UNIPRO GROUP

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AND AUDITOR'S REPORT

31 DECEMBER 2017

Contents

Independent Auditor's Report

To the Shareholders and Board of Directors of PJSC Unipro:

Our opinion

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

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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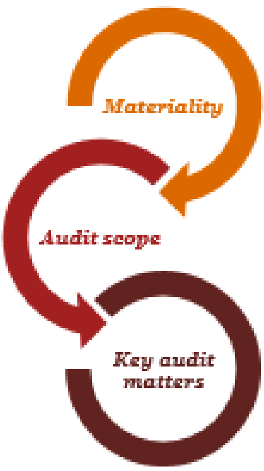
Our audit approach

Overview



- Overall group materiality: Russian Roubles ("RUB") 1,093 million, which represents 5% of adjusted profit before tax.

- We conducted audit work at PJSC Unipro in Russia, Moscow.

- Our audit scope addressed 99,2% of the Group's revenues and 99,8% of the Group's absolute value of underlying profit before income tax.

- Impairment of property, plant and equipment.

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

Materiality

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

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

Overall group materiality	RUB 1,093 million

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How we determined it	5% of adjusted profit before tax excluding the costs of repair and liquidation of damaged fixed assets after the accident on third unit of Berezovskaya GRES in 2016 and related insurance compensation
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. The use of adjusted profit before tax mitigates the effects of specific non-recurring items and aligns our audit with the measures that management use to focus on the underlying performance and position of the Group. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

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.

Key audit matter	How our audit addressed the Key audit matter
Impairment of property, plant and equipment	
Refer to note 7 (Property, plant and equipment) In 2017 management revised its plan regarding the project to restore Berezovskaya GRES Power Unit No. 3. Based on the updated plan, the cost of the project significantly increased and the timing of completion has prolonged. Furthermore, certain cash generating units (CGUs) had a negative net present value at the end of 2016. During 2017 the Group invested in non-current assets for these CGUs.	We performed an evaluation and critical analysis of the future cash flow forecasts made by management. Internal audit experts in valuation were involved for complex analysis and gathering audit evidence in respect of assumptions used in the impairment test. We ensured that the future cash flow forecasts preparation process was controlled by management and corresponded with approved budgets. We performed the following audit procedures: • assessed the reasonableness of the methodology used in forecasting future

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Key audit matter	How our audit addressed the Key audit matter
Due to the abovementioned facts, the Group management decided to test fixed assets for impairment in order to assess their carrying value. Given the materiality of property, plant and equipment, an impairment could have a	cash flows, and its compliance with IAS 36 ‘Impairment of assets’; • compared key assumptions used in calculations (including future prices for gas and coal, macroeconomic measures, inflation rates) to available market data;
Impairment of property, plant and equipment (continued) significant impact on the consolidated financial statements. We also focused on this area due to the significant judgement involved in performing the impairment test. Management determined CGUs taking into account two factors: territorial and type of capacity supply conditions. The recoverable amount of each CGU was calculated as value in use. The value in use is based on discounted future cash flow forecasts over which management make judgements on certain key inputs including, for example, future production volumes, electricity and capacity prices growth rates, natural gas and coal prices, discount rates and long-term growth rates.	• tested the mathematical accuracy of the calculations; challenged the key assumptions for long-term growth rates by comparing them to economic and industry forecasts; • compared forecasted cash flows to approved budget and previous year financial model; • assessed the reasonableness of the discount rate by comparing the cost of capital for the Group to comparable organisations and to our independent assessment. We have not found significant misstatements in the assumptions used by management for the impairment test, their inconsistent application or significant deviations from independent sources that could result in additional impairment loss. In addition, we assessed the adequacy of the disclosures made in note 7 to the consolidated financial statements, for completeness and compliance with the requirements of IAS 36 ‘Impairment of assets’. Based on the work performed no material misstatements, affecting our opinion on the consolidated financial statements were identified.

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How we tailored our group audit scope

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

Based on our risk assessment, analysis of materiality of the Group entities' financial statements line items, we identified PJSC Unipro as the only material component of the Group and audited the financial information using ISA 600 "Special Considerations – Audits of Group Financial Statements (Including The Work of Component Auditors)".

We determined the other entities of the Group as immaterial components, in respect of which we performed procedures over significant financial statements line items, and analytical procedures.

Other information

Management is responsible for the other information. The other information comprises the *Issuer's Report for the 1 quarter 2018* (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 certified auditor responsible for the audit resulting in this independent auditor's report is G.R. Khabirova.

6 March 2018

Moscow, Russian Federation

G.R. Khabirova, certified auditor (licence no. 01-000492), AO PricewaterhouseCoopers Audit

Audited entity: PJSC Unipro

Certificate of inclusion in the Unified State Register of Legal Entities issued on 4 March 2005 under registration № 1058602056985
Russian Federation, 628406, Tumen` region, Hunti-Mansijskij A.O. – Ugra, Surgut, Energostroitiley street, 23, building 34

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

ORNZ 11603050547 in the register of auditors and audit organizations

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(RUB thousand)

	Note	At 31 December 2017	At 31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	7	106,213,511	96,701,223
Intangible assets	8	337,742	333,878
Investments in joint ventures	9	39,990	1,198,353
Long-term financial assets		16,381	41,700
Non-current assets	10	854,656	809,326
Total non-current assets		**107,462,280**	**99,084,480**
Current assets			
Cash and cash equivalents	26	3,058,326	1,724,888
Accounts receivable and prepayments	12,26	5,568,667	5,244,966
Inventories	11	2,506,880	2,304,777
Current income tax prepayments		3,722,751	-
Short-term financial assets	13	3,700,836	779,682
Total current assets		**18,557,460**	**10,054,313**
TOTAL ASSETS		**126,019,740**	**109,138,793**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	25,219,482	25,219,482
Share premium		40,052,405	40,052,405
Other reserves	14	597,674	1,171,376
Retained earnings		47,677,914	27,868,063
Total equity attributable to shareholders of PJSC Unipro		**113,547,475**	**94,311,326**
Non-controlling interest		-	200,981
Total equity		**113,547,475**	**94,512,307**
Non-current liabilities			
Deferred income tax liabilities	18	5,373,629	5,338,862
Pension liabilities	15	723,627	710,109
Total non-current liabilities		**6,097,256**	**6,048,971**
Current liabilities			
Accounts payable and accruals	16	5,182,682	5,252,334
Short-term financial liabilities		-	2,307,756
Income tax payable		-	52,685
Taxes payable other than income tax	17	1,192,327	964,740
Total current liabilities		**6,375,009**	**8,577,515**
Total liabilities		**12,472,265**	**14,626,486**
TOTAL EQUITY AND LIABILITIES		**126,019,740**	**109,138,793**

Approved and singed 6 March 2018

General Director M.G. Shirokov

Financial Director U. Backmeyer

(RUB thousand)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Revenues	19	76,521,542	78,031,936
Operating expenses	20	(56,721,177)	(77,497,461)
Other operating income	21	21,386,296	6,183,696
Operating profit		**41,186,651**	**6,718,171**
Finance income	22	1,106,234	839,836
Finance expense	22	(168,783)	(485,006)
Share of results of joint venture	9	(1,158,363)	147,353
Profit before income tax		**40,965,749**	**7,220,354**
Income tax charge	18	(7,360,265)	(2,053,545)
Profit for the period		**33,605,484**	**5,166,809**
Profit/(loss) for the period attributable to:			
Shareholders of PJSC Unipro		**33,608,870**	**5,166,446**
Non-controlling interest		**(3,386)**	**363**
Other comprehensive income after income tax:			
Items that will not be reclassified to profit or loss			
Remeasurements of pension liabilities		36,784	29,494
Total items that will not be reclassified to profit or loss		**36,784**	**29,494**
Items that may be reclassified subsequently to profit or loss			
(Loss)/ gain from change in fair value of financial assets available-for sale		(8,846)	11,515
Loss from cash flow hedge		(394,164)	(374,386)
Reclassification of cash flow hedge gain to profit and loss		(207,476)	(691,125)
Total items that may be reclassified subsequently to profit or loss		**(610,486)**	**(1,053,996)**
Total other comprehensive loss for the period		**(573,702)**	**(1,024,502)**
Total comprehensive income for the period		**33,031,782**	**4,142,307**
Total Comprehensive income / (loss) attributable to:			
Shareholders of PJSC Unipro		**33,035,168**	**4,141,944**
Non-controlling interest		**(3,386)**	**363**
Earnings per ordinary share for profit attributable to the shareholders of PJSC Unipro – basic and diluted (in Russian roubles)	23	**0.53**	**0.08**

Unipro Group
Consolidated Statement of Changes in Equity
(RUB thousand)

	Attributable to shareholders of PJSC Unipro						
	Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
At 1 January 2016	**25,219,482**	**40,052,405**	**2,195,878**	**42,439,252**	**109,907,017**	**200,618**	**110,107,635**
Profit for the period	-	-	-	5,166,446	**5,166,446**	363	**5,166,809**
Other comprehensive income:							
(Loss)/ gain from change in fair value of financial assets available-for sale	-	-	11,515	-	**11,515**	-	**11,515**
Remeasurements of pension liabilities	-	-	29,494	-	**29,494**	-	**29,494**
Cash flow hedges	-	-	(374,386)	-	**(374,386)**	-	**(374,386)**
Loss from cash flow hedge	-	-	(691,125)	**-**	**(691,125)**	**-**	**(691,125)**
Total comprehensive income for the period	**-**	**-**	**(1,024,502)**	**5,166,446**	**4,141,944**	**363**	**4,142,307**
Dividends	-	-	-	(19,737,635)	**(19,737,635)**	-	**(19,737,635)**
At 31 December 2016	**25,219,482**	**40,052,405**	**1,171,376**	**27,868,063**	**94,311,326**	**200,981**	**94,512,307**
At 1 January 2017	**25,219,482**	**40,052,405**	**1,171,376**	**27,868,063**	**94,311,326**	**200,981**	**94,512,307**
Profit for the period	-	-	-	33,608,870	**33,608,870**	(3,386)	**33,605,484**
Other comprehensive income:							
(Loss)/ gain from change in fair value of financial assets available-for sale	-	-	(8,846)	-	**(8,846)**	-	**(8,846)**
Remeasurements of pension liabilities	-	-	36,784	-	**36,784**	-	**36,784**
Cash flow hedges	-	-	(394,164)	-	**(394,164)**	-	**(394,164)**
Loss from cash flow hedge	**-**	**-**	(207,476)	**-**	**(207,476)**	**-**	**(207,476)**
Total comprehensive income for the period	**-**	**-**	**(573,702)**	**33,608,870**	**33,035,168**	**(3,386)**	**33,031,782**
Subsidiary disposal	-	-	-	200,981	200,981	(197,595)	**3,386**
Dividends	-	-	-	(14,000,000)	(14,000,000)	-	**(14,000,000)**
At 31 December 2017	**25,219,482**	**40,052,405**	**597,674**	**47,677,914**	**113,547,475**	**-**	**113,547,475**

(RUB thousand)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before income tax		**40,965,749**	**7,220,354**
Adjustments for non-cash items**:**			
Depreciation and amortisation of PPE and intangible assets	7,8	5,954,354	6,645,819
Reclassification of hedge gain to profit or loss	26	(190,166)	(351,439)
Loss on impairment of PPE and intangible assets	7,8	325,211	4,307,072
Provision for impairment of accounts receivable	26	214,517	544,552
Foreign exchange (income)/ loss, net	22	(67,850)	243,277
Interest income	22	(1,038,384)	(839,836)
Interest expense and effect of discounting	22	168,783	241,729
Loss on disposal of property, plant and equipment	7	-	10,629,939
Gain on disposal of property, plant and equipment		(230,266)	-
Change in pension liabilities	15	27,573	(86,463)
Change in provisions		-	58,067
Share of results of joint ventures	9	1,158,363	(147,353)
Other non-cash items		331,449	105,773
Operating cash flows before working capital changes and income tax paid		**47,619,333**	**28,571,491**
Working capital changes:			
Increase in accounts receivable and prepayments	12	(1,726,890)	(870,309)
Decrease in VAT recoverable	12	40,504	71,554
Increase in inventories	11	(207,445)	(151,795)
(Increase in accounts payable and accruals	16	(1,404,941)	(796,197)
Contributions paid to pension fund	15	(41,070)	(46,256)
(Decrease)/ increase in taxes payable other than income tax	17	227,587	(1,264,865)
Income tax paid		(10,975,583)	(1,976,962)
Net cash from operating activities		**33,531,495**	**23,536,661**
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment and other non-current assets	7	(14,708,097)	(13,668,702)
Investment in joint venture	9	-	(200,000)
Proceeds from disposal of subsidiaries, net of disposed cash	6	12,802	-
Placement, repayment of deposits and securities		1,093,773	152,762
Loans issued	5	(12,075,405)	(79,271)
Loans repaid	5	9,012,957	6,840
Interest received	22	851,809	693,124
Net cash generated used in investing activities		**(15,812,161)**	**(13,095,247)**
CASH FLOW FROM FINANCING ACTIVITIES:			
Dividends paid to shareholders of PJSC Unipro	14	(14,000,000)	(19,737,635)
Dividends paid to non-controlling interest		-	-
Loan received	5	-	2,400,000
Loan repaid	5	2,300,000)	(100,000)
Interests repaid	5	(73,374)	(118,634)
Net cash used in financing activities		**(16,373,374)**	**(17,556,269)**
Effect of exchange rate changes on cash and cash equivalents		(12,522)	(523,340)
Increase / (decrease) in cash and cash equivalents		**1,333,438**	**(7,638,195)**
Cash and cash equivalents at the beginning of the year		1,724,888	9,363,083
Cash and cash equivalents at the end of the year	26	3,058,326	1,724,888

(RUB thousand)

Note 1. The Group and its operations

23 June 2016 Open Joint Stock Company E. ON Russia (OJSC «E. ON Russia») officially became known as PJSC «Unipro». This step that shows its belonging to Group Uniper which was separated from the E. ON Group in 1 January 2016.

Public Joint-Stock Company Unipro (PJSC Unipro or the Company) was established on 4 March 2005.

The Company's principal activities are generation and sale of electricity and heat.

Shares of PJSC Unipro are listed in the Moscow Exchange (MOEX).

The Company operates the following five power plants (GRES) as branches: Surgutskaya GRES-2, Shaturskaya GRES, Berezovskaya GRES, Smolenskaya GRES and Yayvinskaya GRES. All references to the «Group» refer to the Company, its branches and subsidiaries.

The structure of the Group, including all consolidated entities and joint ventures, is presented in the table below:

	Principal activity	Ownership, % At 31 December 2017	Ownership, % At 31 December 2016
Subsidiaries of PJSC Unipro			
OOO Unipro Engineering	Engineering activities (project and technological engineering)	100	100
OOO Agro-industrial Park «Siberia»	Generation and sale of electricity and heat and management of uninhabited fund	100	100
OOO E.ON Connecting Energies	Provision of distributed energy solutions to all types of customers	50	50
OOO Uniper	Generation and sale of electricity and heat	-	100
OAO Shaturskaya Management Company	Municipal services	-	51

OOO Agro-industrial Park «Siberia» (100% subsidiary of PJSC Unipro) has been established on 5 May 2016.

OOO Uniper was liquidated on June 9, 2017, assets and liabilities were transferred to PJSC Unipro.

Ownership in OAO Shaturskaya Management Company was sold in October 2017 to AO «ZHKH Stolitsa» (Note 6).

The Company is registered with the District Inspectorate of the Federal Tax Service of Surgut, Tyumen Region, Khanty-Mansiysk Autonomous District (Yugra). The Company's office is located at bld. 10, Block B, Presnenskaya nab., Moscow, Russia, 123112.

The Group sells electricity on the wholesale electricity and capacity market. The wholesale electricity market has a number of sectors varying in contractual terms, conditions and delivery time frames: sector of regulated contracts, day-ahead market, sector of unregulated bilateral contracts and the balancing market. The electricity traded in both pricing zones of the wholesale market was sold at unregulated prices except for volumes designated for delivery to the population, groups of customers equivalent to population and customers located in the Northern Caucasus and in the Republic of Tyva.

Part of electricity and capacity, as well as heat sells under regulated contracts. Tariffs for electricity (capacity) and heat for the Group's entities are mainly governed by normative documents on the state regulation of prices (tariffs).

For regulating prices (tariffs) both a cost-plus method and tariff indexation are used. When applying a cost-plus method costs are determined in accordance with Russian Accounting Rules (RAR), which significantly differ from International Financial Reporting Standards. In practice, tariff decisions are significantly affected by social and political considerations causing significant delays in tariff increases required to compensate increasing costs.

Uniper Group Establishing

83,73% of shares of the Company is owned by Uniper Russia Holding GmbH – wholly-owned subsidiary of the international energy company Uniper SE, which was formerly a part of E.ON Group.

As a result of the new strategy, on the 1st of January 2016 E.ON Group was divided into two companies: E.ON SE and Uniper SE. E.ON SE has focused on renewable energy sources (EC & R), electric and gas distribution networks and solutions for customers. Uniper SE is engaged in the traditional production of electricity (hydropower, natural gas, and coal), exploration and production of energy, as well as global trade in electricity and energy (gas, coal). Since January 1, 2016, after the separation of E.ON from a new international company Uniper, the Company became a part of it and in June 2016 it was renamed into Unipro.

Uniper SE, the major shareholder of PJSC «Unipro», is a leader in the traditional power generation sector. The Company operates in European countries, Russia and several other countries of the world. Uniper comprises hydroelectric power plants, gas-fired power plants and coal power plants with the total capacity of 40 GW. Due to these key assets and the use of different types of fuel, Uniper is a major and reliable supplier of electricity a large portion of which is produced using environmentally friendly technologies, such as gas-fired power plants and hydroelectric power plants.

In September 2016 Uniper Group and E.ON SE successfully completed the spin-off by which E.ON shareholders acquired 53.35 % of the Uniper Group stock, leaving 46.65% of its shares under control, and Uniper SE began trading its shares on the Frankfurt Stock Exchange. A deconsolidation agreement was entered into with an effective date of 31 December 2016. The signing of the deconsolidation agreement resulted in E.ON SE losing control of the Uniper Group, including Unipro PJSC.

On 26 September 2017 E.ON SE published the ad hoc announcement about an agreement with Fortum under which E.ON could tender its remaining stake in Uniper as part of a public takeover bid by Fortum at the beginning of 2018, then Fortum Deutschland SE announced its decision to make an offer to the shareholders of Uniper SE to acquire all registered no-par value shares of Uniper SE as part of a voluntary public takeover offer.

21 November 2017, Uniper's Management Board and Supervisory Board published a joint statement on the voluntary public takeover bid by Fortum, which is not in the interest of Uniper, its shareholders, employees and other interested parties and recommended that Uniper shareholders not accept the Fortum offer.

On January 8, 2018, E. ON exercised the right to tender its 46.65% stake in Uniper as part of Fortum's public takeover offer of November 7, 2017. On 7 February 2018 Fortum announced that the offer had been accepted for 172,439,375 Uniper shares. This corresponds to around 47.12% of the share capital and voting rights of Uniper SE. Completion of the offer is subject to approval by various jurisdictions.

Operating environment

Russian Federation. 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 26). During 2017 the Russian economy showed signs of recovery after overcoming the economic downturn of 2015 and 2016. Low oil prices, ongoing political tension in the region and well as the ongoing effects of the international sanctions against certain Russian companies and individuals have a negative impact on the Russian economy. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

To varying degrees, the Group and its profit depend on regulatory changes in the electricity market, financial, administrative and environmental legislation of the Russian Federation.

These consolidated financial statements reflect management's assessment of the manner in which the business environment in the Russian Federation has an effect on the Group's operations and financial position. Actual results may differ from the estimates made by management.

Regulatory risk. In early 2017, the expert energy community entered into a debate concerning the feasibility of making changes to the Rules of Wholesale Market and the terms of Capacity Contracts (CCs). The changes provide for the collection of fines in the amount of 25% of the capacity payment and the possibility of unilateral termination of CCs in the event that generating equipment remains under unscheduled repair for an extended period. Despite the clear position of all the generating companies and regulator on the inadmissibility of changes to CCs, the company cannot completely prevent the debate from being protracted or, in the worst-case scenario, this risk from being partially or fully realized.

Sensitivity and significant judgments disclosures have been updated to reflect current volatility in financial markets.

Changes in Industry

In 2017, the following events take place in the sectoral regulation:

- Indexation of competitive power selection prices for 2017 from 1 January 2017 by 4.39% in accordance with the Power Price Index Regulation Rules approved by RF Government Decree No. 238 of 13 April 2010;
- Indexation of gas prices since 1 July 2017 by 3.9% on the orders of the Federal Antimonopoly Service No. 776/17 of 13 June 2017;
- Change in the procedure for calculating the prices for capacity supplied under capacity agreements (DPM) in connection with the release of Order No. 107 of the Ministry of Energy of Russia of 17 February 2017 “On approval of the methodology for calculating the share of compensated costs reflecting the projected profit from the sale of electricity for Suppliers of electrical energy (power)”. This Methodology determines the procedure for calculating the CPR - coefficient, which is one of the parameters involved in the calculation of the price of the DPM objects and excluding from the price for capacity that part of the profit that the DPM objects receive in the electricity market. In the first three years of the operation of the DPM, the reference values of the CRs are applied, which are established by Government Decision No. 238 of April 13, 2010. After the expiry of three and six years from the beginning of the supply of power, the CRS is specified in accordance with the above Methodology.

The accident at the branch «Berezovskaya GRES»

On 1 February 2016, a fire occurred in the boiler room of Power Unit 3 of Berezovskaya GRES Branch of PJSC Unipro, resulting in a destruction and need for replacement of a significant part of the boiler room of the Power Unit 3.

Following the accident, an 800MW power unit was shut down for unscheduled repairs, and it will not be producing electric power or amortised during the performance thereof. According to current estimates, PJSC Unipro plans to recommission the unit and to restart receiving payments for the capacity of the Power Unit 3 of Berezovskaya GRES in the third quarter of 2019. According to the current market rules, no fines are expected for the failure to supply the capacity.

The current results of detailed examination of auxiliary equipment and dismantling of damaged equipment confirmed the preliminary estimation of the cost of the damaged part of the boiler room equal to 50% of the boiler value, 25% of the cost of the building and auxiliary equipment.

As of 31 December 2017, about RUB 18 billion were spent on refurbishment. The amount of future expenses on refurbishment will amount about RUB 21 billion . The Group's management estimates the risk of a possible additional increase in the project budget due to the implementation of known or unforeseen risks within RUB 5 billion.

As a result of dismantling after the accident at Power Unit 3 of Berezovskaya GRES materials in the amount of RUB 847,440 thousand were recognized in 2017 (2016: RUB 311,977 thousand) (Note 7). They were classified as construction in progress due to intention to use them in the future in capital construction.

The Power Unit might be commissioned later than planned, resulting in later receipt of income. The delay in commissioning is one of the material individual risks of the Group.

The power station was insured against damages to property and business interruption. The Group has received the full indemnity for losses due to the accident according an insurance contract in the amount of RUB 26,100,000 thousand: the first payment in the amount of RUB 5,651,285 thousand in 2016, the final payment in the amount of RUB 20,448,715 thousand was received in May 2017. This amount was shown in «Other operating income».

According to insurance contract the compensation refers to asset physical damage and business interruption, however, it is not possible to clearly allocate the insurance compensation between Operating Cash Flow and Investing Cash Flow. At the moment it is impossible to determine what amount will finally refers to physical damage, what to the business interruption and what amount of recovery expenses will be covered by the contract for restoration (there are several methods of calculation, the calculation method is not prescribed in the insurance contract, so these calculations are subjective in nature).

The insurers have paid the amount of the total limit under the contract, which applies to all insured risks (both- a physical damage and a business interruption), since the total damage will exactly exceed the total recovery limit. At the same time, the contract lacks sub-limits for each of the insured risks and the allocation can not be made from other documents related to the payment.

Therefore, all amount of insurance compensation is shown in Operating Cash Flow.

Note 2. Principles of preparation and summary of significant accounting policies

Statement of compliance. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Each enterprise within the Group individually maintains its own accounting records and prepares statutory financial statements in accordance with Russian accounting and reporting rules. The accompanying consolidated financial statements are based on the statutory records and adjusted and reclassified for fair presentation to meet IFRS requirements. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Predecessor accounting. In these consolidated financial statements, formation of the Group was accounted for as a business combination of entities under common control. The predecessor accounting method was applied. Accordingly, the assets and liabilities of the combined entities (OAO Berezovskaya GRES-1, OAO Shaturskaya GRES-5, OAO Yayvinskaya GRES, OAO Smolenskaya GRES and OAO Surgutskaya GRES 2) were recorded at their historical cost as reflected in the IFRS consolidated financial statements of RAO UES. The formation of the Group was completed in June 2006.

Principles of consolidation. The financial statements comprise the financial statements of PJSC Unipro and the financial statements of those entities whose operations are controlled by PJSC Unipro. Control is presumed to exist when PJSC Unipro (i) has the power to enable it to manage the significant activity that has a significant impact on the income of an investment, (ii) is exposed to risks associated with variable income from interest in an investment, or is entitled to receive such income, and (iii) has the ability to use its powers in respect of an investment in order to influence the amount of income of the investor.

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

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

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

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

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

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

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

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

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as the share of results of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of results of associates.
However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.
Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.
Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.
Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

Transactions eliminated on consolidation. Inter-Group balances and transactions, and any unrealised gains arising from inter-Group transactions, are eliminated in preparing the consolidated financial statements.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RUB"). The consolidated financial statements are presented in Russian Roubles («RUB»), which is the Group's presentation currency.

At 31 December 2017, the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 57.6002 (at 31 December 2016: USD 1 = RUB 60.6569), and EUR 1=RUB 68.8668 (at 31 December 2016: EUR 1 = RUB 63.8111).

Transactions and balances. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss as finance income or costs – net, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within 'Other operating expenses – net'. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Group companies. Loans between Group entities and related foreign exchange gains or losses are eliminated upon consolidation.

Property, plant and equipment. Property, plant and equipment (PPE) are stated at cost less accumulated depreciation and provision for impairment, where required. Property, plant and equipment includes assets under construction for future use as property, plant and equipment. Deemed cost was initially determined by a third-party valuation as of 31 December 1997 and restated for the impact of inflation for the period until 31 December 2002.

Adjustments were made for additions, disposals and depreciation charges. The amounts determined by the third-party valuation represent an estimate of depreciated replacement cost. Under paragraph 16 of IAS 29 *Financial Reporting in Hyperinflationary Economies*, a third-party valuation was performed in order to determine a basis for cost because historical accounting records for PPE were not readily available. Therefore, this third-party valuation was not a recurring feature, since it was intended to determine the initial cost basis of PPE and the Group had not adopted a policy of PPE revaluation for subsequent measurement.

At each reporting date, management assesses whether there is any indication of impairment of PPE; this assessment is performed at the level of the cash generating unit. 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 profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

Renewals, improvements and major capital maintenance costs are capitalised and the assets replaced are retired. Regular repair and maintenance costs are expensed as incurred. Gains and losses arising from the retirement of PPE are included in profit and loss as incurred.

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of the asset once it is available for use. The residual value of the Group's PPE is estimated to be close to zero. For those PPE items that were subject to the third-party valuation at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives at the valuation date. Remaining useful lives and residual value are reviewed annually.

(RUB thousand)

The useful lives, in years, of assets by type of facility are as follows:

Type of facility	Acquired before 31 December 1997	Acquired after 31 December 1997
Electricity and heat generation	7-50	15-50
Electricity distribution	6-32	8-25
Heating network	4-20	12-20
Major capital maintenance	-	3-6
Other	2-8	3-10

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

Purchases of property, plant and equipment in the Statement of Cash Flows do not include VAT.

Intangible assets other than goodwill. The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software, licences and expenses on connection to the grid. Intangible assets are stated at amortised cost less impairment. Amortisation is calculated using a straight-line method. The useful lives of computer software are 5-16 years, while for the grid connection fee the useful life is 10 years.

At each reporting date, management assesses whether there is any indication of impairment of intangible assets. 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 profit or loss. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

Amortisation of intangible assets is included in operating expenses. Remaining useful lives are reviewed annually.

Impairment of non-financial assets. Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units - CGU). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread which is most representative of the fair value of the instrument in that particular circumstances was used to measure fair value, which management considers is the average of actual trading prices on the reporting date. The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities are substantially the same.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

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

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

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

Classification of financial assets. Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held-to-maturity assets include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. The Group's held-to-maturity assets comprise of 'held-to-maturity investments'.

The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Other financial assets at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's [key management personnel. Recognition and measurement of this category of financial assets is consistent with the accounting policy for trading investments.

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

Classification of financial liabilities. Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost. The Group does not have liabilities held for trading as of the reporting dates.

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

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

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

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income.

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

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

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

Embedded derivatives. Foreign currency forwards embedded into sales-purchase contracts are separated from the host contracts and accounted for separately unless the contract is denominated in the functional currency of any substantial party to the contract or in a currency that is commonly used in the economic environment in which the transaction takes place, such as in US Dollars and Euros for contracts within the Russian Federation.

Bifurcated derivatives are carried at fair value with gains and losses arising from changes in the fair value of derivatives included in other operating income or costs in profit or loss in the period in which they arise. Assets purchased are recognised in the statement of financial position at the forward rate determined at the contract date.

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

Trade and other accounts receivable. Accounts receivable are recorded inclusive of value-added tax. Accounts receivable initially are recognised at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment of accounts receivable is created if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the carrying amount and the recoverable amount, which is the present value of expected cash flows discounted at the initial market interest rate for similar borrowers at the date the debt arose.

Promissory notes. Promissory notes are recognised at fair value and subsequently accounted for at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment is created if there is objective evidence, based on credit rating of the issuing bank, that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the carrying amount and the recoverable amount, which is the present value of expected cash flows discounted at the market interest rate for similar borrowers at the date the debt arose.

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

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

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

Impairment losses are always recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

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

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest method.

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

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

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

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

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

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

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

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

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

Value added tax. Output value added tax (VAT) related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on the normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

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.

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

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

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

Revenue recognition. Electricity sales are recognised when the generated electricity is supplied to the grid. In accordance with the regulation on the Russian wholesale electricity and capacity market, utilities companies are required to conclude transactions for the sale and purchase back of electric energy (under bilateral contracts, for electricity for their own needs). Accordingly, these linked transactions are netted when revenue is recognised. Capacity sales are recognised when the capacity obligations have been fulfilled; heat energy sales are recorded when the heat is delivered to the customer. Other revenue is recognised when goods are shipped/delivered, or services are provided. Revenues are measured at the fair value of the consideration received or receivable. Revenue is presented exclusive of value-added tax.

Interest. Interest income and expense are recognised in profit or loss for all debt instruments on an accrual basis using the effective interest method. Interest income includes nominal interest and amortised discount or premium. When loans become doubtful, they are written down to their recoverable amounts, and interest income thereafter is recognised based on the interest that was used to discount future cash flows for the purpose of measuring the recoverable amount.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Pension and post-employment benefits. The Group makes all mandatory payments to the Russian state pension fund on behalf of its employees. Mandatory contributions to the state pension fund are expensed when incurred.

The Group provides a number of post-employment and other long-term benefits that have the nature of a defined benefit plan or a defined contribution plan. Defined benefit plans provide old-age and disability pensions, death in service and death in pension benefits, lump sum payment upon retirement, jubilee benefits to current and former employees retired from the Group as well as financial support after old-age retirement.

Defined benefit plans, except for old-age and disability pensions, are unfunded and paid on a pay-as-you-go basis, i.e. cost is met directly by the Group when due. With regard to old-age and disability pensions the Group has an agreement with a non-state pension fund.
The defined benefit plan defines the pension allowance that an employee will receive upon retiring. The allowance generally depends on several factors such as age, length of employment and salary. Pension obligation is settled by the Group via a non-state pension fund when the employee retires.

Defined benefit obligations are calculated using the projected unit credit method. The present value of defined benefit obligations is 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 and which have terms to maturity approximating the terms of the related pension liabilities.
The liability recognised in the statement of financial position is the present value of the obligation less plan assets. Actuarial gains and losses arising from experience adjustments and changes in actuarial estimates of post-employment activities are reflected in full in other comprehensive income. Past-service costs are recognised immediately in profit or loss.

Hedge accounting. The Group applies hedge accounting to cash flow hedge of the currency risks related to cash outflows in foreign currencies under investment programme, lease contract in foreign currencies and service contracts entered into for new Combined Cycle Plants (CCPs). Funds received as a result of operating activity were placed on deposits in the same currencies (hedging instrument). As the amount of the hedging instrument matches the amount of hedged items the effectiveness of the hedge is ensured.

The Group has applied the accounting policy to reclassify foreign exchange gains and losses that were recognised in other comprehensive income to profit or loss as a reclassification adjustment in the same periods during which the asset acquired affects profit or loss (that is in the periods when depreciation charge or service charge is recognised).In the statement of cash flows, cash flows of the hedging instrument are classified similarly to cash flows related to the hedged item.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the parent company of the Group (PJSC Unipro) by the weighted average number of participating shares outstanding during the reporting year.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Note 3. Critical accounting estimates and assumptions

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

Provision for impairment of accounts receivable*.* Provision for impairment of accounts receivable is based on the Group's management assessment of whether the collectability of specific customer accounts has deteriorated compared to prior estimates. If there is deterioration/improvement in a major customer's creditworthiness or actual defaults are higher/lower than the estimates, the actual results could differ from those estimates reported in these consolidated financial statements (see Note 12).

Tax contingencies*.* Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group's 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 in these consolidated financial statements (see Note 24).

Useful lives of property, plant and equipment. The estimation of the useful lives of an item of property, plant and equipment is a matter of management judgement based on experience with similar assets. In determining the useful life of an asset, management considers existing industry practices, 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.

The useful lives of property, plant and equipment are disclosed in Note 2.

The carrying value of fixed assets and the amounts included in the consolidated statement of comprehensive income, including depreciation, are disclosed in Note 7.

Impairment of fixed assets. The Group assesses its non-current assets for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in market prices and regulated tariffs for electricity and capacity, as well as gas and other fuel prices, leading to sustained unprofitable performance, an increase in the discount rate, low plant utilisation, evidence of physical damage and significant downward revisions of estimated generation volumes or increases in estimated future production costs. The assessment for impairment entails comparing the carrying value of the asset or cash-generating unit with its recoverable amount, that is, the higher of fair value less costs to sell and value in use. These calculations require the use of estimates and assumptions, including gas and electricity, expected volumes and generating inflation. It is reasonably possible that these assumptions may change and may then require a material adjustment to the carrying value of the Group's assets.

Information about impairment recognised is presented in Note 7.

Disposal of PPE. Information about a disposal of damaged PPE recognised is presented in Note 1.

Note 4. Adoption of New or Revised Standards and Interpretations

The following amended standards became effective from 1 January 2017, but did not have a material impact on the Group:

- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group presented this disclosure in Note 26.
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any discounts on the contract price must generally be allocated to the separate elements of contracts with customers. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

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

In accordance with the current accounting policy, the Group recognizes revenue from sale of electricity,

capacity and heat at the fair value of the consideration receivable. Revenue from sale of electricity, capacity and heat is recognized in profit and loss on delivery of electricity, capacity and heat. If objective evidence exists that the Group will not be able to collect all amounts receivable according to the initial contractual terms, the Group creates a provision within the provision for impairment of account receivable. In accordance with IFRS 15 revenue is recognized in the amount of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. Under the current agreements, the consideration set in the contract with the customer contains fixed amounts.
The application of the standard will not have a material impact on the Group's consolidated financial statements.

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

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

The transition to IFRS 9 will have no impact on the presentation of currency forwards. Likewise, no changes to the accounting treatment of financial liabilities have been identified. The fair value option for financial liabilities is currently not in use.

For trade receivables the simplified valuation allowance model of IFRS 9 will be applied.

Expected credit losses pursuant to IFRS 9 will be calculated by the Group using the probability-of-default method (as illustrated in IFRS 9). Probabilities of default are determined for significant financial assets within credit risk management and are applied both for expected credit losses pursuant to IFRS 13 and for the purposes of IFRS 9. Whenever possible, probabilities of default are derived from available market data (liquid credit default swaps or liquid debt instruments). If there are no publicly available market data, an internal credit rating is applied. This ensures that forward-looking information is sufficiently considered within the meaning of IFRS 9.

The financial assets carried at amortized cost that are within the scope of the IFRS 9 valuation allowance model consist to a significant extent of trade receivables, promissory notes and loans issued. The remaining financial assets undergo a quarterly assessment to determine whether the credit risk has increased significantly since initial recognition. If the credit risk is low, it is assumed, pursuant to IFRS 9, not to have increased significantly. According to IFRS 9, a financial instrument with an investment-grade rating is assumed to have low credit risk. On the other hand, if a financial instrument loses its investment-grade rating after initial recognition, it is assumed that the credit risk has increased significantly.

Based on the assessments undertaken to the date, the group expects an immaterial increase in the loss allowance for trade receivables, promissory notes and loans issued held at amortised cost.

The Group will apply the new hedge accounting requirements of IFRS 9 and this will not result in any significant effects on the initial application date.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Based on its review of the Group's financial assets and financial liabilities as at 31 December 2017 and the facts and circumstances prevailing on that date, the Group management expects that the application of the new standard as at 1 January 2018 will not have a significant impact on its consolidated financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group management expects that the application of the new Interpretation as at 1 January 2018 will not have a significant impact on its consolidated financial statements.

The following new standards will be early adopted by the Group starting from the annual period beginning on 1 January 2018:

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The standard requires lessees to recognize right-of-use assets and lease liabilities for most leases.

A contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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 income (expense) in the consolidated statement of income.

(RUB thousand)

In accordance with IFRS 16, the Group elected not to apply accounting requirements under this standard to short-term leases.

As the result, at 1 January 2018, the Group will recognize in the consolidated interim condensed statement of financial position right-of-use assets and lease liabilities in the amount of RUB 968 702 thousand, with no effect on opening retained earnings.

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments are not yet adopted in Russia.
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019. The amendments are not yet adopted in Russia.
- Annual Improvements to IFRSs 2015-2017 cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments are not yet adopted in Russia.
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments are not yet adopted in Russia.

Note 5. Related Parties

Parties are generally considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions as defined by IAS 24, Related Party Disclosure.

Uniper SE is the Company’s ultimate parent and ultimate controlling party.

The Group’s immediate parent is Uniper Russia Holding GmbH.

The Group had the following transactions and balances with the ultimate parent and other entities under common control:

	At 31 December 2017	At 31 December 2016
Accounts receivable	8,202	1,686
Accounts payable and accruals	219,670	48,031
Loan issued	3,000,000	-
Loan received	-	2,307,756

(RUB thousand)

	Year ended 31 December 2017	Year ended 31 December 2016
Revenues (less VAT)	26,772	21,102
Services provided and works performed (less VAT)	72,401	38,567
Interest income (loan issued)	252,921	-
Interest expenses (loan received)	62,049	124,880

In 2017, the revenue include the lease of offices and cars in the amount of RUB 16,113 thousand (2016: RUB 21,102 thousand).

Services provided and works performed in 2017 include the Uniper & Technology GmbH's consulting services regarding of assessment and expert analysis for the financial technical and administrative issues in the 3rd Unit at Berezovskaya GRES project in the amount of RUB 72,401 thousand (2016: RUB 36,217 thousand).

Accounts payable and accruals at 31 December 2017 include the Uniper & Technology GmbH's accrual of these consulting services and purchase of equipment in the amount of RUB 217,943 thousand (31 December 2016: RUB 47,115 thousand).

On 03 August 2016, the Group was received a loan from Uniper SE in the amount of RUB 2,400,000 thousand due on 22 December 2016. During the period from 3 August 2016 to 22 December 2016 the interest rate was 12.46% per annum. Interest accrued for this period was RUB 117,124 thousand. On 22 December 2016, the loan in the amount of RUB 2,300,000 thousand was prolonged until 22 March 2017 with interest rate 12.14% per annum. Interest accrued for the period from 22 December 2016 until 31 December 2016 was RUB 7,756 thousand. The loan was fully repaid at the 22 March 2017, interest accrued for the period from 01 January 2017 until 22 March 2017 was RUB 62,048 thousand.

On 24 May 2017, the Group provided a loan to Uniper SE in the amount of RUB 12,000,000 thousand due on 11 July 2017. The loan was partially repaid in the amount of RUB 9,000,000 thousand.
The interest rate was 15.24% per annum, and for the reporting period interest was accrued at the amount of RUB 161,586 thousand. Balance amount of the loan in the amount RUB 3,000,000 thousand was prolonged until 09 January 2018.

The amount of the interest accrued and the interest exchange rate for this period are presented below:

Loan	Provided date	Repaid date	Interest rate	Interest accrued for the period	Repayment of the loan
12,000,000	24.05.2017	11.07.2017	8.52	136,320	(9,000,000)
	11.07.2017	10.10.2017	8.30	62,942	-
	10.10.2017	20.12.2017	7.81	46,209	-
	20.12.2017	09.01.2018	7.45	7,450	-
12,000,000				**252,921**	**(9,000,000)**

In 2017, the Group paid dividends in the amount of RUB 14,000,000 thousand, including to the parent Uniper Russia Holding GmbH in the amount of RUB 11,722,480 (in 2016: RUB 19,737,635 thousand, including to the parent Uniper Russia Holding GmbH in the amount of RUB 16,526,746 thousand) (Note 14).

(RUB thousand)

Directors' and Management Board's compensation

Members of the Company's Management Board receive compensation for their services in full-time management positions. Compensation is made up of a contractual salary, non-cash benefits and a performance bonus depending on results for the period according to the IFRS statutory financial statements (Uniper Group).

Members of the Board of Directors receive fees and compensation for their services and for attending board meetings as well as a bonus depending on the results for the year.

Total remuneration in the form of salary and bonuses accrued to members of the Board of Directors and Management Board amounted:

	Year ended 31 December 2017	Year ended 31 December 2016
Salary and bonuses, other benefits	244,226	255,318
Contributions to non-state pension fund	37,754	44,933
Cash-settled share-based compensation	-	85,603
Termination benefits	-	17,471
Total	**281,980**	**403,325**

As at 31 December 2017 the Group has payables to the Board of Directors and Management Board in the amount of RUB 4,502 thousand (31 December 2016: nil).

Note 6. Acquisitions and disposals

Disposal of 51% share in OAO Shaturskaya Management Company

On 23 May 2017, the Board of Directors of PJSC Unipro approved the sale of a 51 percent stake in OAO Shaturskaya Management Company, which owned PJSC Unipro.

On 17 October 2017, the share was sold to AO ZHKH Stoliza for the amount of RUB 16,000 thousand, which were received by cash in October 2017.

The carrying values of disposed assets and liabilities of the OAO Shaturskaya Management Company were as follows:

	Carrying values
Accounts receivables and prepayments	221,095
Deferred income tax assets	14,725
Other current assets	16,469
Cash and cash equivalents	3,198
Other non-current liabilities	(1,426)
Accounts payable and accruals	(225,073)
Other current liabilities	(32,375)
Total net assets	**(3,386)**
Non-controlling interest (49%)	(197,595)
Total identifiable net assets of the subsidiary	**(200,981)**
Total cash proceeds from disposal	**16,000**
Less: cash and cash equivalents of subsidiary disposed	(3,198)
Cash inflow and cash equivalents on sale	**12,802**

As a result of the transaction, the cash inflow amounted of RUB 16,000 thousand. The amount of income after deducting cash was amounted of RUB 12,802 thousand and was recognized in the Consolidated Statement of Cash Flows as part of proceeds from disposals in investing activities.

Acquisition of 50% share in AO NATEK Invest-Energo

On 14 July 2016 OOO E. ON Connecting Energies, an affiliate company of PJSC Unipro, bought a 50% share in AO NATEK Invest-Energo that owns and operates a mini power plant in Krasnogorsk district of Moscow region. On 25 May 2016, the transaction was approved by the Federal Antimonopoly Service.

In accordance with the Sale and Purchase Contract, the total value of a 50% share in AO NATEK Invest-Energo to be paid by OOO E. ON Connecting Energies (Buyer) consists of the following components:

1) first payment - money payment in the amount of RUB 383,000 thousand in favour of the Initial Shareholder (Seller) for the acquisition of a 50% share (payment effected on 21 July 2016);
2) second payment - money payment in the amount of RUB 100,000 thousand in favour of the Initial Shareholder (Seller), provided that the first advance payment under the contract of technical connection to the heat supply system of «Two Captains" Business Center» is received (the payment scheduled on 31 December 2017 was not carried out, since no technical connection was made, this connection and payment will be possible made in 2018);
3) third payment - money payment in the amount of RUB 50,000 thousand in favour of the Initial Shareholder (Seller) on expiry of one year after signing the last certificate on technical connection to the heat supply system and technological connection to the electrical network of "Two Captains" Business Center, but not later than 31 December 2017, provided that both certificates (on technical connection to the heat supply system and technological connection to the electrical network) are signed as of this date (the payment scheduled on 31 December 2017 was not carried out, since no technical connection was made, this connection and payment will be possible made in 2018);
4) final payment - money payment in the amount not exceeding RUB 100,000 thousand in favour of the Initial Shareholder (Seller) as part of the Purchase Price Variable Component calculated based on the actual effective supply of electrical and heat energy for 2018 (the payment will be possible effected by 31 January 2019).

The consideration transferred by the OOO E. ON Connecting Energies was based on an assessment of the value of the business acquired entity as a whole, produced by an external appraiser, JSC KPMG. However, in accordance with IFRS (IFRS) 3 «Business Combinations» Group should reflect the acquisition at the fair value of assets acquired and the acquisition of liabilities and contingent liabilities of AO NATEK Invest-Energo at the acquisition date. These two different approaches can lead to differences.

(RUB thousand)

Note 7. Property, plant and equipment

	Land	Electricity and heat generation	Electricity distribution	Heating network	Construction in progress	Other	Total
Cost							
Balance at 31 December 2016	**69,893**	**128,553,026**	**9,720,722**	**1,170,532**	**16,862,915**	**16,348,283**	**172,725,371**
Additions	-	-	-	-	15,878,289	-	**15,878,289**
Transfers	-	5,862,137	68,733	36,959	(6,825,207)	857,378	**-**
Disposals	-	(496,677)	(1,824)	-	(91,655)	(12,458)	**(602,614)**
Subsidiary disposal (Note 6)	-	-	-	-	-	(25,468)	**(25,468)**
Removing undamaged parts (Note 1)	-	(456,808)	-	-	847,440	(390,632)	**-**
Balance at 31 December 2017	**69,893**	**133,461,678**	**9,787,631**	**1,207,491**	**26,671,782**	**16,777,103**	**187,975,578**
Accumulated depreciation (including impairment)							
Balance at 31 December 2016	**15,222**	**59,748,082**	**5,213,372**	**900,926**	**567,526**	**9,579,020**	**76,024,148**
Charge for the period	-	4,821,191	477,451	26,758	-	598,379	**5,923,779**
Disposals	-	(440,058)	(557)	-	-	(9,149)	**(449,764)**
Subsidiary disposal (Note 6)	-	-	-	-	-	(25,468)	**(25,468)**
Impairment loss	-	175,051	-	-	63,052	51,269	**289,372**
Reclassification of impairment	-	41,806	-	-	(118,191)	76,385	**-**
Balance at 31 December 2017	**15,222**	**64,346,072**	**5,690,266**	**927,684**	**512,387**	**10,270,436**	**81,762,067**
Net book value at 31 December 2016	**54,671**	**68,804,944**	**4,507,350**	**269,606**	**16,295,389**	**6,769,263**	**96,701,223**
Net book value at 31 December 2017	**54,671**	**69,115,606**	**4,097,365**	**279,807**	**26,159,395**	**6,506,667**	**106,213,511**

(RUB thousand)

Note 7. Property, plant and equipment (continued)

	Land	Electricity and heat generation	Electricity distribution	Heating network	Construction in progress	Other	Total
Cost							
Balance at 1 January 2016	**69,977**	**136,492,388**	**9,583,833**	**1,125,682**	**9,293,600**	**14,814,966**	**171,380,446**
Additions	-	-	-	-	12,767,247	-	**12,767,247**
Transfers	-	3,679,965	141,253	44,850	(5,482,235)	1,616,167	**-**
Disposals	(84)	(208,295)	(4,364)	-	(27,674)	(82,850)	**(323,267)**
Disposals of damaged assets unit №3 BGRES (Note 1)	-	(11,411,032)	-	-	311,977	-	**(11,099,055)**
Balance at 31 December 2016	**69,893**	**128,553,026**	**9,720,722**	**1,170,532**	**16,862,915**	**16,348,283**	**172,725,371**
Accumulated depreciation (including impairment)							
Balance at 1 January 2016	**-**	**51,836,262**	**4,413,216**	**721,690**	**65,918**	**8,440,475**	**65,477,561**
Charge for the period	-	5,288,848	525,807	48,170	-	781,406	**6,644,231**
Disposals	-	(135,360)	(4,334)	-	-	(80,537)	**(220,231)**
Disposals of damaged assets unit №3 BGRES (Note 1)	-	(125,154)	-	-	-	-	**(125,154)**
Impairment loss	15,222	2,883,486	278,683	131,066	501,608	437,676	**4,247,741**
Balance at 31 December 2016	**15,222**	**59,748,082**	**5,213,372**	**900,926**	**567,526**	**9,579,020**	**76,024,148**
Net book value at 1 January 2016	**69,977**	**84,656,126**	**5,170,617**	**403,992**	**9,227,682**	**6,374,491**	**105,902,885**
Net book value at 31 December 2016	**54,671**	**68,804,944**	**4,507,350**	**269,606**	**16,295,389**	**6,769,263**	**96,701,223**

Note 7. Property, plant and equipment (continued)

Additions of assets in Construction in Progress include objects for restoration unit 3 at Berezovskaya GRES the 800 MW (see Note 1) RUB 14,400,000 thousand.

At 31 December 2017, the carrying amount of property, plant and equipment reflects impairment and obsolescence loss of RUB 6,225,594 thousand (31 December 2016: RUB 6,870,885 thousand).

In 2017 the Group management revised its plan regarding the project to restore Berezovskaya GRES Power Unit No. 3. Based on the updated plan, the cost of the project increased and the timing of completion has prolonged.

Furthermore, certain cash generating units (CGUs) had a negative net present value at the end of 2016. During 2017 the Group invested in non-current assets for these CGUs.

Due to the abovementioned facts, the Group management decided to test fixed assets for impairment in order to assess their carrying value.

The recoverable amount of the assets was determined as their carrying value in use based on the model of discounted future cash flows after income tax.

For the purposes of the impairment test in 2016, power units of the power plants operating under Capacity Supply Agreement (CSA) and according to IAS 36 were recognised as separate CGU based on territorial feature: Berezovskaya GRES, Smolenskaya GRES, Surgutskaya GRES, Shaturskaya GRES and Yaivinskaya GRES.

In our opinion, such facilities generate cash flows mostly independently and should be accounted for separately and divided into several CGU taking into account two factors: territorial and type of capacity supply conditions.

The recoverable amount of assets was determined as their value in use based on a discounted after-tax cash flows model (DCF model).

Future cash flows for 2018-2020 years are based on Group's budget; in subsequent periods cash flows are projected on the basis of the main drivers: gas and electricity, expected volumes and generating inflation. DCF model calculation take based on several key assumptions: nominal average cost of capital after tax (10.62%) and Terminal growth rate (4%).

List of CGU’s:

1. Berezovskaya GRES (CSA),
2. Berezovskaya GRES (other assets),
3. Smolenskaya GRES,
4. Surgutskaya GRES (CSA),
5. Surgutskaya GRES (other assets),
6. Shaturskaya GRES (CSA),
7. Shaturskaya GRES (other assets),
8. Yaivinskaya GRES (CSA),
9. Yaivinskaya GRES (other assets).

The key assumptions in relation to the discounted cash flows are:

- The domestic gas prices: in accordance with According to IHS Markit`s report (prepared for PJSC Unipro in October 2016), the domestic gas prices will range between the maximum price generated by consumers and the minimum price required by gas producers for gas field development. For 2017 impairment test domestic gas price forecast has been developed based on IHS Markit approach with updates on assumptions on Russian gas-intensive industry sectors development in particular fertilizers and metal industries. The key change was a more pessimistic compared to 2016 IHS Markit outlook on Russia’s gas-

(RUB thousand)

intensive industry sectors. It resulted on reduced levels of prices that industrial gas consumers are willing to pay for natural gas in Russia.
If the estimated future prices were to decrease by 5% for each year in the cash flow projection then, assuming that electricity prices decrease by the same percentage and the other parameters remain unchanged, the value in use of the above CGUs would have decreased nevertheless the respective impairment loss would not have increased due to the sufficient size of the excess of the value in use of the CGUs over the carrying value;

- Future production volumes: the forecast model for power demand based on direct correlation between GDP growth and power consumption with a correlation coefficient of 0.33. As a result, cumulative average growth rate for 2017-35 amounted to 0.6%. The distribution of power demand by regions is similar to the one in the Scheme and Program for the development of the United Energy System (SPD) published by the Ministry of Energy in June 2017. Hour profiles of power consumption are based on the actual data of 2014–2016 published at the website of the System Operator.

If the estimated produced volumes would have decreased by one percent for each year in the cash flow projection, assuming that the other parameters remain unchanged, the value in use of the CGUs would have decreased and the respective impairment loss would not have increased due to the sufficient size of the excess of the value in use of the CGUs over the carrying value;

- Discount rate was assumed to be 10.62%.

If the discount rate was increased by 1pp (to 11.62%), then, assuming that the other parameters remain unchanged, the value in use of the above stations would have decreased and the respective impairment loss would not have increased due to the sufficient size of the excess of the value in use of the CGUs over the carrying value;

- If capitalized expensesfor Berezovskaya GRES (CSA) refurbishment would have increased by 10% in comparison to budget, then, assuming that the other parameters remain unchanged, the value in use of Berezovskaya GRES (CSA) would have decreased nevertheless it would have not lead to impairment loss;

- If commissioning date of Berezovskaya GRES (CSA) would have postponed for 6 months later in comparison to budget, then, assuming that the other parameters remain unchanged, the value in use of Berezovskaya GRES (CSA) would have decreased nevertheless it would have not lead to impairment loss;

As a result, in 2017 year impairment loss was recognized in amount of RUB 289,372 thousand including impairment of Yaivinskaya GRES (RUB 134,580 thousand), Smolenskaya GRES (RUB 154,792 thousand).

In 2016 year impairment loss was recognized in amount of RUB 4,247,741 thousand including total impairment of all non-CSA cash generation units in Shaturskaya GRES (RUB 2,404,549 thousand), Yaivinskaya GRES (RUB 1,637,250 thousand), Smolenskaya GRES (RUB 195,249 thousand) and in Head office (RUB 10,693 thousand).

Other property, plant and equipment include auxiliary production equipment, motor vehicles, computer equipment, office fixtures and other equipment.

Operating lease

PJSC Unipro leases a number of land plots owned by local governments, and offices under operating leases. Land lease payments are determined in accordance with existing agreements based on cadastral value of land plots and are subject to revision on a regular basis.

Operating lease charges determined based on lease payment rates effective as of the end of each reporting period are payable as follows:

	At 31 December 2017	At 31 December 2016
Less than one year	223,129	218,355
Between one and five years	171,506	532,482
More than five years	1,406,313	1,078,550
Total	**1,800,949**	**1,829,387**

(RUB thousand)

PJSC Unipro leases the land where its electric power plants and other assets are located. Leases typically run for an initial period of 1–49 years, with an option to further extend the lease.

Note 8. Intangible assets

	Computer software	Licenses	Grid connection	Total
Cost				
Balance at 31 December 2016	**592,587**	**2,832**	**199,485**	**794,904**
Additions	220,466	-	-	220,466
Disposals	(203,439)	(464)	-	(203,903)
Balance at 31 December 2017	**609,614**	**2,368**	**199,485**	**811,467**
Accumulated depreciation (including impairment)				
Balance at 31 December 2016	**335,962**	**2,248**	**122,816**	**461,026**
Charge for the period	160,537	278	19,948	180,763
Disposals	(203,439)	(464)	-	(203,903)
Impairment	35,839	-	-	35,839
Balance at 31 December 2017	**328,899**	**2,062**	**142,764**	**473,725**
Net book value at 31 December 2016	**256,625**	**584**	**76,669**	**333,878**
Net book value at 31 December 2017	**280,715**	**306**	**56,721**	**337,742**

	Computer software	Licenses	Grid connection	Total
Cost				
Balance at 01 January 2016	**434,823**	**2,958**	**199,485**	**637,266**
Additions	223,269	49	-	223,318
Disposals	(65,505)	(175)	-	(65,680)
Balance at 31 December 2016	**592,587**	**2,832**	**199,485**	**794,904**
Accumulated depreciation (including impairment)				
Balance at 01 January 2016	**208,707**	**1,576**	**102,917**	**313,200**
Charge for the period	134,003	273	19,899	154,175
Disposals	(65,505)	(175)	-	(65,680)
Impairment	58,757	574	-	59,331
Balance at 31 December 2016	**335,962**	**2,248**	**122,816**	**461,026**
Net book value at 01 January 2016	**226,116**	**1,382**	**96,568**	**324,066**
Net book value at 31 December 2016	**256,625**	**584**	**76,669**	**333,878**

In 2017, the Group impaired intangible assets of the Head office, Yaivinskaya GRES and Smolenskaya GRES in the total amount of RUB 35,839 thousand (2016: intangible assets of the Head office, Yaivinskaya GRES and Shaturskaya GRES in the total amount of RUB 59,331 thousand).

Note 9. Investments in joint ventures

Group E.ON Connecting Energies

The Group's investment in OOO Noginsky Teplovoy Center and AO NATEK Invest-Energo is held through OOO E.ON Connecting Energies (an entity jointly controlled by the Group and E.ON Connecting Energies GmbH (see Note 6).

(RUB thousand)

The carrying values of the investments joint ventures as of 31 December 2017 and 31 December 2016 are summarised below:

	At 31 December 2017	At 31 December 2016
OOO E.ON Connecting Energies	39,990	1,198,353
Total investments	**39,990**	**1,198,353**

The reconciliation of carrying amount of investments in joint ventures as of the beginning of the reporting period and as of the end of the reporting period is shown below:

	2017	2016
Carrying amount as of 1 January	**1,198,353**	**851,000**
Contribution to the joint ventures	-	200,000
Share of results of joint venture	(1,158,363)	147,353
Carrying amount as of 31 December	**39,990**	**1,198,353**

In June 2016 the authorized capital of OOO E. ON Connecting Energies was increased to the amount of RUB 400,000 thousand by making an additional contribution in the amount of RUB 200,000 thousand from each participant of OOO E. ON Connecting Energies after which the authorised capital will be RUB 2,102,000 thousand; the shares of the participants will not change, the nominal value of each participant’s share is RUB 1,051,000 thousand.

The following is the summarised financial information in respect of OOO E.ON Connecting Energies, including OOO Noginsky Teplovoy Center and AO NATEK Invest-Energo.

The values, disclosed in the tables, represent total assets, liabilities, revenues, income (loss) of the Group’s joint venture and not the Group’s share.

The financial information may differ from information in the financial statements of the joint venture prepared and presented in accordance with IFRS, due to adjustments required in application of equity method of accounting, such as excluding intercompany adjustments.

	31 December 2017	31 December 2016
Non-current assets	44,190	2,921,939
Current assets (including cash and cash equivalents − 31 December 2017: RUB 531,605 thousand, 31 December 2016: RUB 616,641 thousand)	877,515	822,146
Non-current liabilities	(173,213)	(493,750)
Current liabilities	(456,550)	(495,973)
Net assets	**291,942**	**2,754,362**

	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	949,587	700,981
Operating expenses	(4,139,035)	(320,573)
Interest income	102,574	123,972
Interest expense	(19,341)	(13,730)
Income tax	246,035	(78,096)
(Loss)/ profit from continuing operations	(2,860,181)	412,554
Total comprehensive income	**(2,860,181)**	**412,554**
(Loss)/ profit attributable to Non-controlling interest	(543,455)	117,846
Total comprehensive loss without non-controlling interest	**(2,316,726)**	**294,708**
Proportion of the Group’s ownership 50.00%	**50%**	**50%**
Share of total comprehensive (loss)/ profit	**(1,158,363)**	**147,354**

Operating expenses for FY 2017 include the loss from impairment of non-current assets in the amount of RUB 3,398,536 thousand.

(RUB thousand)

The Group E.ON Connecting Energies performed of the impairment test for non-current assets in OOO Noginsky Teplovoy Center and AO NATEK Invest-Energo in 2017 according to the following events:

- Decrease by the regional regulator (Price and Tariffs Committee of the Moscow Region) of tariffs for electricity and heat for 2017-18. AO NATEK Invest-Energo compared with 2016 and clarification of the position of the Federal Antimonopoly Service on the revision of this decision of the regional regulator;
- Revision of the forecasts for the growth rate of electricity and heat supply of AO NATEK Invest-Energo;
- Revision of the forecasts for the growth rate of electricity and heat supply OOO Noginsky Heating Center;
- AO NATEK Invest-Energo does not make the technical connection to heating networks and technological connection to electric networks of BC «Two Captains».

The recoverable amount of assets was determined as their value in use based on a discounted after-tax cash flows model (DCF model). Future cash flows for 2018-2020 years are based on E.ON Connecting Energies Group plans; subsequent periods cash flows are projected on the basis of the main drivers: price of electricity and heat, price of gas, expected volumes of own production, consumer price growth index, program for repair of production capacities. DCF model calculation take based on several key assumptions: nominal average cost of capital after tax (10.62%) and Terminal growth rate (4%).

For the Impairment test and according to IAS 36 Cash Generating Units (CGUs) were determined based on territorial feature (Moscow region, Nizhniy Novgorod and Kaliningrad): Project Metro Cash&Carry, Project Smart meters II, AO NATEK Invest-Energo, OOO Noginsky Heating Center.

The key assumptions in relation to the discounted cash flows are:

- The domestic gas prices: in accordance with According to IHS Markit`s report (prepared for PJSC Unipro in October 2016), the domestic gas prices will range between the maximum price generated by consumers and the minimum price required by gas producers for gas field development. For 2017 impairment test domestic gas price forecast has been developed based on IHS Markit approach with updates on assumptions on Russian gas-intensive industry sectors development in particular fertilizers and metal industries. The key change was a more pessimistic compared to 2016 his Markit outlook on Russia's gas-intensive industry sectors. It resulted on reduced levels of prices that industrial gas consumers are willing to pay for natural gas in Russia.
  If the estimated future prices were to decrease by 5% for each year in the cash flow projection then, assuming that electricity prices decrease by the same percentage and the other parameters remain unchanged, the value in use of the above CGUs would have decreased nevertheless the respective impairment loss would not have increased;
- Volumes of own production of electric and heat energy. Since generating capacities operate in the «island» mode i.e. without connection to the grid of the UES of Russia, the accumulated statistics of useful energy supply to consumers for 2015-2017, adjusted for the expected connection of new consumers and disconnection of existing ones, were used to forecast the future volume of own production of electric and thermal energy.
  If the estimated produced volumes would have decreased by one percent for each year in the cash flow projection, assuming that the other parameters remain unchanged, the value in use of the above CGUs would have decreased and the respective impairment loss would not have increased;
- Discount rate of 10.62% was used. If the discount rate was increased by 1pp (to 11.62%), then, assuming that the other parameters remain unchanged, the value in use of the CGUs would have decreased and the respective impairment loss would not have increased.

Note 10. Other non-current assets

	At 31 December 2017	At 31 December 2016
Promissory notes	674,774	638,235
Loans issued to employees	179,882	171,091
Total	**854,656**	**809,326**

An analysis of the credit quality of the promissory notes is in note 26.

(RUB thousand)

Note 11. Inventories

Breakdown of inventories:

	At 31 December 2017	At 31 December 2016
Fuel production supplies	1,212,505	1,273,743
Materials and supplies	1,301,485	986,272
Other inventory	16,794	76,920
Write-down of inventory	(23,904)	(32,158)
Total	**2,506,880**	**2,304,777**

Note 12. Accounts receivable and prepayments

	At 31 December 2017	At 31 December 2016
Trade and other receivables	8,988,038	8,687,126
Other financial receivables	256,494	125,006
Less provision for impairment of accounts receivable	(3,987,182)	(3,899,085)
Total financial assets within trade and other receivables	**5,257,350**	**4,913,047**
Prepayments to suppliers	174,829	137,993
VAT recoverable	110,928	151,432
Due from budget (excluding VAT)	25,560	42,494
Total accounts receivable and prepayments	**5,568,667**	**5,244,966**

Management has determined the provision for impairment of accounts receivable based on the customers' credit history, customer payment trends, the outlook for payments and settlements, and an analysis of expected future cash flows. Management believes that the Group will be able to realise the net receivable amount through direct collections and other non-cash settlements and that the recorded value therefore approximates the fair value.

The abovementioned accounts receivable and prepayments include amounts receivable from related parties (see Note 5).

Note 13. Short-term financial assets

	At 31 December 2017	At 31 December 2016
Loan receivable	3,000,000	-
Promissory notes	700,836	779,682
Total	**3,700,836**	**779,682**

On 20 December 2017, the Group provided a loan to Uniper SE in the amount of RUB 3,000,000 thousand due on 9 January 2018. The interest rate was 8.43% per annum (Note 5).On 9 January 2018, the loan was fully repaid in the amount of RUB 3,000,000 thousand, including interests.

Note 14. Equity

The Group was formed through the combination of a number of businesses under common control. As the predecessor`s basis of accounting (see Note 2) was applied, the majority of the net equity recognised for the Group is based on the historic carrying value of the net assets contributed, as recorded in the IFRS financial statements of the predecessor enterprises, rather than the fair values of those assets.

The actuarial gains and losses, cash flow hedges and fair value losses on available-for-sale financial assets are recorded in other reserves. Cash flow hedge was applied by the Group starting from 1 January 2009 (Note 2 and Note 26).

Each component of other comprehensive income, including current and deferred tax effects, is represented in the table below:

(RUB thousand)

	2017			2016		
	Pre-tax amount	**Income tax expense**	**Post-tax amount**	**Pre-tax amount**	**Income tax expense**	**Post-tax amount**
Available-for-sale financial assets	10,226	-	10,226	19,072	-	19,072
Actuarial gain/(loss)	634,964	(126,993)	507,971	588,984	(117,797)	471,187
Cash flow hedges	99,346	(19,869)	79,477	851,397	(170,280)	681,117
Total	**744,536**	**(146,862)**	**597,674**	**1,459,453**	**(288,077)**	**1,171,376**

Share capital. The share capital consists of 63,048,706,145 ordinary shares with nominal value of 0.40 roubles totalling RUB 25,219,482 thousand. There were no changes in the share capital in 2017 and 2016.

Dividends. In accordance with the Russian legislation, the Group distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. These financial statements are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit.

However, this legislation and other statutory laws and regulations dealing with the profits distribution rights are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

The Annual General Shareholder`s Meeting of PJSC Unipro, held on 23 June 2017, made the decision to pay dividends on the Group`s common stock based on the financial results for 2016 in the amount of RUB 5,906,169 thousand, or RUB 0.0936 per 1 ordinary share and for the 1 quarter 2017 in the amount of RUB 1,093,831 thousand, or RUB 0.0173 per 1 ordinary share . At the date of approval of these consolidated financial statements, funds for payment of these dividends have been paid to the depositary for further distribution to shareholders or have been directly paid to shareholders.

An Extraordinary general Shareholder`s Meeting of PJSC Unipro, held on 7 December 2017, made the decision to pay dividends in the amount of RUB 7,000,000 thousand on the Group`s common stock based on the financial results of the nine months of 2017 and also from the undistributed profits of the previous years in the amount of RUB 0,111 per 1 ordinary share. At the date of approval of these consolidated financial statements, funds for payment of these dividends have been paid to the depositary for further distribution to shareholders or have been directly paid to shareholders.

The Annual General Shareholder`s Meeting of PJSC Unipro, held on 15 June 2016, made the decision to pay dividends on the Group`s common stock based on the financial results for 2015 in the amount of RUB 12,436,596 thousand, or RUB 0.20 per 1 ordinary share. These dividends were paid.

An Extraordinary general Shareholder`s Meeting of PJSC Unipro, held on 8 December 2016, made the decision to pay dividends on the Group`s common stock based on the financial results of the nine months of 2016 and also from the undistributed profits of the previous years in the amount of RUB 7,301,039 thousand, or RUB 0.1158 per 1 ordinary share. These dividends were paid.

Note 15. Pension liabilities

The tables below provide information on defined benefit obligations, pension expenses, plan assets and actuarial assumptions at 31 December 2017 and 2016.

Amounts recognised in the consolidated statement of financial position are:

	At 31 December 2017	**At 31 December 2016**
Present value of funded obligations	485,153	497,265
Fair value of plan assets	(43,798)	(40,503)
Total deficit of funded plans	**441,355**	**456,762**
Present value of unfunded obligations	282,272	253,347
Net liability in the consolidated statement of financial position	**723,627**	**441,355**

(RUB thousand)

Amounts recognised as income and expense in the consolidated statement of comprehensive income:

	Year ended 31 December 2017	Year ended 31 December 2016
Interest cost	63,669	73,854
Current service cost	21,382	19,800
Actuarial gains, recognised in the current period	11,333	4,247
Past-service cost	642	173,436
Curtailment (gain)/ loss	-	(291.326)
Interest income on plan assets	(3,788)	(4,641)
Net expense/(gain) recognised in profit and loss	**93,238**	**(24,630)**

In 2016, some changes in the pension plan took place, which resulted in a curtailment in the amount of RUB 117,890 thousand. Apart from this, a settlement of benefits occurred in the Head office in the amount of RUB 18,800 thousand.

Movements in the net liability recognised in the consolidated statement of financial position are as follows:

	At 31 December 2017	At 31 December 2016
Net liability at the beginning of the year	710,109	801,322
Net expense recognised in profit and loss	93,237	(24,630)
Employer contributions(payments made directly by the company)	(13,833)	(13,818)
Employer contributions (to plan assets)	(19,905)	(15,898)
Actuarial (gain)/ loss recognised in other comprehensive income	(45,980)	(36,867)
Net liability at the end of the period	**723,627**	**710,109**

Changes in the present value of the Group's pension obligations are presented below:

	Year ended 31 December 2017	Year ended 31 December 2016
Present value of pension obligations at the beginning of the year	750,612	881,273
Interest cost	63,669	73,854
Actuarial losses, arising from changes in financial assumptions	34,353	31,667
Current service cost	21,382	19,800
Past-service cost	642	173,436
Curtailment (gain)	-	(310,127)
Benefits paid (payments made directly by the company)	(13,833)	(13,817)
Actuarial gains, arising of experience adjustments on plan liabilities	(16,112)	(67,598)
Benefits paid from plan assets	(32,059)	(37,876)
Actuarial gains, arising of experience from changes in demographic assumptions	(41,231)	-
Present value of defined benefit obligations (DBO) at the end of the year	**767,423**	**750,612**

The duration of liabilities is on average 5 years.

(RUB thousand)

Adjustments arose due to the actual results differing from assumptions for assets and obligations:

	At 31 December 2017	At 31 December 2016	At 31 December 2015	At 31 December 2014	At 31 December 2013
Present value of defined benefit obligations (DBO)	767,423	750,612	881,273	729,887	1,109,739
Fair value of plan assets	(43,798)	(40,503)	(79,951)	(69,271)	(81,873)
Net liability in the consolidated statement of financial position	723,627	710,109	801,322	660,616	1,027,866
(Gains)/losses arising from experience adjustments for plan liabilities	16,112	67,598	(1,225)	146,261	200,306
(Gains)/losses arising from experience adjustments for plan assets	11,659	(3,311)	5,976	(2,076)	(5,340)

The principal actuarial assumptions are as follows:

	At 31 December 2017	At 31 December 2016
Nominal discount rate	7.5%	8.5%
Inflation	4.5%	5%
Future salary increase	8.16%	7.1%
Future financial support increases	4.5%	5%
Staff turnover	2.5%	2.5%
Mortality	Russian population table for 1998	Russian population table for 1998

The Group anticipates that the retirement age is 59 years for men and 55 years for women (58 years for men and 54 years for women at 31 December 2016).

The movements in the plan assets are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Fair value of plan assets at 1 January	40,503	79,951
Interest income on plan assets	3,788	4,641
Actual actuarial losses/(gain) excluding interest income on plan assets	11,659	(3,311)
Employer contributions	19,907	15,898
Benefits paid	(32,059)	(37,876)
Curtailment (gain)/ loss	-	(18,800)
Fair value of plan assets at 31 December	**43,798**	**40,503**

Contributions expected to be paid to the plan during the annual period starting from the reporting date are RUB 59,000 thousand. Furthermore, the Group plans to make about RUB 15,000 thousand in payments to beneficiaries directly.

Plan asset structure:

	At 31 December 2017	At 31 December 2016
Corporate bonds	40%	34%
Shares	24%	34%
Real estate	15%	12%
Cash	13%	0%
Shares in mutual funds	8%	7%
Accounts receivable	0%	4%
Bank deposits	0%	9%

(RUB thousand)

Sensitivity analysis of DBO as at 31 December 2017 is as follows:

Assumptions	**Changes in assumptions**	**DBO changes, %**	
Discount rate 6.5% per annum	Decrease by 1%	Increase	6,3%
Future wage increases	Increase by 1,5%	Increase	0,5%
Inflation	Decrease by 0,5%	Decrease	3,2%
Staff turnover	Increase by 2.5% for staff aged below 50	Decrease	2,8%
Disability	Decrease by 10%	Decrease	0,1%
Mortality	Decrease by 10%	Increase	1,1%

The sensitivity analysis was performed with respect to all benefits and with respect to both active and inactive participants.

Note 16. Accounts payable and accruals

	At 31 December 2017	**At 31 December 2016**
Financial liabilities	**4,075,522**	**4,277,061**
Trade payables	1,846,865	2,788,174
Accounts payable to capital construction contractors	1,878,423	961,484
Dividends payable	350,234	442,591
Other payables	-	84,812
Non-financial liabilities	**1,107,160**	**975,273**
Payables to employees	1,096,755	954,490
Advances from customers	10,405	20,783
Total	**5,182,682**	**5,252,334**

Note 17. Taxes payable other than income tax

	At 31 December 2017	**At 31 December 2016**
VAT	739,356	434,691
Property tax	226,529	401,449
Social taxes	120,541	91,151
Other	105,901	37,449
Total	**1,192,327**	**964,740**

Note 18. Income tax

Income tax charge

	Year ended 31 December 2017	**Year ended 31 December 2016**
Current income tax charge	(7,199,735)	(3,407,034)
Deferred income tax charge	(160,530)	1,353,489
Total	**(7,360,265)**	**(2,053,545)**

During the year ended 31 December 2017, the Group branches were subject to income tax on taxable profits at the following rates:

- 20% for such branches as Smolenskaya GRES, Shaturskaya GRES, Berezovskaya GRES and PAO Unipro Russia's Moscow head office (20% in 2016);
- 18% for Surgutskaya GRES Branch (according to Article 2.5 of Khanty-Mansi Autonomous Area-Yugra Law No. 87-OZ of 30 September 2011 on corporate income tax rates payable to the Khanty-Mansi Autonomous Area-Yugra budget), in 2016 – 18%;

(RUB thousand)

- 17.2% for Yayvinskaya GRES Branch (according to Article 15, Perm Region Tax Law No. 1685-296 of 30 August 2001), in 2016 – 17%.

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

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before income tax	**40,965,749**	**7,220,354**
Theoretical tax charge at the statutory tax rate (20% for the year ended 31 December 2017 and 2016)	(8,193,150)	(1,444,071)
Non-deductible expenses	(197 771)	(333 505)
Effect of reduced tax rate	432,210	158,551
Other income tax income/(expenses)	598 446	(434 520)
Total income tax charge	**(7,360,265)**	**(2,053,545)**

Other income tax income for 2017 includes effects for RUB 590,221 thousand from the capitalisation of expenses related to environmental measures, implementation of new technologies and on mobilization assignment in property, plant and equipment in tax accounting as a result of tax inspection (Note 25).

Other income tax expenses for 2016 includes effects for RUB 399,841 thousand from exclusion for income tax purposes of expenses for environmental measures, implementation of new technologies and on mobilization assignment.

Effective tax rate for years 2017 and 2016 are 18% and 28.4% accordingly.

Deferred income tax. Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets and liabilities are measured at the actual local statutory tax rate, which is 20% as of 31 December 2017 and 31 December 2016. The Group is taxed at lower tax rates in some regions of its operations, but because the Group has insufficient evidence that these declined tax rates will sustain in future, the Group has applied statutory tax rate of 20% to record its deferred tax assets and liabilities.

Deferred tax assets (liabilities) calculated on the temporary differences for balance sheet items are as follows:

	At 31 December 2017	Movement for 2017 recognised in the income statement	Movement for 2017 recognised in the statement of comprehensive income	Disposal	At 31 December 2016
Deferred tax liabilities					
Property, plant and equipment	(5,974,348)	(81,605)	-	2 968	(5,895,711)
Short-term financial assets	(27,653)	(160,158)	150,411		(17,906)
Intangible assets	(21,714)	(8,598)	-	-	(13,116)
Other	-	4,948	-	-	(4,948)
	(6 023 715)	**(245,413)**	**150,411**	**2,968**	**(5,931,681)**
Deferred tax assets					
Accounts receivables	229,779	9,298	-	(18,420)	238,901
Pension liabilities	144,725	11,900	(9,196)	-	142,021
Accounts payable and other Accruals	96,986	(23,836)	-	-	120,822
Other non-current assets	90,092	5,357	-		84,735
Inventories	88,504	82,164	-	-	6,340
	650,086	**84,883**	**(9,196)**	**(18,420)**	**592,819**
Total deferred tax liability at the end of the year	**(5,373,629)**	**(160,530)**	**141,215**	**(15,452)**	**(5,338,862)**

(RUB thousand)

	At 31 December 2016	Movement for 2016 recognised in the income statement	Movement for 2016 recognised in the statement of comprehensive income	At 31 December 2015
Deferred tax liabilities				
Property, plant and equipment	(5,895,711)	1,829,096	-	(7,724,807)
Short-term financial assets	(17,906)	(269,957)	266,377	(14,326)
Intangible assets	(13,116)	(3,627)	-	(9,489)
Other	(4,948)	(1,618)	-	(3,330)
	(5,931,681)	**1,553,894**	**266,377**	**(7,751,952)**
Deferred tax assets				
Accounts payable and other Accruals	120,822	(185,858)	-	306,680
Accounts receivables	238,901	52,704	-	186,197
Pension liabilities	142,021	(10,870)	(7,373)	160,264
Other non-current assets	84,735	2,733	-	82,002
Inventories	6,340	(59,114)	-	65,454
	592,819	**(200,405)**	**(7,373)**	**800,597**
Total deferred tax liability at the end of the year	**(5,338,862)**	**1,353,489**	**259,004**	**(6,951,355)**

Long-term deferred tax liabilities and assets as of 31 December 2017 and 31 December 2016 are RUB 5,761,245 thousand and RUB 5,682,071 thousand, accordingly.

Note 19. Revenue

	Year ended 31 December 2017	Year ended 31 December 2016
Electricity and capacity	74,133,824	75,705,183
Heat	1,294,886	1,294,436
Other	1,092,832	1,032,317
Total	**76,521,542**	**78,031,936**

The Group sells electricity and capacity through the wholesale electricity and capacity market (“WECM”), under regulated contracts with predetermined volumes and tariffs approved by Federal Tariff Service, and at competitive (unregulated) prices.

Electricity and capacity are sold on the WECM directly to retail companies. At the same time, some WECM transactions are conducted on the day-ahead market or balancing electricity market, through commission agreements with ZAO Centre for Financial Settlements (“CFS”).

CFS is the entity responsible for ensuring secure and monitoring of financial settlements under all contracts involving WECM participants. Its principal function is to provide a range of services regarding the calculation of WECM participants’ receivables and liabilities, as well as those regarding the fulfilment of financial settlements between them.

The companies, industrial consumers or the generation companies which buy the electric power and power for ensuring own deliveries in the regulative sector are the actual contractors in transactions on WECM made through CFS who acts as the commission agent. The enterprises, which are under state control, act as contractors, too.

(RUB thousand)

Note 20. Operating expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Fuel	33,622,599	37,948,780
Staff costs	6,398,784	6,317,451
Depreciation and amortisation of PPE and intangible assets	5,954,354	6,645,819
Repairs and maintenance	3,378,277	3,746,078
Operational dispatch management	1,273,705	1,282,308
Purchase of electricity and heat	1,245,277	1,854,688
Taxes other than income tax	1,188,616	1,106,350
Raw materials and supplies	583,995	554,119
Security	487,633	466,924
Insurance cost	360,699	220,640
Impairment of property, plant and equipment and intangible assets (Notes 7, 8)	325,211	4,307,072
Provision for impairment of accounts receivable	214,517	544,552
Water usage expenses	185,830	180,540
Transportation expenses	173,778	168,224
Rent expenses	131,243	136,196
Loss from disposal of fixed assets	-	10,629,939
Other expenses	1,196,659	1,387,781
Total	**56,721,177**	**77,497,461**

Loss from disposal of fixed assets for FY 2016 include the loss from disposal of damaged fixed assets after the accident unit 3 at Berezovskaya GRES the 800 MW (Note 1) in the amount of RUB 10,614,021 thousand.

Repairs and maintenance expenses for FY 2017 include the costs of repair and liquidation of damaged fixed assets after the accident unit 3 at Berezovskaya GRES the 800 MW in the amount of RUB 1,338,547 thousand (in 2016 - RUB 2,064,163 thousand).

Staff costs include:

	Year ended 31 December 2017	Year ended 31 December 2016
Salaries and wages, including payroll taxes	5,319,406	5,307,546
Pension costs – defined contribution plans (including state pension fund)	1,011,171	989,187
Termination benefits	42,955	77,965
Pension costs/ (gains) – defined benefit plans	25,252	(57,247)
Total staff costs	**6,398,784**	**6,317,451**

Note 21. Other operating income

	Year ended 31 December 2017	Year ended 31 December 2016
Insurance compensation	20,448,715	5,655,615
Gain on sale and disposal of property, plant and equipment	230,266	16,006
Income from VAT refund	192,017	-
Penalties from other market participants	156,603	34,661
Income from accounts payable write-off	145,766	155,616
Prior periods' gains	39,332	4,112
Gain on sale and disposal of inventories	31,390	13,638
Release of provision for bonuses and insurance provision	18,721	26,017
Income from inventory count	6,883	224,872
Other income	116,603	53,159
Total	**21,386,296**	**6,183,696**

Insurance compensation for FY 2017 includes gain for compensation of an accident in unit 3 at Berezovskaya GRES for RUB 20,448,715 thousand (2016: RUB 5,651,285 thousand) (Note 1).

Note 22. Finance income and expense

Finance income

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income (loan issued, deposits and cash)	861,635	686,096
Foreign exchange gains	67,850	-
Other interest income	176,749	153,740
Total	**1,106,234**	**839,836**

Finance expense

	Year ended 31 December 2017	Year ended 31 December 2016
Foreign exchange losses	-	243,277
Interest expenses (loan received)	66,398	126,391
Interest of the pensions liabilities	62,463	71,722
Other expenses	39,922	43,616
Total	**168,783**	**485,006**

Note 23. Basic and diluted earnings per share payable to shareholders of PJSC Unipro

Basic earnings per share are calculated by dividing the net profit attributable to the Group's shareholders by the weighted average number of outstanding ordinary shares, excluding treasury stock.

	Year ended 31 December 2017	Year ended 31 December 2016
Weighted average number of ordinary shares, outstanding during the year, net (shares)	63,048,706,145	63,048,706,145
Profit attributable to the shareholders of PJSC Unipro (RUB thousand)	33,608,870	5,166,446
Basic and diluted earnings per share attributable to shareholders of PJSC Unipro (in RUB)	0.53	0.08

Diluted earnings per share are equal to basic earnings as there were no contracts with a potential dilutive effect for FY 2017 and FY 2016.

Note 24. Commitments

Sales Commitments. The Group sells electricity (capacity) in the wholesale market of electricity and capacity in accordance with the agency contract between the Group, ZAO CFS, OAO System Operator, OAO ATS and NP Market Council for Organising Efficient System of Trading at Wholesale and Retail Electricity and Capacity Market This contract is published in website http://www.np-sr.ru/regulation/joining/index.htm

Also the Group has concluded contracts for sales of capacity with wholesale market counterparties (contracts for sales of capacity).

Fuel commitments. The Group has concluded a number of fuel purchase contracts (natural gas, fuel oil and coal).

The principal natural gas suppliers are OAO NOVATEK, OAO NK Rosneft, OOO NOVATEK-Perm, OAO Surgutneftegaz, OOO LUKOIL-Rezervnefteproduct. Contracts with these suppliers have been concluded for the mid-term and long-term.
The main coal supplier is OAO Sibirskaya ugolnaya energeticheskaya kompaniya. Contract with it have been concluded for the term more than 5 years up to 2025.

Contracts with suppliers of gas and coal allow changes in the volume purchase of fuel according to the actual needs of the Group with certain take-or-pay conditions for contracts. This significant change in fuel delivery

volume requires additional coordination with suppliers.
Some contracts for the purchase of gas includes conversion price in the event of cost overruns or significant shortage of gas without coordination with suppliers, which could lead to an increase in the cost of fuel.

Cost of purchasing gas and coal in 2017 is RUB 31,049,358 thousand (in 2016 is RUB 35,009,758 thousand) and RUB 2,422,298 thousand (in 2016 is RUB 2,685,344 thousand), respectively (without VAT).

Purchase of fuel oil for the needs of power plants of the Group is performed periodically, as the need arises. Contracts for the purchase of fuel oil are concluded following appropriate procurement procedures. Cost of purchasing oil for 2017 is – RUB 157 034 thousand (in 2016 is RUB 201,259 thousand).

All fuel purchase contracts of the Group were concluded for the purpose of fuel receipt in accordance with the Group's expected own usage requirements and are out of scope of IAS 39 «Financial Instruments: Recognition and Measurement».

Capital commitments. As of 31 December 2017, the Group had contractual capital expenditure commitments totalling RUB 18,487,651 thousand (2016: RUB 7,321,522 thousand). The commitments with respect to property, plant and equipment on 31 December 2017 RUB 1,070,951 thousand refer to commitments of realization of the project «Construction of the 3rd power unit PSU-800 on the basis of branch «Berezovskaya GRES» (2016: RUB 818,731 thousand).

The contractual restoration commitments of unit 3 at Berezovskaya GRES the 800 MW after the accident in February 2016 (see Note 1) as of 31 December 2017 amounted RUB 14,955,571 thousand (2016: RUB 5,664,037 thousand).

Note 25. Contingencies

Political environment. The Group's operations and earnings continue, intermittently and to varying degrees, to feel the impact of Russian political, legislative, fiscal and regulatory developments, including those related to environmental protection.

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

Social obligations. The Group has a responsibility to those regions where it operates to contribute to the development of favourable living conditions, create jobs and minimise harm to the environment. It also has a responsibility to the public and government authorities to pay taxes, support important public initiatives, and participate in the social and economic development of the regions.

Guided by the principles of corporate responsibility, the Group believes it is important to contribute to the development of those regions where it has a presence. Following this, the Group is extensively involved in funding social and charity programmes to support vulnerable segments of society, first and foremost: children and pensioners. Particular attention is paid to the development of educational programmes for schoolchildren and students. A variety of sports events are also supported.

The Group continues traditions present in power plants which have come under its control: providing charity support to various organisations, public associations and individuals in those regions where these power plants operate. The Group spent RUB 40,267 thousand on these programmes in 2017 (in 2016: RUB 34,228 thousand).

Tax contingencies. The Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. The Group management's interpretation of such legislation as applied to the Group's transactions and activity may be challenged by the regional and federal authorities.

On 16 January 2017, the Group received the Decision on field tax audit for 2012-2014 dated 9 January 2017 №03-1-28/1/1 with the final amount of additional tax assessment of RUB 268,486 thousand which was fully covered by the provision recognized as of 31 December 2016.

The Group tried to challenge the Decision with the higher tax authority and filed an appeal dated 13 February 2017. The higher tax authority in its Decision dated 26 April 2017 № CA-4-9/8008@ did not satisfy the Company's appeal. Once the Decision was enacted, the tax authority issued a Demand for tax payment dated 3 May 2017 №9 with an order to cover RUB 268,486 thousand of outstanding tax liability which was done by Group on 16 May 2017.

The Group exercised its right to litigate the Decision of tax authority dated 09 January 2017 № 03-1-28/1/1 and filed an appeal to the Arbitration Court of Moscow with the demand to oblige the tax authority to reflect real tax liabilities as a result of the audit which should be affected by the recalculation of depreciation expenses related to revised approach to recognize mobilization, environmental and costs for bringing new technologies as well calculation of increased property tax liability for the corporate tax purposes.

In case of the successful court litigation, tax assessment for 2012-2014 should de decreased by RUB 247,099 thousand.

The hearing for challenging the Decision of the tax authority following the results of the tax audit for 2012-2014 in the court of the first instance was held on 15 February 2018 and was resolved in favor of Group. The tax authority has the right to file an appeal against the Decision of the court of the first instance within one month from the date of the court Decision.

Group expects the litigation to be finalized within 2018.

The Russian tax authorities may take a more assertive and sophisticated approach in their interpretation of the legislation and tax assessments. This includes the Supreme Arbitration Court's resolutions on anti-avoidance claims based on reviewing the substance and business purpose of transactions. In addition, this position is affected by a possible increase in tax collection efforts in response to budget pressures.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organization for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Management believes that as of 31 December 2017 its interpretation of the relevant law is appropriate and that the Group's position is sustainable as it relates to application of tax, currency and customs legislation.

Environmental matters. The Group has a long history of operating in the Russian electricity industry. The enforcement of Russian environmental regulation is evolving, and the position of government authorities on enforcing these regulations is continually being reconsidered.

Management believes that in the conditions of effective legislation on environmental protection the Group does not have material liabilities associated with environmental pollution.

Antitrust Case. On 23 June 2017 the Federal Antitrust Service (FAS) opened an antitrust case against the Group and System Operator for abuse of dominant position and the conclusion of an anti-competitive agreement expressed in intentional omission to test the Unit 3 of Berezovskaya GRES after the accident, which resulted in the payments for the period of 9 months from 1 February 2016 under capacity supply agreements with customers of the second price zone of the wholesale market for electricity and power which got capacity from Unit 3 of Berezovskaya GRES, in the amount of approximately RUB 950 million, which was not actually supplied.

However, according to the wholesale electricity market regulations the capacity payments shall be made in reduced amount (about 7 %) from the date of accident and, respectively, from the stop of unit operation. System Operator shall send the capacity testing notification right after the 6 months starting from the date of accident. If the test is not performed within 3 months after notification, System Operator shall fix the capacity volume at zero level, and the payments should not anymore be charged.

On 26 January 2018 (full text issued on 8 February 2018), FAS took the decision in which it found Group and System Operator guilty in abuse of dominance expressed in refusal to initiate the testing of the equipment of the Unit 3 of Berezovskaya GRES right after the accident. The case was closed in the part of anti-competitive agreement charge due to lack of evidences.

The initiation of an administrative case aimed at defining the amount of fines is expected in March-April 2018.

Group management does not agree with the decision of the FAS and intends to challenge the decision in accordance with the established procedure.

As of 31 December 2017 no provision was accrued, as the amount of the possible fine can not be assessed now with a sufficient degree of reliability.

Note 26. Financial instruments and financial risk factors

Offsetting financial assets and financial liabilities

No financial assets and liabilities were offset, as the Group has no legally enforceable rights to offset the recognised amounts. The Group has not entered into any arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances.

Within the Group, the risk management control function regarding financial risks, operational risks and legal risks is carried out by the Risk and Finance Committee of the Board of Directors. Financial risks comprise market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and ensure that exposure remains within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Market risk

Currency risk. Profit and cash flows from the Group's current operations are largely independent of changes in the Russian rouble's exchange rate. The Group sells the produced electricity and heat in Russia and receives payment in Russian roubles; hence associated operational expenses are also mainly denominated in roubles.

However, the Group does have foreign-currency commitments as part of commitments in connection with the service contracts for maintenance of new Combine Circle Gas Turbines (CCGT`s0 and other contracts, the amount of obligations under which exceeds EUR 10 million excluding VAT. A hedging strategy was developed and implemented against financial risks related to currency purchases for these commitments (hedged item).

Earlier the Group implemented a policy of cash flow hedging using foreign-currency bank deposits and derivative financial instrument transactions regarding currency risks related to foreign currencies cash outflows in the investment programme.

Gains and losses from reclassification are generally reported in that line item of the income statement, which also includes the respective, hedged transaction. Gains and losses from the ineffective portions of cash flow hedges are classified as the respective foreign exchange gains (losses).

The fair values of the designated hedging instruments in cash flow hedges at 31 December 2017 totalled RUB 21,017 thousand (December 31, 2016: RUB 147,449 thousand).

As of 31 December 2017, the hedged transactions could effect to the Consolidated Statement of Comprehensive Income with maturities of up to 33 years (2016: up to 34 years).

Cash flow hedging proved effective, and correspondingly no inefficiency was recognized in profit or loss during the FY 2017 and 2016.

As of 31 December 2017 and 2016, the following effects will accompany the reclassifications from accumulated other comprehensive income to the income statement in subsequent periods.

(RUB thousand)

Timing of Reclassifications from other reserves in equity to the profit or loss at 31 December 2017:

	Carrying amount	Expected gains			
		2018	2019	2020-2022	>2022
Currency cash flow hedges	79,477	26,492	26,492	26,493	-

Timing of Reclassifications from other reserves in equity to the profit or loss at 31 December 2016:

	Carrying amount	Expected gains			
		2017	2018	2019-2021	>2021
Currency cash flow hedges	681,117	403,219	113,775	164,123	-

A loss of RUB 394,164 thousand (2016: an income of RUB 374,386 thousand), net of income tax, was posted to other comprehensive income in 2017. In the same period, an income of RUB 207,476 thousand (2016: an income of RUB 691,125 thousand), net of income tax, was reclassified from other reserves in equity to the profit or loss.

The table below summarises the Group's exposure to foreign currency exchange rate risk:

	At 31 December 2017			At 31 December 2016		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
Russian rouble	12,708,896	(3,495,141)	9,213,755	8,086,765	(6,535,320)	1,551,445
US Dollar	113,474	-	113,474	3,578	(2,387)	1,191
Euro	48,799	(580,381)	(531,582)	136,602	(47,115)	89,487
Total	**12,871,169**	**(4,075,522)**	**8,795,647**	**8,226,945**	**(6,584,822)**	**1,642,123**

The following table presents the Group's sensitivity to possible exchange rate changes applied at the reporting date relative to the Group entities' functional currency, with all other variables remaining constant:

	At 31 December 2017		At 31 December 2016	
	Impact on profit or loss	**Impact on other comprehensive income**	**Impact on profit or loss**	**Impact on other comprehensive income**
Incremental (loss) / profit from US Dollar strengthening by 10%	-	11,347	(239)	358
Incremental profit / (loss) from US Dollar weakening by 10%	-	(11,347)	2,398	(358)
Incremental (loss) / profit from Euro strengthening by 10%	(58,038)	4,880	(4,712)	13,660
Incremental profit / (loss) from Euro weakening by 10%	58,038	(4,880)	4,712	(13,660)

Exposure was only calculated for monetary balances denominated in currencies other than the Group's functional currency. The Group's exposure to currency risk at the balance sheet date is representative of the typical exposure during the year.

Credit risk. The financial assets that are potentially subject the Group to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation, consist principally of the following items:

	At 31 December 2017	At 31 December 2016
Cash	3,058,326	1,724,888

(RUB thousand)

	At 31 December 2017	At 31 December 2016
Trade receivables	5,000,856	4,788,041
Loan receivable	3,000,000	-
Promissory notes	1,375,610	1,417,917
Other receivables	256,494	125,006
Loans issued to employees	179,882	171,091
Available-for-sale financial assets	16,381	41,700
Total	**12,887,549**	**8,268,643**

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

The following is an analysis of the credit quality of loan receivable, promissory notes and available-for-sale financial assets, as of December 31, 2017:

	At 31 December 2017			At 31 December 2016	
	Promissory notes	Loan receivable	Available-for-sale financial assets	Promissory notes	Available-for-sale financial assets
Neither past due nor impaired:	1,375,610	3,000,000	16,381	1,417,917	41,700
rating below A-	1,375,610	3,000,000	16,381	1,417,917	41,700

Rating was determined based on S&P and Moodys credit ratings.

Trade and other receivables

Management believes that the majority of customers whose balances are included in trade receivables represent a single class, as they have the same characteristics. Those customers belong to the same wholesale electricity market, which is regulated by NP ATS (Non-Commercial Partnership Trade System Administrator).

Due to the absence of an independent evaluation of buyers' and customers' solvency, credit risk is evaluated at the stage of entering into an agreement with a potential debtor. The Group evaluates the financial position and credit record of the counterparty. Existing receivables are monitored in the Group's divisions, and collection measures are taken regularly.

Management has determined the provision for the impairment of accounts receivable based on the specific customer's financial position, customer's payment trends, subsequent receipts and settlements, and analysis of expected future cash flows. Management believes that the Group will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded value approximates the fair value (Level 3 fair value hierarchy).

The Group tested trade and other receivables for impairment, and the results are as follows:

	At 31 December 2017	At 31 December 2016
Neither past due nor impaired	5,257,350	4,903,917
Impaired	3,987,182	3,899,085
Past-due but not impaired	-	9,130
Total trade and other receivables	**9,244,532**	**8,812,132**
Provision for impairment of accounts receivable	(3,987,182)	(3,899,085)

(RUB thousand)

The movements in the provision for impairment of accounts receivable are provided in the table below:

	Year ended 31 December 2017	Year ended 31 December 2016	Change
Balance at 1 January	**3,899,085**	**3,489,720**	
Provision for impairment of accounts receivable	553,000	557,410	(4,410)
Reversal of provision	(338,483)	(12,858)	325,625
Accounts receivable write-down during the reporting period as bad debt	(126,420)	(135,187)	(8,767)
Balance at 31 December	**3,987,182**	**3,899,085**	

The analysis of trade and other receivables on credit quality is as follows:

	At 31 December 2017		At 31 December 2016	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Neither past due nor impaired:	**5,000,856**	**256,494**	**4,788,041**	**125,006**
Russian government	1,714,561	-	2,002,612	-
Large Russian corporations	452,460	-	434,921	-
Medium-sized enterprises	678,143	256,494	530,486	125,006
Small-sized enterprises	2,155,692	-	1,820,022	-

Cash and cash equivalents

The Group's Board of Directors approved the list of banks acceptable for placing deposits. The Group continuously assesses these banks' financial position and reviews ratings assigned by independent agencies, past practice and other factors.

The Group placed cash and cash equivalents in the following banks (ratings are given as of 31 December 2017):

Name	Rating	Rating agency	At 31 December 2017	At 31 December 2016
Bank GPB (JSC)	Ba2	Moody's	2,537,307	867,758
VTB Bank (public joint-stock company)	Ba2	Moody's	300,028	700,003
AO UniCredit Bank	BBB-	Fitch	109,961	72
Sberbank of Russia	Ba2	Moody's	87,452	140,704
Bank «ROSSIYA»	-	-	23,416	10,365
Vozrozhdenie Bank	B2	Moody's	-	5,766
Other banks and cash in hand	-	-	162	220
Total cash			**3,058,326**	**1,724,888**

Liquidity risk. Reasonable liquidity risk management includes having sufficient funds to support the Group's continued operations.

The majority of the Group's accounts payable are of a short-term nature (less than one month) and stem from the Group's agreements with fuel suppliers and production-related service providers.

The Group has significant commitments as part of its investment programme and is planning to meet the associated expenditure from funds placed on deposit and cash flows from operating activity. Management controls its liquidity risk by preparing detailed cash flow forecasts.

Fair values. Management believes that the fair value of financial assets and liabilities approximates their carrying value (Level 3 and Level 2 fair value hierarchy).

(RUB thousand)

Reconciliation of classes of financial instruments with measurement categories
Under IAS 39, the Group classifies its financial assets into the following categories: (a) loans and receivables, and (b) available-for-sale financial assets.

The following table provides a reconciliation of the classes of financial assets with these measurement categories:

	At 31 December 2017	At 31 December 2016
ASSETS		
Loans and receivables		
Accounts receivable and prepayments (Note 12)	**5,257,350**	**4,913,047**
Trade receivables	5,000,856	4,788,041
Other financial receivables	256,494	125,006
Short-term financial assets (Note 13)	**3,700,836**	**779,682**
Loans receivable	3,000,000	-
Promissory notes	700,836	779,682
Non-current assets (Note 10)	**854,656**	**809,326**
Promissory notes	674,774	638,235
Loans issued to employees	179,882	171,091
Cash and cash equivalents	**3,058,326**	**1,724,888**
Total loans and receivables	**12,871,168**	**8,226,943**
Available-for-sale financial assets		
Long-term financial assets	16,381	41,700
Total available-for-sale financial assets	**16,381**	**41,700**
Total financial assets	**12,887,549**	**8,268,643**

During 2017 the Group received non-interest bearing banking promissory notes Bank GPB (JSC) (Moody's credit rating Ba2) and VTB Bank (public joint-stock company) (Moody's credit rating Ba2) as a settlement of customer debt for electricity and capacity sold at the amount RUB 708,632 thousand (2016: RUB 722,765 thousand).

These promissory notes initially are recognized at their fair value as at the date of purchase. The fair values of these promissory notes were determined based on repayment dates and discount rates (using the average rate received on RUB deposits opened during 2017).

Reconciliation of net debt. The following table provides an analysis of the amount of net debt and changes in the Group's liabilities arising from financial activities. The items of these liabilities are reflected in the statement of cash flows as a part of financial activities:

Liabilities from financing activities

	Loan	Other liabilities from financing activities	Total
Net debt as at 1 January 2016	**-**	**425,479**	**425,479**
Cash flows, net	2,181,366	(18,763,206)	(16,581,840)
Business combinations	-	-	-
Change in the fair value	-	-	-
Foreign exchange adjustments	-	-	-
Other non-cash movements	126,390	18,780,318	18,906,708
Net debt as at 31 December 2016	**2,307,756**	**442,591**	**2,750,347**
Cash flows, net	(2,373,374)	(13,390,222)	(15,763,596)
Business combinations	-	-	-
Change in the fair value	-	-	-
Foreign exchange adjustments	-	-	-
Other non-cash movements	65,618	13,297,865	13,363,483
Net debt as at 31 December 2017	**-**	**350,234**	**350,234**

(RUB thousand)

Other liabilities from financing activities are represented by dividends payable. Movements were presented net of tax on dividends (RUB 609,778 thousand and RUB 974,429 thousand paid in 2017 and 2016 respectively)
Interest rate risk. The Group is not significantly exposed to fair value interest rate risk, as the Group does not have significant financial assets and liabilities with fixed interest rates. However, the Group has interest-bearing assets which are exposed to cash flow interest rate risk. The Group's significant interest-bearing assets are disclosed in Notes 10 and 13 (loan issued and promissory notes).

Note 27. Risks associated with capital (capital management)
When managing capital, the Group's objectives are to safeguard the Group's ability to continue as a going concern and provide returns to shareholders, and to maintain an optimal capital structure to reduce capital costs. Russian law details the following capital requirements:

– Share capital in a public company must be at least 100,000 RUB;
– If the company's share capital exceeds its net assets, the company must either increase its net assets to the amount of company's share capital or decrease its share capital to a value not exceeding its net assets;
– If the company's net assets are below the minimum allowed share capital, the company will be subject to liquidation.

As of 31 December 2017 and 2016, PJSC Unipro's capital complied with these requirements.

The Group's capital ensures the Group's ability to continue operating, provide returns to shareholders and remuneration to other stakeholders, and to maintain an optimal structure for increasing return on capital.

To support or adjust the capital structure, the Group can regulate the amount of dividends that have been paid out, return capital to shareholders, issue new shares or sell assets to repay debts.
The Group uses the debt factor to manage capital structure.
The debt factor is calculated as net debt divided by EBITDA, determined as earnings before interest, tax, depreciation, amortization and impairment of PPE and intangible assets. The value of net debt is determined as the sum of total financial and pension liabilities in the consolidated statement of financial position less total financial assets.

The Group's strategy in 2017 was to maintain the debt factor at a level not exceeding 3.
The debt factor is presented below:

	At 31 December 2017	At 31 December 2016
Trade and other receivables (Note 12)	5,257,350	4,913,047
Short-term financial assets	3,700,836	779,682
Cash and cash equivalents	3,058,326	1,724,888
Non-current assets (Note 10)	854,656	809,326
Long-term financial assets	16,381	41,700
Total financial assets	**12,887,549**	**8,268,643**
Accounts payable and accruals (Note 15)	(4,075,522)	(4,277,061)
Short-term financial liabilities (Note 5)	-	(2,307,756)
Total financial liabilities	**(4,075,522)**	**(6,584,817)**
Pension liabilities	**(723,627)**	**(710,109)**
Excess of financial assets over financial and pension liabilities	8,088,400	973,717
Debt factor	0.32	0.80

The debt factor demonstrates low dependence on external financing at the reporting date (for both – FY2017 and FY 2016).

(RUB thousand)

Note 28. Segment information

The Group's chief operating decision-maker is the General Director and Management board (hereinafter «Chief operating decision-maker»), who review the Group's internal reporting forms prepared in accordance with Uniper Group's Accounting Manual in order to assess the Group's performance and allocate resources efficiently. Uniper Group's Accounting Manual is based on IFRS; however, the amounts may differ as the Company's internal reporting forms are intended for the purpose of the preparing consolidated financial statements for the entire Uniper Group. Operating segments are determined based on the above internal reporting forms.

The Chief operating decision-maker assess performance on a plant-by-plant basis, i.e. the performance of each of the 5 power plants: Surgutskaya GRES-2, Berezovskaya GRES, Shaturskaya GRES, Yayvinskaya GRES and Smolenskaya GRES. All GRES are combined into one operating segment, as they have similar economic and other characteristics. The other segments comprise costs of the Moscow office, and subsidiaries.

The Chief operating decision-maker assesses the performance of the operating segments based on earnings before interest, tax, depreciation and amortization (EBITDA) and revenue. In addition, the information on amortization of non-current assets and earnings before interest and tax (EBIT) is provided to the Chief operating decision-maker. Information regarding assets and liabilities of a segment base are not provided to the Chief operating decision-maker.

	Year ended 31 December 2017	Year ended 31 December 2016
Earnings before interest, tax, depreciation and amortization (EBITDA) for:		
5 power plants	49,201,942	11,334,043
Other segments	(1,673,494)	3,654,477
Total earnings before interest, tax, depreciation and amortization (EBITDA)	**47,528,448**	**14,988,520**
Depreciation and amortization	(6,275,737)	(6,845,179)
Total earnings before interest and tax (EBIT)	**41,252,711**	**8,143,341**

Reconciliation of earnings before interest and tax (EBIT) for operating segments provided to the Chief operating decision-maker, with profit before tax as in this consolidated financial information of the Group, is provided below:

Earnings before interest and tax (EBIT)	**41,252,711**	**8,143,341**
Adjustment of positive currency difference in EBIT	58,545	18,418
Finance income	1,106,234	839,836
Finance expense	(168,783)	(485,006)
Extraordinary effects	-	(4,899,376)
Share of results of joint venture	(1,158,363)	147,353
Other adjustments	(124,595)	3,455,788
Profit before income tax	**40,965,749**	**7,220,354**

Finance income include the interest on short-term loans issued in the amount of RUB 273,233 thousand (in 2016: RUB 1,086 thousand).

Other adjustments are mainly related to the following items:

	Year ended 31 December 2017	Year ended 31 December 2016
Difference in not realized profit	56,051	82,296
Difference in depreciation and impairment of property, plant and equipment and capitalised repair costs	(3,828)	781,076
Difference in accrual of property tax	(262)	127,158
Difference on disposal of property, plant and equipment	-	2,447,208
Difference in Hedging	-	(106,653)
Other	(176,556)	124,703
Differences in amounts for the purposes of Uniper SE consolidated financial statements	**(124,595)**	**3,455,788**

(RUB thousand)

Reconciliation of revenue from external customers for all 5 power plants to total revenue:

	Year ended 31 December 2017	Year ended 31 December 2016
External revenue of 5 power plants	75,701,176	77,151,833
Other segments	820,366	880,103
Total	**76,521,542**	**78,031,936**

The Group's revenues are analysed by products and services in Note 19.
Revenues from customers representing 10% or more of the total revenues are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
ZAO CFS	36,452,688	51,030,451
Others (mainly distribution companies, under 10% each)	39,978,854	27,001,485
Total revenues according to the Group`s financial statements	**76,251,542**	**78,031,936**

Note 29. Events after the balance sheet date

Loan repayment from Uniper SE

On 9 January 2018, the loan was fully repaid in the amount of RUB 3,000,000 thousand.

Receiving FAS decision

On 26 January 2018 (full text issued on 8 February 2018), FAS took the decision in which it found the Group and System Operator guilty in abuse of dominance expressed in refusal to initiate the testing of the equipment of the Unit 3 of Berezovskaya GRES right after the accident. The case was closed in the part of anti-competitive agreement charge due to lack of evidences.
The initiation of an administrative case aimed at defining the amount of fines is expected in March-April 2018.

Group management does not agree with the decision of the FAS and intends to challenge the decision in accordance with the established procedure.

Receiving by the Arbitration Court of Moscow decision on the tax claim

The hearing for challenging the Decision of the tax authority following the results of the tax audit for 2012-2014 in the court of the first instance was held on 15 February 2018 and was resolved in favor of Group. The tax authority has the right to file an appeal against the Decision of the court of the first instance within one month from the date of the court Decision.

Group expects the litigation to be finalized within 2018.