from change in demographic assumptions	(9)	(3)	(12)
Loss from change in financial assumptions	319	58	377
Experience losses	(4)	8	4
Benefits paid	(82)	(41)	(123)
At 31 December 2019	**1,593**	**454**	**2,047**

(in millions of Russian Roubles unless noted otherwise)

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

	Year ended 31 December 2019	Year ended 31 December 2018
Service cost	71	(77)
Remeasurements on present value of other long-term employee benefit obligation	63	(9)
Interest expense (Note 24)	130	129
Total	**264**	**43**

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

	Year ended 31 December 2019	Year ended 31 December 2018
Loss / (gain) from change in financial assumptions	319	(131)
Gain from change in demographic assumptions	(9)	-
Experience gains	(4)	(12)
Total	**306**	**(143)**

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

	Year ended 31 December 2019	Year ended 31 December 2018
At the beginning of year	**383**	**513**
Movement of remeasurements	306	(143)
Tax effect (Note 14)	(35)	13
At the end of year	**654**	**383**

The key actuarial assumptions used were as follows:

	31 December 2019	31 December 2018
Discount rate	6.4%	8.8%
Future salary increases	5.6%	6.1%
Future financial support benefits increases	4.0%	4.5%
Social fund contribution rate	28.0%	30.0%
Staff turnover	3.9%	3.6%
Expected retirement age*:		
Male	64	62
Female	58	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.

(in millions of Russian Roubles unless noted otherwise)

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 2019	Impact on defined benefit liability 31 December 2018
Discount rate	Increase / decrease by 1 pp	Decrease / increase by 11.8%	Decrease / increase by 10.7%
Future salary increases	Increase / decrease by 1 pp	Increase / decrease by 10.5%	Increase / decrease by 9.7%
Future financial support benefits increases (inflation)	Increase / decrease by 1 pp	Increase / decrease by 1.4%	Increase / decrease by 1.3%
Effective social fund contribution rate	Increase / decrease by 1 pp	Increase / decrease by 0.17%	-
Staff turnover	Increase / decrease by 10%	Decrease / increase by 1.59%	Decrease / increase by 1.42%
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 62 million.

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.

(in millions of Russian Roubles unless noted otherwise)

Note 17. Provisions

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 – 4,03% (2018: 4.43%);
- Pre-tax discount rate – 6,21% (2018: 8.68%);
- Projected restoration period – 8 years (2018: 9 years).

	31 December 2019	31 December 2018
Total carrying amount at the beginning of year	**1,031**	**1,155**
Less current portion	(72)	(79)
Non-current portion at the beginning of year	**959**	**1,076**
Unwinding of the present value discount (Note 24)	90	81
Changes in estimates adjusted against property, plant and equipment	129	(199)
Utilisation of provision for environmental and pollution expenditure	(79)	(6)
Total carrying amount at the end of year	**1,171**	**1,031**
Less current portion	-	(72)
Non-current portion at the end of year	**1,171**	**959**

The sensitivity of the restoration provision for ash dump restoration to changes in the principal assumptions is at the 31 December 2019:

	Change in assumption	Impact on restoration provision	Impact on restoration provision
Discount rate	Increase / decrease by 1%	Decrease by 75 / increase by 81	Decrease by 6.38% / increase by 6.89%
Restoration cost	Increase / decrease by 10%	Increase / decrease by 117	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 2018:

	Change in assumption	Impact on restoration provision	Impact on restoration provision
Discount rate	Increase / decrease by 1%	Decrease by 69 / increase by 75	Decrease by 6.65% / increase by 7.23%
Restoration cost	Increase / decrease by 10%	Increase / decrease by 103	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. Current debt and current portion of non-current debt

	Currency	Effective interest rate as at 31 December 2019	31 December 2019	31 December 2018
Current debt	RR	6.87% - 6.90%	8,306	
Current portion of long-term loans	RR	7.10% - 8.83%	9,303	8,507
Current portion of bonds	RR	7.11% - 7.12%	1,776	89
Current portion of finance lease liability	RR	-	-	15
Total			**19,385**	**8,611**

(in millions of Russian Roubles unless noted otherwise)

Breakdown of loans is presented below:

Company	31 December 2019	31 December 2018
Sberbank	17,423	8,315
MOSENERGO	186	192
Total	**17,609**	**8,507**

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

	31 December 2019	31 December 2018
Current debt and current portion of non-current debt at the beginning of the year	**8,611**	**1,443**
Reclassification of finance lease liability to trade and other payables	(15)	-
Repayment of finance lease liability	-	(11)
Proceeds from short-term borrowings	16,600	8,300
Repayment of short-term borrowings	(16,600)	(1,062)
Interest expense	3,417	4,183
Interest paid	(3,421)	(4,257)
Current portion of long-term loans and borrowings	10,793	15
Current debt and current portion of non-current debt at the end of the year	**19,385**	**8,611**

Note 19. Trade and other payables

	31 December 2019	31 December 2018
Trade payables (net of effect of discounting RR 208 million as at 31 December 2019 and RR 302 million as at 31 December 2018)	11,726	11,936
Other payables	4,243	7,655
Dividends payable	21	12
Lease liabilities	782	-
Financial liabilities	**16,772**	**19,603**
Salaries and wages payable	813	727
Advances from customers	15	12
Total	**17,600**	**20,342**
Less: Long-term trade payables (net of effect of discounting RR 208 million as at 31 December 2019 and RR 302 million as at 31 December 2018)	(1,607)	(1,421)
Long-term other payables	(6)	(3,453)
Long-term lease liabilities	(597)	-
Total short-term trade and other payables	**15,390**	**15,468**
Total long-term trade and other payables	**2,210**	**4,874**

(in millions of Russian Roubles unless noted otherwise)

The movement of lease liabilities is presented below:

	31 December 2019	31 December 2018
Lease liabilities as at 1 January	**1 017**	-
Cash flows	(283)	-
New lease contracts	2	-
Change in estimates	(44)	-
Termination of leases	(3)	-
Interest expense	105	-
Other movements	(12)	-
Lease liabilities as at 31 December	**782**	-

Total cash outflow for leases for the year ended 31 December 2019 is RR 3,441 million, including cash outflow from operating activities RR 3,263 million (interest paid on lease liabilities – RR 105 million, variable lease payments - RR 3,139 million, short-term lease – RR 19 million).

Note 20. Other taxes payable

	31 December 2019	31 December 2018
Value added tax	1,614	1,952
Social funds contribution	321	298
Property tax	268	559
Personal income tax	75	69
Environment pollution payment	16	18
Other taxes	10	11
Total	**2,304**	**2,907**

Note 21. Revenues

	Year ended 31 December 2019	Year ended 31 December 2018
Electricity and capacity	127,755	134,545
Heating	5,323	5,233
Other	1,501	3,449
Total	**134,579**	**143,227**

Other revenues include income from operating leases for the year ended 31 December 2019 in the amount of RR 123 million (including income from subleasing of right-of-use assets in the amount of RR 3 million).

(in millions of Russian Roubles unless noted otherwise)

Note 22. Operating expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Fuel	58,620	62,353
Amortisation and depreciation	13,365	12,970
Employee benefits	9,375	8,824
Purchased electricity, capacity and heat	9,107	12,943
Rent	4,617	2,354
Impairment loss on non-financial assets	4,321	3,953
Repairs and maintenance	3,920	4,305
Raw materials and supplies	3,046	3,479
Taxes other than income tax	2,993	4,249
Dispatcher's fees	2,160	2,048
Transport	909	786
Security	577	545
Consulting, legal and audit services	401	342
Insurance	220	214
Loss on disposal of property, plant, equipment	198	1,110
Ecological payments	152	192
Loss / (gain) on disposal of other assets	52	(39)
Electricity transit	47	2,296
Penalties and fines	(136)	2,327
Other expenses	2,341	2,137
Total operating expenses	**116,285**	**127,388**

Rent expense for the year ended 31 December 2019 includes expense relating to variable rental payments in the amount of RR 4,598 million and expense relating to short-term leases in the amount of RR 19 million.

Employee benefits expenses comprise the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Salaries and wages	6,894	6,627
Social funds contribution	2,032	1,954
Financial aid to employees and pensioners	309	322
Non-state pensions and other long-term benefits (Note 16)	134	(86)
Other expenses	6	7
Employee benefits	**9,375**	**8,824**
Average number of personnel for the period	9,152	8,878

Included in social funds contribution are statutory pension contributions of RR 1,526 million for the year ended 31 December 2019 (for the year ended 31 December 2018: RR 1,449 million).

Note 23. Finance income

	Year ended 31 December 2019	Year ended 31 December 2018
Interest income on bank deposits and current bank account balances	1,046	471
Effect of discounting of financial Instruments	57	29
Interest income on loans issued	19	6
Other	-	1
Total finance income	**1,122**	**507**

Note 24. Finance costs

	Year ended 31 December 2019	Year ended 31 December 2018
Interest expense on debt	3,455	3,806
Effect of discounting of ffinancial Instruments	126	174
Interest on employee benefit liabilities (Note 16)	130	129
Unwinding of the present value discount - provision for ash dump (Note 17)	90	81
Interest expense on lease liabilities	105	7
Total finance costs	**3,906**	**4,197**

Note 25. Basic and diluted earnings per share attributable to the shareholders of JSC "OGK-2"

Earnings per share attributable to the shareholders of JSC "OGK-2" was calculated by dividing the profit of shareholders of JSC "OGK-2" for the reporting period by the weighted average number of shares placed. The calculation of earnings per share is presented in the table below.

	Year ended 31 December 2019	Year ended 31 December 2018
Weighted average number of ordinary shares issued, thousands of pcs	107,582,927	106,023,231
Profit attributable to the shareholders of JSC "OGK-2" (in millions of RR)	12,022	8,305
Earnings per ordinary share attributable to the shareholders of JSC "OGK-2" – basic and diluted (in RR)	**0.11**	**0.08**

There are no financial instruments with dilutive effect as at 31 December 2019 and as at 31 December 2018.

Note 26. Capital commitments

As at 31 December 2019 in the framework of the investment program implementation the Group has capital commitments (including VAT) of RR 15,178 million (as at 31 December 2018: RR 14,007million).

Note 27. Contingencies

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

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

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

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

As at 31 December 2019 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.

(in millions of Russian Roubles unless noted otherwise)

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 28. Financial instruments and financial risks factors

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

Compliance with covenants. The Group is subject to certain covenants related primarily to its loans and borrowings. The Group was in compliance with covenants at 31 December 2019 and at 31 December 2018.

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

	Notes	31 December 2019	31 December 2018
Trade and other receivables	10	11,111	12,027
Loans issued	12	9,408	41
Cash and cash equivalents	9	92	6,578
Bank deposits	12	-	3,000
Total financial assets		**20,611**	**21,646**

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 allowance for expected credit losses. Trade and other receivables balance netted with allowance for expected credit losses 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 allowance for expected credit losses.

The amount of the loss allowance for expected credit losses 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 2019 identification of present value of future cash flows was done with usage of original effective discount rates, weighted average discount rates was 9.23% p.a. (as at 31 December 2018: 9.24% 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 allowance for expected credit losses can be collected in cash or settled against trade and other payables.

(in millions of Russian Roubles unless noted otherwise)

Movements in the allowance for expected credit losses on trade and other receivables during 2019 were as follows:

Allowance for expected credit losses as at 1 January 2019	**17,455**
Accrual of allowance for expected credit losses	2,043
Write-off of doubtful trade and other receivables	(363)
Reversal of allowance for expected credit losses	(1,587)
Allowance for expected credit losses as at 31 December 2019	**17,548**

Movements in the allowance for expected credit losses on trade and other receivables during 2018 were as follows:

Allowance for expected credit losses as at 1 January 2018	**15,706**
Accrual of allowance for expected credit losses	2,858
Write-off of doubtful trade and other receivables	(15)
Reversal of allowance for expected credit losses	(1,094)
Allowance for expected credit losses as at 31 December 2018	**17,455**

As at 31 December 2019 total amount of overdue trade and other receivables which were not provided for was RR 2,126 million (as at 31 December 2018: RR 2,183 million). Trade and other accounts receivable past due but not impaired mainly relate to a number of customers for whom there is no recent history of material default.

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

	31 December 2019			
	Nominal value	**Allowance for expected credit losses**	**Effect of discounting**	**Carrying amount**
Not overdue	9,271	(113)	(173)	8,985
Overdue up to 180 days	2,047	(675)	-	1,372
Overdue from 181 to 365 days	1,584	(952)	-	632
Overdue more than 1 year	15,930	(15,808)	-	122
Total	**28,832**	**(17,548)**	**(173)**	**11,111**

	31 December 2018			
	Nominal value	**Allowance for expected credit losses**	**Effect of discounting**	**Carrying amount**
Not overdue	10,305	(263)	(198)	9,844
Overdue up to 180 days	1,767	(452)	-	1,315
Overdue from 181 to 365 days	2,068	(1,323)	-	745
Overdue more than 1 year	15,540	(15,417)	-	123
Total	**29,680**	**(17,455)**	**(198)**	**12,027**

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 positon of banks and their ratings assigned by independent agencies, past experience and other factors. Note 10 includes lists of banks with information on the amount of their promissory notes and their ratings at the reporting date.

The credit quality of the loans provided is defined as good due to the established relationships with the counterparties, which are GAZPROM Group entities. The loans are not past due.

(in millions of Russian Roubles unless noted otherwise)

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.

	Note	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total	Carrying value
31 December 2019								
Current debt and non-current debt	15,18	10,779	11,269	8,907	26,547	2,472	59,974	52,631
Trade and other payables	19	10,859	4,005	1,340	973	2,057	19,234	16,772
Total future payments		**21,638**	**15,274**	**10,247**	**27,520**	**4,529**	**79,208**	**69,403**

	Notes	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total	Carrying value
31 December 2018								
Current debt and non-current debt	15,18	1,811	10,021	13,216	25,920	4,645	55,613	47,048
Trade and other payables	19	11,186	3,772	3,905	1,692	6	20,561	19,626
Total future payments		**12,997**	**13,793**	**17,121**	**27,612**	**4,651**	**76,174**	**66,674**

The Group has the following unutilized bank credit lines:

	31 December 2019	31 December 2018
Floating / fixed interest rate facility*:		
- expiring more than 1 year from the reporting date	29,340	6,390
Floating / fixed interest rate facility*:		
- expiring less than 1 year from the reporting date	3,800	-
Fixed interest rate facility:		
- expiring more than 1 year from the reporting date	-	16,200
Total	**33,140**	**22,590**

*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. The assets and liabilities disclosed in Notes 9, 12, 19 have fixed interest rate and therefore are not exposed to risk of difference between fixed interest rate and market interest rate.

(in millions of Russian Roubles unless noted otherwise)

The table below shows the breakdown of debt disclosed in Notes 15 and 18 at fixed and floating interest rates.

Non-current debt

	Note	31 December 2019	31 December 2018
At fixed rates	15	13,796	38,460
At floating rates	15	19,450	-
Total		**33,246**	**38,460**

Current debt and current portion of non-current debt

	Note	31 December 2019	31 December 2018
At fixed rates	18	16,083	8,611
At floating rates	18	3,302	-
Total		**19,385**	**8,611**

As at 31 December 2019, if variable interest rates on loans increased by 100 basis points with all other indicators unchanged, profit before income tax for the year ended 31 December 2019 would decrease by RR 28 million (for the year ended 31 December 2018 there is no effect on profit before income tax).

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 2019 and 31 December 2018, 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 2019 was RR 139,811 million (as at 31 December 2018: RR 129,684 million).

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 2019 and 31 December 2018 were as follows:

	31 December 2019	31 December 2018
Total liabilities	61,084	55,572
Equity * 1.4	195,735	181,558
Gearing ratio	**0.31**	**0.31**

Fair value. The fair value of financial assets and liabilities is determined as follows:
Financial instruments in Level 1
The fair value of financial instruments traded in active markets is based on quoted market closing prices at the reporting date.
Financial instruments in Level 2
The fair value of financial instruments that are not traded in an active market is determined by using various

(in millions of Russian Roubles unless noted otherwise)

valuation techniques, primarily based on market or income approach, such as discounted cash flows valuation method. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on Group specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Financial instruments in Level 3

If one or more of the significant inputs in the valuation model used to fair value an instrument is not based on observable market data, the instrument is included in Level 3. The fair value of financial instruments, such as trade and other receivables and trade and other payables are classified as Level 3.

There was no change in the fair value measurement methods attributed to Level 2 and Level 3, there were no transfers between levels for the year ended 31 December 2019 (31 December 2018: there was no change, there were no transfers).

As of 31 December 2019 and 31 December 2018 the Group had the following assets that are measured at fair value:

	Notes	Level 1	Level 2	Level 3	Total
31 December 2019					
Financial assets at fair value					
Equity securities measured at fair value through profit or loss	12	314	-	-	**314**
Total financial assets		**314**	**-**	**-**	**314**

The Group had no financial assets at fair value as at 31 December 2018.

The estimated fair value of financial assets and liabilities not carried at fair value in the consolidated statement of financial position approximates to their carrying amounts as at 31 December 2019 and 31 December 2018.

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

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

Note 29. Segment information

The Management 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 98.9% of the Group revenue in 2019 (97.6% in 2018). The Group operates in Russian Federation.

The technology of electricity and heat production does not allow segregation of electricity and heat segments. The Company's branches are managed separatly due to significant decentralization and distances between them, as a result the Group discloses seven reporting segments: Surgutskaya GRES-1, Kirishskaya GRES, Novocherkasskaya GRES, Troitskaya GRES, Stavropolskaya 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 41% of the Group revenue for the year ended 31 December 2019 (for the year ended 31 December 2018: 42%).

(in millions of Russian Roubles unless noted otherwise)

Year ended 31 December 2019	Surgutskaya GRES-1	Kirishskaya GRES	Novocherkasskaya GRES	Troitskaya GRES
Revenue	23,316	22,510	19,080	13,229
Depreciation of property, plant, equipment*	480	1,426	1,688	3,934
Segment operating profit / (loss)*	3,752	5,967	1,787	4,059
Capital expenditure**	827	1,493	464	680

Year ended 31 December 2019	Stavropolskaya GRES	Ryazanskaya GRES	Serovskaya GRES	Other operating segments	**Total operating segments**
Revenue	11,601	10,516	6,994	27,333	134,579
Depreciation of property, plant, equipment*	159	773	1,331	2,075	11,866
Segment operating profit / (loss)*	(17)	3,504	2,329	4,098	25,479
Capital expenditure**	95	263	76	3,502	7,400

Year ended 31 December 2018	Surgutskaya GRES-1	Kirishskaya GRES	Novocherkasskaya GRES	Troitskaya GRES
Revenue	21,656	26,525	21,079	13,465
Depreciation of property, plant, equipment*	476	1,398	1,763	3,339
Segment operating profit / (loss)*	2,355	7,699	1,027	3,522
Capital expenditure**	628	605	467	4,615

Year ended 31 December 2018	Stavropolskaya GRES	Ryazanskaya GRES	Serovskaya GRES	Other operating segments	**Total operating segments**
Revenue	17,576	10,586	6,508	25,832	**143,227**
Depreciation of property, plant, equipment*	176	743	1,176	2,013	**11,084**
Segment operating profit / (loss)*	(337)	2,824	331	3,360	**20,781**
Capital expenditure**	342	666	2,525	1,192	**11,040**

* 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.

(in millions of Russian Roubles unless noted otherwise)

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 2019	Year ended 31 December 2018
Segment operating profit	25,479	20,781
Adjustments, arised from different accounting policy:	(3,868)	(4,344)
Lease adjustment	275	19
(Loss) / gain on disposal of assets	246	(138)
Retirement benefit obligations adjustment	(6)	209
Provision for impairment of trade and other receivables	(167)	210
Impairment of property, plant and equipment (Note 22)	(4,321)	(3,977)
Depreciation adjustment	(882)	(720)
Other adjustments	987	53
Unallocated expenses:	(3,773)	(2,354)
Rent	(197)	(214)
Provision for impairment of trade and other receivables	(233)	(1,388)
Consulting, legal and audit services	(303)	(209)
Employee benefits	(1,028)	(878)
Other (income) / expenses	(2,012)	335
Operating profit (IFRS)	**17,838**	**14,083**

Segment's assets are disclosed below:

	Surgutskaya GRES-1	Kirishskaya GRES	Novocherkasskaya GRES	Troitskaya GRES
31 December 2019	5,978	20,516	35,500	53,611

	Stavropolskaya GRES	Ryazanskaya GRES	Serovskaya GRES	Other operating segments	**Total assets**
31 December 2019	3,363	13,372	20,337	29,419	**182,096**

	Surgutskaya GRES-1	Kirishskaya GRES	Novocherkasskaya GRES	Troitskaya GRES
31 December 2018	5,668	20,392	36,189	57,492

	Stavropolskaya GRES	Ryazanskaya GRES	Serovskaya GRES	Other operating segments	**Total assets**
31 December 2018	2,893	14,464	21,410	27,603	**186,111**

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

	31 December 2019	31 December 2018
Total assets for segments	182,096	186,111
Unallocated assets	42,393	22,871
Adjustments, arised from different accounting policy:	1,414	4,400
Property, plant and equipment adjustment	1,970	4,849
Deposits for pensions (Note 8)	507	501
Discounting of promissory notes (Note 10)	(173)	(197)
Discounting of trade and other payables (Note 19)	(393)	(393)
Impairment of trade and other receivables	(497)	(331)
Other adjustments	-	(29)
Total assets (IFRS)	**225,903**	**213,382**

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

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

Note 30. Events after the reporting date

There were no significant subsequent events that can influence the Group's financial position, cash flows or operating results which took place during the period between reporting date and date of signing of the Group's consolidated financial statements for the year ended 31 December 2019.

Managing Director A.V. Semikolenov

Chief Accountant L.V. Klishch

5 March 2020