Public Joint Stock Company Quadra – Power Generation

Consolidated Financial Statements and Independent Auditor’s Report

For the year ended 31 December 2017 and as at that date

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Independent Auditor's Report

To the Shareholders and Board of Directors of Public Joint Stock Company Quadra - Power Generation (PJSC Quadra):

Our qualified opinion

In our opinion, except for the effects of the matters described in the Basis for qualified opinion section of our report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC Quadra 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 profit and loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for qualified opinion

As disclosed in Note 12, the Group breached several covenants under long-term loan agreements with GPB Bank (JSC) and PJSC Sberbank as at 31 December 2017. Written confirmations received by the Group from GPB Bank (JSC) in relation to waiving its right to use any sanctions against the Group provided in the agreement for the breach of covenants as at 31 December 2017, including the right to exercise margin calls of outstanding debt amounts, do not provide the Group with an unconditional right to defer settlement of the loan in the amount of RUB 2,164,629 thousand for at least twelve months after the reporting date. As a result, the aforementioned liability disclosed as non-current in the consolidated financial statements, should be classified as current in accordance with requirements of IAS 1 'Presentation of Financial Statements'.

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 qualified opinion.

AO PricewaterhouseCoopers Audit (AO PwC Audit)
White Square Office Center, ул. Butyrsky Val 10, Moscow, Russia, 125047
T: +7 (495) 967-6000, Ф:+7 (495) 967-6001, www.pwc.ru

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.

Our audit approach

Overview

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

- Overall group materiality (rounded): Russian Roubles ("RUB") 502,000 thousand, which represents 1% of revenue.

- We conducted audit work at PJSC Quadra, considered the only significant component of the Group based on individual share in Group's revenue (99.6%).
- Our audit scope addressed 99.6% of the Group's revenues and 99% of the Group's total carrying value of property, plant and equipment.

- Revaluation and impairment of property, plant and equipment
- Assessment of impairment of accounts receivable
- Liquidity risk

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 502,000 thousand
How we determined it	1% of revenue
Rationale for the materiality benchmark applied	We chose revenue as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users along with profit before tax, which we believe does not fully reflect the performance of the Group in the reporting period. Revenue is a generally accepted benchmark for energy companies. We chose 1% as the materiality level, which falls within the range of quantitative materiality thresholds used for companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional 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. In addition to the matter described in the *Basis for qualified opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Revaluation and impairment of property, plant and equipment	
For related disclosures including significant accounting policies, judgements and accounting estimates see Notes 3, 4 and 6 to the consolidated financial statements. At 31 December 2017, the Group's aggregate carrying amount of property, plant and equipment was RUB 57,449,148 thousand. This is the most significant asset on the Group's balance sheet, which accounts for 83% of the total value of assets. In accordance with the Group's accounting policy, property, plant and equipment are carried at revalued amount less accumulated depreciation and impairment losses. Property, plant and equipment are subject to periodic revaluation to ensure that their carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The fair value of specialised property is determined using primarily the cost approach that reflects the asset's value in use determined at acquisition	We obtained and analysed property, plant and equipment revaluation results and financial models that management used for assessing property, plant and equipment for impairment. Our conclusion on the assumptions and methodology used by management was also based on findings of our valuation experts. Our audit procedures related to the management's assessment of property, plant and equipment revaluation and impairment included: • review of the methodology used by the Group management to determine the revalued amount of assets and to perform impairment tests; • examination, on a sample basis, of key assumptions used in financial models and whether they are in line with the budgets and business plans for 2018-2020, external available and reliable sources (including, but not limited to, the macroeconomic forecasts, regulated and market heat, electricity and

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Key audit matter	How our audit addressed the key audit matter
or construction. Costs of replacement (reproduction) are decreased by the amount of physical, functional and economic depreciation as at the reporting date. To determine the economic depreciation of specialised assets, the Group management determines the recoverable amount using the income approach, by cash generating unit. Increases in the carrying amount resulting from a revaluation of property, plant and equipment are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases in the carrying amount to the extent that they reverse previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all decreases in excess of the previously recognised revaluation surplus in respect of the asset are charged to profit or loss for the year. Impairment arises when the recoverable amount, which is determined as the higher of the asset's fair value less costs of disposal and its value in use, is below the carrying amount of the asset. Revaluation and impairment test procedures performed by management as at 31 December 2017 resulted in the increase in the carrying amount of property, plant and equipment of RUB 4,501,700 thousand. Out of the total increase of property, plant and equipment carrying amount, RUB 6,426,632 thousand was recognised as a revaluation gain in other comprehensive income (net of deferred tax of RUB 1,285,326 thousand) and RUB 1,924,932 thousand was recognised as an impairment charge in profit or loss. We focused on revaluation and impairment of property, plant and equipment as the valuation process is complicated, requires significant management's judgements and is based on assumptions that are affected by the projected future market and economic conditions that are inherently uncertain. The recoverable amount of property, plant and equipment is sensitive to reasonably possible	capacity prices, etc.) and our industry-specific expertise; • assessment of competence, skills, experience and objectivity of the management's experts; • examination, on a sample basis, of accuracy and relevance of inputs that management incorporated in the process of determining the revalued amounts and in the financial models for assessing property, plant and equipment for impairment; • examination, on a test basis, of mathematical accuracy of financial models used by management to assess property, plant and equipment for impairment; • consideration of potential impact of reasonably possible changes in key assumptions; • obtaining and analysing management's written representations related to revaluation and impairment of property, plant and equipment. As a result of the above procedures we believe that the key assumptions used by management are acceptable for the purpose of preparing the accompanying consolidated financial statements. Group management's current estimates regarding the property, plant and equipment revaluation and impairment for the purpose of preparing the consolidated financial statements for the year ended 31 December 2017 may be changed depending on future events that are inherently uncertain. We note that management's financial models are to a significant extent sensitive to the changes in key assumptions. It could reasonably be expected that actual results would differ from the assumptions made and accordingly, there could arise either further increases in the carrying amount of property, plant and equipment or impairment losses. We also assessed adequacy of disclosures in Notes 3, 4 and 6 to the consolidated financial statements and assessed their compliance with the disclosure requirements of IAS 16 'Property, plant and equipment' and IAS 36 'Impairment of Assets'.

Key audit matter	How our audit addressed the key audit matter
changes in key assumptions. The most significant judgements used in the value in use calculations relate to the applied discount rate together with the assumptions supporting the relevant forecast cash flows, in particular those concerning the electricity, capacity and heat tariff rates, electricity and heat generation output and capital investments.	As a result of our procedures we have not identified any findings that would require significant adjustments to the revaluation and impairment amounts recognised in the accompanying consolidated financial statements.
Assessment of impairment of accounts receivable *For related disclosures including significant accounting policies, judgements and accounting estimates see Notes 3, 4, 8, 22 and 23 to the consolidated financial statements.* At 31 December 2017, the carrying amount of the Group's trade and other receivables was RUB 6,455,041 thousand (RUB 13,899,227 thousand net of impairment provision in the amount of RUB 7,444,186 thousand). Thus, the receivables that are assessed by the Group's management as doubtful, account for a significant portion within the structure of accounts receivable (54% of trade and other receivables were impaired at 31 December 2017). The Group's management establishes a provision for doubtful debts based on the assessment of deterioration of the specific customer's solvency position, their individual specifics, payment dynamics, subsequent payments after the end of the reporting period as well as future cash inflow forecast analysis by reference to the conditions existing at the reporting date. The degree of accuracy of the management's estimate will be confirmed or rebutted depending on future developments that are inherently uncertain. We focused on the receivables impairment assessment as this process is complicated and requires significant management's judgements, and the amount of impairment is significant.	Our audit procedures related to the management's assessment of impairment of receivables included: • review of the Group management's collectability analysis taking into account counterparty solvency analysis and its deterioration as of the reporting date, presence of intention to allow payment by instalments, subsequent payments after the end of the reporting period, availability of payment security and its quality as well as other factors considered by the management; • review of the receivables turnover analysis that was used, in particular, for supporting the Group management's collectability analysis; • sample testing of past due but not impaired receivables for assessing the management's conclusion that there is no impairment considering the prospects and timing of collection of such receivables; • sample testing of underlying documents for management's assessment of the debt repayment probability, such as payment orders supporting settlements in 2018; • obtaining and analysing management's written representations related to the receivables impairment test performed by management. We also assessed the disclosures in Notes 3, 4, 8, 22 and 23 to the consolidated financial statements for their compliance with the disclosure requirements of IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures'. Current estimates of the Group's management regarding the receivables impairment for the

Key audit matter	How our audit addressed the key audit matter
	purpose of preparing the consolidated financial statements for the year ended 31 December 2017 may be changed depending on future events that are inherently uncertain. As a result of our procedures we have not identified any findings that would require significant adjustments to the amount of receivables impairment recognised in the accompanying consolidated financial statements.
Liquidity risk *See Notes 1 and 23 to the consolidated financial statements for the going concern assumption and liquidity risk.* As at 31 December 2017, current liabilities of the Group exceeded its current assets by RUB 1,044,739 thousand; current liabilities accounted for 30% of the Group's total liabilities. In accordance with Note 23, within twelve months after the reporting date the Group will have to settle RUB 8,272,670 thousand of loans and borrowings, or 21% of the amount of total future repayments of loans and borrowings. The Group's ability to meet its obligations under short-term borrowings and current portion of long-term borrowings when they fall due depends on the Group's performance and future economic environment.	Our audit procedures to address the liquidity risk included: • discussions with the Group management of their actions aimed at managing the liquidity risk and meeting their current obligations; • analysis of the reasons underlying the excess of current liabilities over current assets as well as review of a plan of actions proposed by management to eliminate this excess; • analysis of available sources of financing required to maintain sufficient liquidity level; • receipt and analysis of management's written representations with regard to the liquidity risk assessment and the going concern assumption. In addition, we assessed the liquidity risk disclosure in Notes 1 and 23 to the consolidated financial statements. Current estimates of the Group's management regarding the liquidity risk and application of going concern assumption for the purpose of preparing the consolidated financial statements for the year ended 31 December 2017 may be changed depending on future events that are inherently uncertain. As a result of our procedures we have not identified any findings that would require significant additional liquidity risk disclosures to be made in the accompanying consolidated financial statements.

How we tailored our Group audit scope

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

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

Similar to the determination of the overall materiality, significance of components was assessed based on the component's individual share in the Group's revenue. We determined that PJSC Quadra is the only significant component.

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

We chose other components of the Group for auditing individual balances and types of operations separately for each Group's consolidated financial statements line item, included in the scope of our audit, and our choice depended inter alia on the following factors: level of audit evidence obtained from the audit of the significant component and level of concentration of balances and types of operations in the Group's structure.

On the whole, our audit procedures that were performed at the level of significant and other components of the Group and included, in particular, detailed testing on a sample basis, in our opinion, provided adequate coverage of line items in the Group's consolidated financial statements.

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

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

Other information

Management is responsible for the other information. The other information comprises the PJSC Quadra's Annual Report for 2017 and Issuer's Report of PJSC Quadra for the 2 quarter of 2018, but does not include the consolidated financial statements and our auditor's report thereon. PJSC Quadra's Annual Report for 2017 and Issuer's Report of PJSC Quadra for the 2 quarter of 2018 are expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it 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 consolidated financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 Tatiana Viktorovna Sirotinskaya.

28 April 2018

Moscow, Russian Federation

T. V. Sirotinskaya, Certified Auditor (licence No. 01-000527), AO PricewaterhouseCoopers Audit

Audited entity:
Public Joint Stock Company Quadra – Power Generation

State registration certificate of the entry in the Unified State Register of Legal Entities No. 1056882304489 issued by the Interregional Inspectorate of the Federal Tax Service for the Tambov City on 20 April 2005.

300012, Russia, Tula Region, Tula, ul. Timiriazeva, 99v.

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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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Russian Roubles unless otherwise stated)

	Note	31/12/2017	31/12/2016
ASSETS			
Non-current assets			
Property, plant and equipment	6	57,449,148	50,351,935
Investment property		70,699	70,699
Accounts receivable and advances paid	8	131,689	138,058
Deferred tax assets	19	100	149,441
Other non-current assets		241,850	246,370
Total non-current assets		**57,893,486**	**50,956,503**
Current assets			
Inventories	7	1,652,669	1,409,591
Accounts receivable and advances paid	8	6,736,982	8,777,983
Income tax prepayments		53,652	58,349
Cash and cash equivalents	9	870,987	757,465
Other current assets		8,436	8,437
		9,322,726	**11,011,825**
Non-current assets held for sale	10	2,109,000	2,275,717
Total current assets		**11,431,726**	**13,287,542**
TOTAL ASSETS		**69,325,212**	**64,244,045**
EQUITY AND LIABILITIES			
Equity and reserves			
Ordinary shares	11	19,125,056	19,125,056
Preference shares	11	752,729	752,729
Treasury shares	11	(29)	(358,043)
Share premium	11	10,921,097	10,921,097
Property, plant and equipment revaluation reserve	6	13,085,562	8,717,976
Additional capital	12	845,381	703,779
Accumulated deficit		(17,084,498)	(17,631,678)
Equity attributable to owners of the Company		**27,645,298**	**22,230,916**
TOTAL EQUITY		**27,645,298**	**22,230,916**
Non-current liabilities			
Loans and borrowings	12	26,384,365	20,098,024
Finance lease liabilities		1,924	-
Pension liabilities		412,643	316,564
Deferred tax liabilities	19	2,293,545	673,277
Deferred income		110,972	58,589
Total non-current liabilities		**29,203,449**	**21 146 454**
Current liabilities			
Loans and borrowings	12	5,375,872	12,158,303
Finance lease liabilities		916	-
Accounts payable and accruals	13	5,102,333	6,914,663
Provisions for liabilities and charges	14	904,239	912,807
Income tax payable		2,514	-
Other taxes payable	15	1,090,591	880,902
Total current liabilities		**12,476,465**	**20,866,675**
TOTAL LIABILITIES		**41,679,914**	**42,013,129**
TOTAL EQUITY AND LIABILITIES		**69,325,212**	**64,244,045**

General Director **Chief Accountant**

________________________ Sazonov S.V. ________________________ Lapitskaya I.A.

28 April 2018

(in thousands of Russian Roubles unless otherwise stated)

	Note	Year ended 31/12/2017	Year ended 31/12/2016
Revenue			
Heat energy sales		24,144,982	24,955,079
Electricity sales		13,164,240	12,545,635
Capacity sales		11,767,048	8,657,512
Other sales		1,108,985	1,025,361
Total revenue		**50,185,255**	**47,183,587**
Other operating income	17	559,507	624,534
Operating expenses			
Fuel expenses		(24,132,429)	(24,704,820)
Employee benefits and charges	16	(6,823,715)	(6,131,185)
Purchased energy and capacity		(5,468,652)	(6,230,779)
Depreciation of property, plant and equipment	6	(2,290,091)	(1,863,459)
Repair and maintenance		(1,691,310)	(1,452,402)
Water usage expenses		(903,711)	(872,759)
Impairment loss on property plant and equipment	6	(1,924,932)	(1,577,175)
Taxes, other than income tax		(702,395)	(524,719)
Change in the allowance for doubtful receivables	8	(613,079)	(595,487)
Materials and spare parts		(444,010)	(365,024)
Rent expenses		(439,624)	(522,384)
Heat transportation services		(414,182)	(398,358)
Charges for wholesale electricity and capacity market services		(325,734)	(318,941)
Change in the provision for legal claims and fines	14	(299,831)	(446,558)
Loss on disposal of property, plant and equipment, net		(195,846)	(1,001,330)
Security services		(164,651)	(158,507)
Other operating expenses	17	(1,241,465)	(986,962)
Loss on disposal of subsidiaries		-	(37,272)
Operating profit / (loss)		**2,669,105**	**(380,000)**
Finance costs	18	(2,430,888)	(2,122,258)
Finance income		33,292	47,909
Profit / (loss) before income tax		**271,509**	**(2,454,349)**
Income tax expense	19	(481,793)	261,573
Loss for the year attributable to owners of the Company		**(210,284)**	**(2,192,776)**
Basic and diluted loss per ordinary and preference share (in RUB)	11	(0.0001)	(0.0011)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of Russian Roubles unless otherwise stated)

	Note	Year ended 31/12/2017	Year ended 31/12/2016
Loss for the year		(210,284)	(2,192,776)
Other comprehensive (loss)/income			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of pension liabilities, net of deferred tax		(30,685)	(3,754)
Revaluation of property, plant and equipment, net of deferred tax	6	5,141,306	2,708,783
Total items that will not be reclassified subsequently to profit or loss		**5,110,621**	**2,705,029**
Items that may be reclassified subsequently to profit or loss:			
Revaluation of available-for-sale investments, net of deferred tax		-	4,120
Total items that may be reclassified subsequently to profit or loss		**-**	**4,120**
Total other comprehensive income for the year		**5,110,621**	**2,709,149**
Total comprehensive income attributable to owners of the Company		**4,900,337**	**516,373**

(in thousands of Russian Roubles unless otherwise stated)

	Note	Year ended 31/12/2017	Year ended 31/12/2016
OPERATING ACTIVITIES			
Profit/(loss) before income tax		**271,509**	**(2,454,349)**
Adjustments for:			
Depreciation of property, plant and equipment	6	2,290,091	1,863,459
Loss on disposal of property, plant and equipment		195,846	1,001,330
Impairment of property plant and equipment	6	1,924,932	1,577,175
Loss on disposal of subsidiaries		-	37,272
Finance costs and income, net	18	2,397,596	2,074,349
Change in the allowance for doubtful receivables	8	613,079	595,487
Change in the provision for legal claims and fines		299,831	446,558
Other		(27,676)	(16,642)
Operating profit before changes in working capital, income tax paid, interest and changes in other liabilities		**7,965,208**	**5,124,639**
Changes in working capital:			
(Increase)/decrease in inventories		(145,065)	153,005
Increase in accounts receivable, advances paid*		(1,075,549)	(4,586,593)
Increase in accounts payable and accruals*		1,296,959	3,842,402
Increase/(decrease) in other taxes payable		216,550	(32,582)
Increase/(decrease) in pension liabilities		28,499	(6,507)
Net cash generated from operating activities before interest and income taxes		**8,286,602**	**4,494,364**
Interest paid	12	(2,289,631)	(2,111,213)
Interest income received		32,772	47,862
Income taxes paid		(21,635)	(20,332)
Net cash from operating activities		**6,008,108**	**2,410,681**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(4,434,378)	(2,638,437)
Capitalised interest paid	12	(1,390,446)	(1,966,613)
Proceeds from sale of property, plant and equipment		36,864	95,728
Proceeds from disposal of available-for-sale investments		-	36,499
Acquisition of intangible assets		(8,248)	(24,713)
Proceeds from disposal of subsidiary, net of disposed cash		-	(6,883)
Other investing activities		68,208	71,758
Net cash used in investing activities		**(5,728,000)**	**(4,432,661)**
FINANCING ACTIVITIES			
Proceeds from loans and borrowings	12	43,116,806	36,567,953
Repayment of loans and borrowings	12	(43,658,208)	(34,764,973)
Proceeds from the sale of treasury shares	11	376,638	-
Purchase of treasury shares	11	-	(358,043)
Settlement of finance lease liabilities		(1,822)	-
Net cash (used in)/generated from financing activities		**(166,586)**	**1,444,937**
Increase/(decrease) in cash and cash equivalents, net		**113,522**	**(577,043)**
Cash and cash equivalents at the beginning of the year		**757,465**	**1,334,508**
Cash and cash equivalents at the end of the year		**870,987**	**757,465**

* In 2017 there was an offset of mutual claims for RUB 2,492,004 thousand (2016: RUB 1,803,553 thousand).

Public Joint Stock Company Quadra – Power Generation
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in thousands of Russian Roubles unless otherwise stated)

	Equity attributable to owners of the Company										
	Ordinary shares	Preference shares	Treasury shares	Share premium	Property, plant and equipment revaluation reserve	Revaluation reserve for available-for-sale investments	Additional capital	Accumulated deficit	Total	Non-controlling interest	Total
Balance at 31 December 2015	**19,125,056**	**752,729**	**-**	**10,921,097**	**6,747,523**	**2,403**	**-**	**(16,180,001)**	**21,368,807**	**2,040**	**21,370,847**
Loss for the year	-	-	-	-	-	-	-	(2,192,776)	**(2,192,776)**	-	**(2,192,776)**
Other comprehensive income/(loss) for the year	-	-	-	-	2,708,783	4,120	-	(3,754)	**2,709,149**	-	**2,709,149**
Total comprehensive income/ (loss) for the year	-	-	-	-	2,708,783	4,120	-	(2,196,530)	**516,373**	-	**516,373**
Changes in the Group structure	-	-	-	-	-	-	-	-	**-**	(2,040)	**(2,040)**
Treasury shares purchased (Note 11)	-	-	(358,043)	-	-	-	-	-	**(358,043)**	-	**(358,043)**
Effect from the initial recognition of a loan received from the parent company, net of deferred tax (Note 12)	-	-	-	-	-	-	703,779	-	**703,779**	-	**703,779**
Transfer of realised revaluation reserve for available-for-sale investments to accumulated loss due to disposal, net of deferred tax	-	-	-	-	-	(6,523)	-	6,523	-	-	-
Transfer of realised revaluation reserve for property, plant and equipment to accumulated loss due to disposal and depreciation, net of deferred tax	-	-	-	-	(738,330)	-	-	738,330	-	-	-
Balance at 31 December 2016	**19,125,056**	**752,729**	**(358,043)**	**10,921,097**	**8,717,976**	**-**	**703,779**	**(17,631,678)**	**(22,230,916)**	**-**	**(22,230,916)**
Loss for the year	-	-	-	-	-	-	-	(210,284)	**(210,284)**	-	**(210,284)**
Other comprehensive income/(loss) for the year	-	-	-	-	5,141,306	-	-	(30,685)	**5,110,621**	-	**5,110,621**
Total comprehensive income/ (loss) for the year	-	-	-	-	5,141,306	-	-	(240,969)	**4,900,337**	-	**4,900,337**
Treasury shares purchased (Note 11)	-	-	358,014	-	-	-	-	14,429	**372,443**	-	**372,443**
Effect from the initial recognition of a loan received from the parent company, net of deferred tax (Note 12)	-	-	-	-	-	-	141,602	-	**141,602**	-	**141,602**
Transfer of realised revaluation reserve for property, plant and equipment to accumulated loss due to disposal and depreciation, net of deferred tax	-	-	-	-	(773,720)	-	-	773,720	-	-	-
Balance at 31 December 2017	**19,125,056**	**752,729**	**(29)**	**10,921,097**	**13,085,562**	**-**	**845,381**	**(17,084,498)**	**27,645,298**	**-**	**27,645,298**

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles unless otherwise stated)

1. GENERAL INFORMATION

Group and its activities

Public Joint Stock Company Quadra – Power Generation (hereafter – "PJSC Quadra" or "the Company") was established on 18 April 2005 within the framework of Russian electricity sector restructuring. Before 18 May 2010 the Company was called Open Joint Stock Company Territorial Generation Company No. 4 (OJSC TGC-4) and till 1 July 2015 it was Open Joint Stock Company Quadra – Power Generation (OJSC Quadra).

The principal business activity of the Company and its subsidiaries (hereafter – "the Group") is generation and sale of electricity (capacity) and heat energy and transportation of heat energy. Major operational facilities of the Group are located in the following regions of the Russian Federation: Belgorod, Voronezh, Kaluga, Kursk, Lipetsk, Oryol, Ryazan, Smolensk, Tambov and Tula.

The Company's registered address is: 300012, Russia, Tula, ul. Timiriazeva, 99v.

The Company's shares are listed on the Moscow Exchange (http://moex.com).

Ownership interest of the Company in the share capital of its significant subsidiaries and their principal activities are as follows:

		Percentage of share capital, %,	
	Core activity	**31/12/2017**	**31/12/2016**
JSC Belgorodskaya Heat Network Company	Heat generation and distribution	100	100
LLC Voronezhskaya Heat Network Company	Heat generation and distribution	100	100
LLC Kurskaya Heat Network Company	Heat generation and distribution	100	100
LLC Smolenskaya Heat Network Company	Heat generation and distribution	100	100
LLC OTSK	Heat generation and distribution	100	100
LLC Lipetskaya Heat Network Company	Heat generation and distribution	100	100

As at 31 December 2017, the Group employed 10,853 people (31 December 2016: 11,194 people).

As at 31 December 2017 and 31 December 2016, the major shareholder of PJSC Quadra was LLC ONEXIM Group, a registered owner of 49.9999% of the Company's total shares (share capital). As at 31 December 2017 and 31 December 2016, the parent of LLC ONEXIM Group was ONEXIM GROUP LIMITED. The beneficiary of foreign structures without legal entity status (trusts) that own 100% of shares of ONEXIM GROUP LIMITED, is Mr. M.D. Prokhorov.

Operational environment of the Group

The Russian Federation economy displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The tax, currency and customs frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 21). The Russian economy was growing in 2017, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. 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.

The government affects the Group's operations by regulating electricity and heat tariffs through the Federal Antimonopoly Service of Russian Federation ("FAS of Russia") and the executive authorities of constituents of the Russian Federation in terms of state tariff regulation. Tariffs that the Group may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies.

Operations of all generating facilities are coordinated by the System Operator of the Unified Energy System ("SO-CDU") in order to meet system requirements in a more efficient manner. Operations of SO-CDU are controlled by the state.

1. GENERAL INFORMATION (CONTINUED)

Economic, social and other policies of the Russian government may have a material effect on the Group's operations.

Going concern

As of 31 December 2017, the Group's working capital deficit was RUB 1,044,739 thousand (31 December 2016: RUB 7,579,133 thousand). In 2017 the Group's net loss amounted to RUB 210,284 thousand (2016: RUB 2,192,776 thousand).

When assessing the Group's ability to meet its liabilities when they fall due in 2018, the Group management has considered that as at 31 December 2017 the Group had access to the following guaranteed credit resources: undrawn credit line facilities of RUB 3,088,749 thousand; renewable credit lines with maturities over 12 months after the period end in the amount of RUB 1,893,278 thousand; and non-revolving loan facility of RUB 5,100,638 thousand. Management expects that these renewable credit facilities will remain available in the foreseeable future for the purposes of financing the Company's operating and investing activities (Note 12).

The Group management is currently negotiating the extension of the existing renewable credit facilities for the total available amount of RUB 2,000,000 thousand expiring in 2018, for a period of 3 to 5 years.

On 20 March 2017, the Group entered into a syndicated loan agreement with GPB Bank (JSC) and PJSC Sberbank on opening a non-revolving credit facility with the total available amount of RUB 7,500,000 thousand for the purposes of financing its capital construction. The maximum loan disbursement period is until 31 December 2024.

As stated in Note 12, the Group breached several covenants under long-term loan agreements with GPB Bank (JSC) and PJSC Sberbank. In December 2017 the Group received a written confirmation that the creditors waived their rights to use any sanctions against the Group, including the right to require early repayment of the principal loan and accrued interest.

Based on the results of the cash flow analysis for 2018, the Group management believes that in view of proceeds from operating activities and the external funding of capital construction and operating activities, the Group will be able to discharge its current liabilities as they fall due and continue as a going concern for the near future. These consolidated financial statements have been therefore prepared on a going concern basis.

2. BASIS OF PREPARATION

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Group entities maintain their accounting records in accordance with the laws, accounting regulations of the Russian Federation, where the Group entities are incorporated and registered. Accounting principles and financial reporting procedures in the Russian Federation differ substantially from those generally accepted under IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

Basis of preparation

These consolidated financial statements have been prepared on the historical cost convention, as modified by the initial recognition of financial instruments based on fair value basis, revaluation of property, plant and equipment, investment property and available-for-sale financial assets recognised at fair value.

Management prepared these consolidated financial statements on a going concern basis (Note 1).

(in thousands of Russian Roubles unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include financial statements of the Company and entities controlled by the Company (its subsidiaries). Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the 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 the 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 a 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. If this is the 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.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated for the purposes of consolidated financial statements preparation. Unrealised losses are also eliminated unless the cost cannot be recovered.

Non-controlling interests in net assets of subsidiaries are identified separately from the Group's equity attributable to owners of the Company. The Group measures non-controlling interest either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in net assets.

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.

Foreign currency transactions

The functional currency of the Company and its subsidiaries, and the consolidated financial statements presentation currency, is the Russian Rouble ("RUB").

All transactions denominated in a currency other than the functional currency (i.e. foreign currency) are recorded at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are remeasured to Russian Roubles at exchange rates prevailing at the reporting dates. Non-monetary items carried at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Exchange rates used in the preparation of these consolidated financial statements are as follows:

	31/12/2017	31/12/2016
RUB to 1 US Dollar		
Year-end rates	57.60	60.66
RUB to 1 EURO		
Year-end rates	68.87	63.81

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment are carried at revalued amounts on the reporting date less any subsequent accumulated depreciation and impairment losses.

All classes of property, plant and equipment are presented in the consolidated financial statements at their revalued amounts. In some instances, when items of property, plant and equipment are of a specialised nature, they are valued using a cost-based approach. The cost approach is based on the economic concept which implies that a buyer will pay no more for an asset than it would cost to develop or obtain another asset with the same functionality. The total costs of replacement or reproduction of the analysed asset resulting from such measurement are decreased by the amount of physical, functional and economic depreciation. The replacement costs are determined based on specialised reference books, regulatory documents, construction rates, manufacturer prices in effect as of the valuation date; physical and functional depreciation is measured based on the age of the assets, their actual condition, operating mode, etc.

To determine the economic depreciation of specialised assets, the recoverable amount is calculated using the income approach. It is based on discounted cash flow method, and the cash flow forecast is built using certain assumptions. These assumptions are primarily used to determine the expected cash flows, capital expenditures, discount rates for each cash generating unit. The Group management determines the forecast horizon, and net cash inflows from the asset's operation are calculated for each period of this horizon. The recoverable amount of the cash generating unit is determined by recalculating cash flows, using the discount rate. When the recoverable amount of the cash generating unit is higher than the replacement cost less physical and functional depreciation of property, plant and equipment included in this cash generating unit, it is concluded that there is no economic impairment. Otherwise and if the recoverable amount is lower than the carrying amount of this cash generating unit, the economic impairment is calculated as the difference between the recoverable amount and the carrying amount.

Revaluations are performed by the Group with sufficient regularity such that the carrying amounts of property, plant and equipment do not differ substantially from those that would be determined using fair values at end of the reporting period. Increases in the carrying amount of property, plant and equipment items arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. Any depreciation accrued as of the revaluation date is eliminated against the gross carrying amount and the net book value is recalculated to the asset’s revaluated amount.

Construction in progress comprises costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads and the costs of acquisition of other assets that require installation or preparation for their use. Expenses of purchasing software that is an integral part of related equipment are capitalised as part of the cost of such equipment. Interest expenses that are directly attributable to the acquisition or construction of an asset that takes a substantial period of time to get ready for use or sale are added to the cost of that asset, until the asset is substantially ready for its intended use or sale. Depreciation of these assets commences when the assets are ready for use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Costs related to replacing a part of a property, plant and equipment item increase the carrying amount of that item only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

The gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the disposed assets and is recognised within operating expenses in profit or loss for the reporting period. Therefore, accumulated revaluation reserve is transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Operating leasehold improvements are depreciated over the shorter of their estimated useful lives and lease terms. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset. Land and items of construction in progress are not depreciated.

Depreciation is recognised within operating expenses in profit or loss. The revaluation surplus related to depreciable assets is transferred to the retained earnings proportionately to the amount of depreciation charge on the asset's original cost.

The weighted average residual useful lives (in years) for major classes of property, plant and equipment used in the determination of depreciation charge for the year ended 31 December 2017, are as follows:

Group of property, plant and equipment	Number of years
Electricity and heat generation	29
Electricity distribution	13
Heat networks	16
Other	15

Where applicable, depreciation methods, expected useful lives and residual values of property, plant and equipment are reviewed at each reporting date, with the effect of any changes in estimates being accounted for on a prospective basis.

Investment Property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in other operating expenses in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

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. Property, plant and equipment and intangible 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 an 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). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Non-current assets classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Disposal groups held for sale as a whole are measured at the lower of: the carrying amount or fair value less costs to sell. Held for sale property, plant and equipment, investment properties and intangible assets are not depreciated or amortised. Reclassified non-current financial instruments, deferred taxes and investment property at fair value are not subject to write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Financial instruments

Depending on their classification, financial instruments are carried at fair value or amortised cost, as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the quoted price in an active market. An active market is the 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.

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 assets and liabilities for which external market pricing information is not available. The Group applies methods of fair value measurement which are the most acceptable in the circumstances and uses the observable market inputs as much as possible.

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).

For the fair value disclosure purposes, the group shall classify assets and obligations in line with the fair value hierarchy as described above.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is the 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.

The Group’s financial assets have the following categories:

- loans and receivables;
- financial assets available for sale.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans issued and accounts receivable. Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans issued and receivables are carried at amortised cost using the effective interest method, less impairment provision. Interest income is determined by applying the effective interest rate, except for short-term receivables that would generate insignificant interest income.

Available-for-sale financial assets. Available-for-sale investments are carried at fair value. Interest income on debt securities available for sale is calculated using the effective interest method and is recognized in profit or loss for the year. Dividends on available-for-sale investments in equity instruments are recognized in profit or loss for the year in which the Group's right to receive payment is established and the probability of receiving dividends is high. Other changes in fair value are recorded in the accounts of other comprehensive income until the investment is derecognized or impaired when the cumulative gain or loss is transferred from other comprehensive income to profit or loss for the year.

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.

All financial liabilities of the Group, including trade and other accounts payable as well as borrowings and financial lease are recorded as other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Initial recognition of financial instruments. All financial instruments of the Group are initially recorded at fair value plus transaction costs. Fair value at initial recognition is the 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.

Impairment of financial assets. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have decreased.

For listed and unlisted investments classified as available for sale, a significant or prolonged decline in the fair value below their cost is considered an evidence of impairment.

For loans and receivables objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments;
- likelihood of the borrower's bankruptcy or financial re-organisation.

For loans and receivables (financial assets carried at amortised cost), the amount of the impairment loss recognised is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying value is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written-off are credited against the allowance account. Change in the amount of the allowance account is recognised within operating expenses in profit or loss.

When an available-for-sale investment is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income and expenses are reclassified to profit or loss within operating expenses.

With the exception of available-for-sale financial assets, 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, the previously recognised impairment loss is reversed through profit or loss. The carrying amount of the financial assets at the date when the impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Derecognition of financial liabilities. The Group derecognises a financial liability (or a part of it) from the consolidated statement of financial position only when it is settled, i.e. the related contractual obligation is settled or cancelled or the term of the liability is expired. The difference between the carrying amount of the extinguished or transferred liability (or a portion thereof) and the consideration paid, including transferred non-cash assets or assumed liabilities is recognised within profit or loss.

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.

Offset of financial instruments just like other non-cash transactions is excluded from the cash flow statement.

Value Added Tax

Output value added tax 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.

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.

Inventories

Inventories are stated at the lower of: cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost of fuel is allocated to operating expenses on the weighted average basis, other inventories – at cost per unit.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Treasury shares

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

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.

Obligations on payment of mandatory charges and levies, such as taxes other than income tax and duties, are recorded upon occurrence of an obligating event resulting in the obligation to make such payments in accordance with the law, even if the calculation of such mandatory payments is based on the data from the period preceding the period for which they are due. If a mandatory payment is made prior to occurrence of an obligating event, it is recognised as prepayment.

Contingent assets and liabilities

Contingent liabilities attributable to specific events are disclosed unless the probability of an outflow of resources embodying economic benefit is remote. Contingent assets are not recognised in the consolidated financial statements but are disclosed when an inflow of economic benefit as a result of specific events is probable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding value added tax. Revenue is recognised to the extent that it is probable that economic benefit will flow to the Group and the revenue can be reliably measured.

Revenue from heat, electricity and capacity sales Revenue from heat, electricity and capacity sales is recognised when they are supplied to customers.

Revenue under non-regulated bilateral contracts is recognised on a net basis with the purchase of an equivalent volume of electricity that the market participant is obliged to generate in accordance with the rules of the wholesale electricity and capacity market. These electricity sale/purchase movements for 2017 in the amount of RUB 1,412,208 thousand (2016: RUB 2,475,918 thousand) are presented on a net basis in the consolidated financial statements to reveal the economic nature of the transactions.

Sales of services. Sales of services are recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividend and interest income. Dividend income from investment is recognised when the Group's right to receive payment has been established.

Interest income is accrued within finance costs in profit or loss, during the term of the financial asset, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Government grants. Grants from the government are recognised at their fair value within other operating income where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to other operating income in profit or loss on a straight line basis over the expected lives of the related assets.

Lease

Leases under which the lessee assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. All other leases are classified as operating lease.

The Group as lessor under operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease agreement. Initial direct costs, if any, incurred in negotiating and arranging a lease are added to the carrying amount of the leased asset and subsequently recognised on a straight-line basis over lease term.

The Group as lessee under operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative pattern of the economic benefits inflow from the leased assets.

Finance leases

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

Borrowing costs

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

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

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Employee benefits

Wages, salaries, contributions to the Russian Federation State Pension and Social Insurance Funds, paid annual leave and sick leave, bonuses, and other benefits (such as material aid) are accrued in the year in which the associated services are rendered by the employees of the Group and recognised within operating expenses.

Defined contribution plan. The Group entities are legally obliged to make defined contributions to the Russian Federation State Pension Fund, which represent a defined contribution plan financed from current contributions. The Group's contributions to the Russian Federation State Pension Fund are expensed over the reporting period. Contributions to the Russian Federation State Pension Fund for each employee vary from 10% to 22%, depending on the annual gross remuneration of each employee.

Defined benefit plans. The amount of Group's liabilities for the unfunded defined benefit plan is determined using the Project Unit Credit Method, with actuarial valuation being carried out at the end of each reporting period with immediate recognition of all actuarial gains and losses in the other comprehensive income.

The retirement benefit obligations recognised in the consolidated statement of financial position represent the present value of the defined benefit obligations.

Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge (credit) 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. 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 tax. 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 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 tax assets and liabilities relate to income taxes payable to the same tax authority, or by 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Earnings/(loss) per share

Preference shares are not redeemable and are considered to be participating shares and are recognised in equity. Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

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.

Segment reporting

The chief operating decision maker has been identified as General Director of the Company. Different types of the Group's economic activities are interdependent. The Group's internal management reporting, as reviewed by the General Director to assess performance and allocate resources, is prepared as a single reportable segment on the same basis as the consolidated financial statements.

Changes in presentation of consolidated financial statements.

Certain reclassifications were made to bring figures of the prior year consolidated financial statements in conformity with the form of presentation adopted for the reporting period. All reclassifications made are insignificant.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Useful lives of property, plant and equipment.

The estimation of useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in property, plant and equipment are consumed principally through use in production. However, other factors, such as technical or commercial obsolescence and wear and tear (including operational factors and implementation of maintenance programs), often result in the diminution of the economic benefits embodied in these assets.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Changes in any of these conditions or estimates may result in adjustments to future depreciation rates that will affect the amount of revenue recorded in the consolidated financial statements.

As at 1 January 2017 the Group management revised the useful lives of property, plant and equipment items in the Heating network group in accordance with the period when the Group expects to receive economic benefits from the use of these items taking into account the actual physical depreciation, earlier performed capital repairs, reconstruction or modernisation. As a result of the useful lives revision the depreciation accumulated for the year ended 31 December 2017 decreased by RUB 169,587 thousand as compared with the one that would have been accrued if former useful lives were used.

Revaluation and impairment of property, plant and equipment

The Group management performs analysis of the need to revalue and impair property, plant and equipment, considering changes in prior period estimates and significant assumptions. As a result of such analysis, the Group's management made a decision to carry out a revaluation of its property, plant and equipment as at 31 December 2017 without engaging an independent appraiser.

Due to the specialized nature of the Group's property, plant and equipment and the absence of any active market, revaluation was based on the cost method and the application of the income approach for the purpose to determine the economic depreciation.

For the purpose of revaluation, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash generating units, and also in estimating the timing and value of underlying cash flows when calculating the recoverable amount of these units. Subsequent changes to the cash-generating unit allocation procedure or to the timing of cash flows could impact the carrying value of the respective assets.

Detailed information about assumptions and estimates used by the Group management in the revaluation of property, plant and equipment as at 31 December 2017 and 31 December 2016 are presented in Note 6.

Allowance for doubtful debts

When evaluating the adequacy of an allowance for doubtful receivables, management base their estimates on the current overall economic conditions, the ageing of accounts receivable balances, the Group's past experience of collecting overdue amounts, customer creditworthiness and changes in payment terms, as well as the likelihood of favourable outcome of current litigations. Detailed information about allowances for doubtful receivables is presented in Note 8.

Recognition of deferred tax assets

The recognised deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on various factors, including performance of the Group in prior periods, the Group's business plan, timing of potential utilisation of prior year losses for tax purposes and the tax planning strategy.

As at 31 December 2017 the Group management assessed the likelihood of recovery of deferred tax assets, including those related to tax losses carried forward, in accordance with approved business plan as probable because expects availability of temporary differences to be reversed in the future and availability of sufficient future taxable profit against which these differences will most likely be reversed (Note 19).

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following revised standards became effective for the Group from 1 January 2017, but did not have a material effect 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 Group disclosed the required information in Note 12.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12, included in Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 and that 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 recognised 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 recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

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 exemptions 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 recognised as of 1 January 2018 in the consolidated financial statements for the year ending 31 December 2018 which will be the first year when the Group will apply IFRS 15.

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

In accordance with the current accounting policies the Group recognises revenue from the sale of electricity, capacity and heat at the fair value of consideration receivable. Revenue from the sale of electricity, capacity and heat is recognised in profit and loss on the delivery of electricity, capacity and heat. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. In accordance with IFRS 15 revenue is recognised in an amount that reflects the consideration to which the Group is expected to be entitled in exchange for the transfer of goods or services promised to the customer. In accordance with current agreement consideration includes fixed amounts.

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

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

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

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

The Group is unable to function normally without ensuring power supply to its production facilities. This indicates direct interrelation between obtained volume of power and its generation and delivery to WEM. The fact that the Group buys electricity at WEM does not mean that the Group is a customer in the context of IFRS 15. Consequently, the cost of electricity that the Group buys at WEM to support the work process and for own needs represents a compensation to be paid by the customer in accordance with IFRS 15. This compensation should be recognised as a reduction of the transaction price and, therefore, of revenue, unless the payment to the customer is in exchange for distinct goods or services that the customer transfers to the entity.

The cost of electricity purchased to support the work process and for other own needs totalled RUB 1,750,579 thousand for the year ended 31 December 2017.

Given that management of the Group has not finalised its analysis of the consequences from the adoption of IFRS, the above disclosure is of a tentative nature and it is possible that the impact on the consolidated financial statements may differ from the above. The Group expects to finalize the IFRS 15 adoption by the date of the condensed consolidated interim financial information for the six months ending 30 June 2018.

IFRS 9 "Financial Instruments" *(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.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on an analysis of the Group's financial assets and financial liabilities as of 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the management of the Group does not expect any significant impact on the consolidated financial statements from the adoption of the new standard on 1 January 2018.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments.

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

IFRIC 22 – Foreign Currency Transactions and Advance Consideration *(issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).* The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgement in determining whether an item is monetary or non-monetary. The management is currently assessing the impact of the new interpretation on the Group's consolidated financial statements.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

IFRIC 23 "Uncertain Tax Positions" *(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 judgements 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 judgement 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 judgements and estimates required by the Interpretation. The management is currently assessing the impact of the new interpretation on the Group's consolidated financial statements.

The following other new pronouncements are not expected to have any material impact on the Group's consolidated financial statements 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).
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019.
- Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

(in thousands of Russian Roubles unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	Electricity and heat generation	Electricity distribution	Heating network	Others	Construction in progress	Total
Revalued amount						
Balance at 1 January 2016	**17,537,390**	**306,121**	**1,975,228**	**3,949,046**	**27,367,664**	**51,135,449**
Construction and purchase	6,771	75	5,277	77,637	4,647,514	**4,737,274**
Put into operation	579,081	2,016	444,228	57,801	(1,083,126)	**-**
Disposals	(190,557)	-	(1,803)	(43,465)	(1,075,928)	**(1,311,753)**
Transfer to non-current assets held for sale	-	-	-	-	(2,275,717)	**(2,275,717)**
Revaluation	1,762,211	(9,361)	926,590	553,168	153,371	**3,385,979**
Reclassification of accumulated depreciation and impairment loss as a result of revaluation	(834,241)	(61,545)	(430,909)	(497,017)	(1,605,772)	**(3,429,484)**
Balance at 31 December 2016	**18,860,655**	**237,306**	**2,918,611**	**4,097,170**	**26,128,006**	**52,241,748**
Construction and purchase	92,048	-	591,440	91,090	4,364,863	**5,139,441**
Put into operation	7,395,890	46,065	827,285	198,376	(8,467,616)	**-**
Disposals	(17,432)	(40)	(7,003)	(228,476)	(8,556)	**(261,507)**
Revaluation	3,393,414	21,396	2,038,644	563,888	409,290	**6 426 632**
Reclassification of accumulated depreciation and impairment loss as a result of revaluation	(595,200)	(18,103)	(892,541)	(457,327)	(2,244,182)	**(4,207,353)**
Balance at 31 December 2017	**29,129,375**	**286,624**	**5,476,436**	**4,264,721**	**20,181,805**	**59,338,961**
Accumulated depreciation and impairment						
Balance at 1 January 2016	**-**	**-**	**-**	**-**	**(1,889,813)**	**(1,889,813)**
Depreciation charge for the year	(1,113,500)	(59,692)	(220,389)	(469,878)	-	**(1,863,459)**
Disposals	7,047	**-**	260	3,843	-	**11,150**
(Recognition)/ reversal of earlier recognised impairment, net	272,212	(1,853)	(210,780)	(30,982)	(1,605,772)	**(1,577,175)**
Reclassification of accumulated depreciation and impairment loss as a result of revaluation	834,241	61,545	430,909	497,017	1,605,772	**3,429,484**
Balance at 31 December 2016	**-**	**-**	**-**	**-**	**(1,889,813)**	**(1,889,813)**
Depreciation charge for the year	(1,528,932)	(38,737)	(222,300)	(500,122)	-	**(2,290,091)**
Disposals	635	-	377	6,658	-	**7,670**
(Recognition)/ reversal of earlier recognised impairment, net	933,097	20,634	(670,618)	36,137	(2,244,182)	**(1,924,932)**
Reclassification of accumulated depreciation and impairment as a result of revaluation	595,200	18,103	892,541	457,327	2,244,182	**4,207,353**
Balance at 31 December 2017	**-**	**-**	**-**	**-**	**(1,889,813)**	**(1,889,813)**
Carrying amount						
Balance at 31 December 2016	**18,860,655**	**237,306**	**2,918,611**	**4,097,170**	**24,238,193**	**50,351,935**
Balance at 31 December 2017	**29,129,375**	**286,624**	**5,476,436**	**4,264,721**	**18,291,992**	**57,449,148**

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Capitalised borrowings costs

Construction in progress additions comprise capitalised borrowing costs of RUB 1,515,148 thousand (2016: RUB 2,048,804 thousand). The capitalisation rate was 9.84% (2016: 13.03%) (Notes 12, 18).

Construction in progress

Items of construction in progress include costs of property, plant and equipment items under construction, including assets that will be used to deliver capacity under capacity supply contracts, and advances paid to construction companies and suppliers of property, plant and equipment. As at 31 December 2017, construction in progress included advances of RUB 444,100 thousand to companies providing construction, installation and equipment supply services (2016: RUB 2,179,913 thousand). Advances paid are recognised net of impairment loss of RUB 1,889,813 thousand due to the insolvency of prime contractor, responsible for construction of some objects under capacity supply contracts.

In early 2017 the item of construction in progress "Dyagilevskaya Heating Power Plant modernisation. Construction of PGU-115MW" of RUB 7,193,242 thousand in value was put into operation. From February 2017 Dyagilevskaya HPP has been providing electricity and capacity on the wholesale energy and capacity market as its entity.

Revaluation of property, plant and equipment

The fair value of property, plant and equipment primarily relates to level 3 of the fair value hierarchy.

The Group performed revaluation of its property, plant and equipment as at 31 December 2017 and 31 December 2016. As a result the amount of certain separately identifiable cash generating units after the revaluation was higher than the historical cost of the relevant asset but below its recoverable amount determined on the basis of discounted cash flows.

If the recoverable amount was below the carrying amount of property, plant and equipment items before their revaluation but higher than their historical cost net of the effect of prior period revaluations, than the decrease of the carrying amount was recognised directly through capital as a reduction of the surplus recognised in prior periods.

Cash generating units were determined by the Group management based on the regional principle of operations of the Company's branches and subsidiaries by separating individual items with the help of which capacity will be provided under capacity supply contracts.

As a result of the revaluation capital of the Group increased by RUB 5,141,306 thousand as at 31 December 2017 (31 December 2016: increased by RUB 2,708,783 thousand), which represents the increase of the carrying amount of property, plant and equipment by RUB 6,426,632 thousand, net of the relevant deferred tax liability of RUB 1,285,326 thousand as at 31 December 2017 (31 December 2016: increase of the carrying amount of property, plant and equipment by RUB 3,385,979 thousand net of the relevant deferred tax liability in the amount of RUB 677,196 thousand).

Increase of the carrying amount of property, plant and equipment as a result of revaluation and impairment by RUB 4,501,700 thousand as at 31 December 2017 (31 December 2016: increase by RUB 1,808,804 thousand) includes the increase of the revaluation reserve for property, plant and equipment of RUB 6,551,522 thousand (31 December 2016: RUB 4,750,522 thousand), reversal of the earlier recognised reserve of RUB 124,890 thousand (31 December 2016: RUB 1,364,543 thousand), and the property, plant and equipment impairment of RUB 1,924,932 thousand within profit or loss for 2017 (2016: RUB 1,577,175 thousand).

(in thousands of Russian Roubles unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The following key estimates and assumptions were used in the calculations of revalued cost of assets as at 31 December 2017 and 31 December 2016:

Key assumptions	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Information used	Actual performance for 2017 and figures of the 2018 business plan. Figures for 2019-2020 – estimation of target performance indicators by the Company's management.	Actual performance for 2016 and figures of the 2017 business plan.
Forecast period*	10 years	10 years
Growth interest rate after the forecast period	2.0%	3.0%
Post- / pre-tax discount rate	13.4%/18.6%	14.5%/19.5%
Forecast of prices for electricity on the non-regulated market	Prices for electricity are taken from the approved business plan. Figures for 2019-2020 – estimation of target performance indicators by the Group management. Further the Group's management expects that indexation of regulated prices (tariffs) for electricity will be within a fluctuation range of the consumer price index and the movement of prices in unregulated sectors of the electricity market on the whole will be in line with the growth of prices for natural gas which is the main technological fuel for the Group's production facilities with adjustments for new generation facilities put into operation.	Based on tariffs approved by the Russian Federal Antimonopoly Service (FAS) for the reporting year. The management expects that indexation of regulated prices (tariffs) for electricity will be within a fluctuation range of the consumer price index ("CPI") and the movement of prices in unregulated sectors of the electricity market on the whole will be in line with the growth of prices for natural gas which is the main technological fuel for the Group's production facilities with adjustments for new generation facilities put into operation.
The average annual growth rate of prices (tariffs) for electricity in the unregulated market in the forecast period	3.8%	3.7%
Forecast of prices (tariffs) for power capacity	Determined in accordance with the approved business plan of the Company and results of the long-term competitive capacity selection process (CCSP). Management of the Group expects that annual growth rates for capacity supply will generally comply with the effective rules and methods for calculating power capacity prices taking into account subsequent capacity prices revision. The sale of capacity in the "forced" mode has been forecast for the period through 2021 inclusively in line with Resolution of the Russian Government of 31 July 2017 No.1646-r "On Qualifying Generating Equipment as Generating Units Capacity of Which is Supplied in the Forced Mode".	Based on tariffs approved by the Russian FAS for the reporting year and results of the long-term competitive capacity selection process (CCSP). Management expects that annual growth rates for capacity supply will generally remain within a fluctuation range of the consumer price index (CPI) minus 1 percent until 2020 and after 2020 will remain within the CPI fluctuation range. Calculation of tariffs for facilities completed under capacity supply agreements was based on methodologies specified by the agreements.
The average annual growth rate of prices (tariffs) for CCSP power capacity in the forecast period	7.0%	4.2%
Volumes of net supply of electricity and heat	Volumes of electricity and heat net supply have been determined based on the approved business plan of the Company and adjusted for generating units that have been put into operation and deliver capacity under long-term capacity supply contracts, and for optimised structure of generating assets of the Group entities.	At the level of the reporting year taking into account planned assets disposals and new generation facilities to be commissioned under capacity supply contracts.
The average annual growth rate of for volumes of power capacity and heat net supply in the forecast period	• 0.88% (electricity) • 0.53% (heat)	• 1.14% (electricity) • 0% (heat)

(in thousands of Russian Roubles unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Key assumptions	Year ended 31 December 2017	Year ended 31 December 2016
Growth of heat energy tariffs	Prices for heat energy are taken from the approved business plan of the Company. The Group's management believes that in the future it would be appropriate in a number of regions to start using the "alternative boiler" pricing method, which assumes an even increase of established prices (tariffs) to the level of the "alternative boiler" price (tariff) in five years. For other regions, prices for heat energy are determined based on the Company's approved business plan with further indexation.	Based on approved tariffs (where applicable) for the reporting year. In the future, management expects introduction of "alternative boiler" pricing method in the heating sphere, which assumes an even increase of the established prices (tariffs) to the level of "alternative boiler" price (tariff) in five years.
The average annual growth rate for prices (tariffs)	• 2.5-22.6% for the period until reaching the level of "alternative boiler" price (tariff) depending on the region of the Russian Federation in which the Group operates • 3.7% for the period after reaching the level of "alternative boiler" price (tariff) till the end of the forecast period	• 2.5-24.0% for the period until reaching the level of "alternative boiler" price (tariff) depending on the region of the Russian Federation in which the Group operates • 3.7% for the period after reaching the level of "alternative boiler" price (tariff) till the end of the forecast period
Projected capital expenditures	Based on management's assessment of the required capital expenditures for technical re-equipment and reconstruction	

* The management believes that the forecast period exceeding five years is more reliable as the electricity and capacity market is expected to undergo significant changes during the forecast period, and cash flows will not flatten out within five years. The recoverable amount of assets was determined on the basis of cash flows in the forecast period as well as the post-forecast amount.

The impact of key assertions and assumptions on the carrying amount of property, plant and equipment is presented as follows:

	Discount rate		CPI		Natural gas price	
	-1%	+1%	-1%	+1%	-1%	+1%
Increase/(decrease) of the carrying amount	2,207,665	(2,043,229)	2,130,851	(2,286,386)	1,006,031	(1,015,813)

For each revalued class of property, plant and equipment stated at a revalued amount in these consolidated financial statements, the depreciated historical cost that would have been recognised had the assets been carried under the cost model is as follows:

	31/12/2017	31/12/2016
Electricity and heat generation	19,698,453	12,746,677
Electricity distribution	208,911	166,009
Heating network	1,579,626	919,810
Others	2,109,700	2,135,283
Construction in progress	17,748,317	23,739,502
Total	**41,345,007**	**39,707,281**

Pledged items of property, plant and equipment

As at 31 December 2017, certain items of property, plant and equipment were pledged as a security under credit agreements (Note 12):

Group of property, plant and equipment	Carrying value	Pledge value
Electricity and heat generation	10,503,520	6,227,256
Electricity distribution	79,622	96,759
Heating network	3,213	9,701
Others	973,914	782,655
Construction in progress	5,692,653	4,234,325
Total	**17,252,922**	**11,350,696**

(in thousands of Russian Roubles unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At 31 December 2016:

Group of property, plant and equipment	Carrying value	Pledge value
Electricity and heat generation	7,596,146	4,786,351
Electricity distribution	85,130	96,759
Heating network	3,592	9,701
Others	1,051,690	782,655
Non-current assets held for sale	2,275,717	1,560,373
Construction in progress	7,739,277	5,676,479
Total	**18,751,552**	**12,912,318**

7. INVENTORIES

	31/12/2017	31/12/2016
Fuel	1,321,637	1,129,802
Raw materials	332,118	311,797
Other inventories	201,744	154,347
Total inventories, at cost	**1,855,499**	**1,595,946**
Allowance for obsolete and slow moving items	(8,665)	(6,319)
Total	**1,846,834**	**1,589,627**
Total inventories within other non-current assets	**194,165**	**180,036**
Total inventories within current assets	**1,652,669**	**1,409,591**

Inventories recorded within non-current assets represent the minimum level of fuel supply regulated by orders of the Ministry of Energy regarding the required stock for generators of electricity and heat energy and effective at the reporting date, in the amount of RUB 194,165 thousand as at 31 December 2017 (31 December 2016: RUB 180,036 thousand).

8. ACCOUNTS RECEIVABLE AND ADVANCES PAID

	31/12/2017	31/12/2016
Trade accounts receivable	13,649,834	15,424,850
Other accounts receivable	249,393	206,747
Allowance for doubtful debts	(7,444,186)	(7,036,253)
Total financial assets	**6,455,041**	**8,595,344**
Advances paid and prepayments	309,469	293,922
VAT reimbursable	36,610	23,649
Prepaid other taxes	67,551	3,126
Total non-financial assets	**413,630**	**320,697**
Total recognised within non-current assets	**131,689**	**138,058**
Total recognised within current assets	**6,736,982**	**8,777,983**

The average credit period for the Group's customers in 2017 was 104 days (2016: 108 days).

(in thousands of Russian Roubles unless otherwise stated)

8. ACCOUNTS RECEIVABLE AND ADVANCES PAID (CONTINUED)

The ageing analysis of accounts receivable is as follows:

	31/12/2017		31/12/2016	
	Amount	**Provision for impairment**	**Amount**	**Provision for impairment**
Not overdue	5,533,374	(112,272)	7,281,718	(106,943)
From 30 to 90 days overdue	469,259	(103,990)	517,425	(81,054)
From 91 to 180 days overdue	319,784	(125,417)	267,350	(62,968)
From 181 to 360 days overdue	1,403,081	(979,465)	1,299,582	(788,185)
Over 361 days overdue	6,173,729	(6,123,042)	6,265,522	(5,997,103)
Total	**13,899,227**	**(7,444,186)**	**15,631,597**	**(7,036,253)**

Major part of trade accounts receivable are neither past due nor impaired and can be aggregated in a number of classes by similar credit quality: primarily guaranteeing suppliers which are - participants of electricity and capacity wholesale and retail markets, industrial customers, housing companies and population.

As contractors of the Group have no independent credit ratings assigned to them, the Group considers the credit quality of its contractors at the stage of contract performance. The Group takes into account financial position and credit history of its contractors. The Group monitors accounts receivable on an ongoing basis and takes regular steps to ensure their collection and to minimize the losses.

Management of the Group performed a detailed analysis of past due accounts receivable for which no impairment provision has been accrued and made a conclusion that the likelihood of its collection is high. Other factors considered in the assessment of collectability of accounts receivable are disclosed in Note 4.

Movements in the allowance for doubtful receivables are presented as follows:

	Year ended 31/12/2017	**Year ended 31/12/2016**
Balance at the beginning of the year	**7,036,253**	**6,581,593**
Additional allowance recognised	1,990,689	1,247,131
Change in the earlier recognised amount of the allowance	(1,377,448)	(585,046)
Unwinding of the discount on long-term accounts receivable	(162)	(66,598)
Total recognised in profit or loss	**613,079**	**595,487**
Amounts written-off against previously recognised allowance	(205,146)	(140,827)
Balance at the end of the year	**7,444,186**	**7,036,253**

Release of the provision in the reporting period primarily relates to the settlement of accounts receivable that were provided for earlier, on the basis of amicable agreements signed in December 2017, under which the Group obtained movable and immovable property (heating units with equipment, heating network) for the total amount of RUB 817,917 thousand, including VAT of RUB 124,767 thousand.

9. CASH AND CASH EQUIVALENTS

	31/12/2017	**31/12/2016**
Bank deposits	510,511	564,000
Current bank accounts in RUB	357,665	191,333
Cash equivalents	2,811	2,132
Total	**870,987**	**757,465**

9. CASH AND CASH EQUIVALENTS (CONTINUED)

Ratings of banks with which the Group has account balances and deposits may be summarised as follows:

Bank	Rating agency	Rating as at 31/12/2017	31/12/2017	31/12/2016
Bank GPB (JSC)	Fitch Ratings	BB+	778,162	722,703
PAO Sberbank	Fitch Ratings	BBB-	90,716	31,805
OJSC AB Rossia	Expert RA	ruAA	784	1,766
Others			1,325	1,191
Total			**870,987**	**757,465**

10. NON-CURRENT ASSETS HELD FOR SALE

As at 31 December 2016 non-current assets held for sale included equipment of RUB 2,275,717 thousand planned for sale as in 2016 the unit under construction ‘Construction of a combined cycle power unit (with capacity of 115MW) at Kurskaya Heating Power Plant-1’ was excluded from the list of capacity supply contract assets.

In 2017 based on the results of breaking the above equipment into smaller units the ways of its further effective use were identified as follows:

- equipment to be used in capital construction and technical upgrade projects of PJSC Quadra, was reclassified from non-current assets held for sale into construction in progress (as equipment for installation) in the total amount of RUB 106,993 thousand;
- equipment to be used by the Company for repair and maintenance, was reclassified from non-current assets held for sale into current assets (as spare parts) in the total amount of RUB 59,724 thousand;
- equipment with the carrying amount of RUB 2,109,000 thousand that was recorded within non-current assets held for sale as at 31 December 2017, is held for sale. Management of the Group plans actual sale of this equipment in 2018.

11. EQUITY AND RESERVES

Share capital

As at 31 December 2017 the number and amount of share capital have not changes as compared with 31 December 2016.

	Number of shares, in thousands	Balance
Ordinary shares	1,912,505,578	19,125,056
Preference shares	75,272,939	752,729
Total		**19,877,785**

The holders of the Company’s ordinary shares of RUB 0.01 at par, carry one vote per share at the shareholders meetings and have the right to dividends, which are subject to approval at the shareholders meeting.

The holders of the Company’s preference shares of RUB 0.01 at par, are entitled to receive dividends (per one) preference share calculated as 10% of net profit (determined in the financial statements prepared under Russian Accounting Standards) divided by the number of shares amounting to 25% of the Company’s share capital, but not less than dividends declared for the Company’s ordinary shares. If dividends on preferred shares are not paid at all or in full, preferred shares give their holders the right to vote on all matters that fall under the competence of the general meeting of shareholders, starting from the general meeting of shareholders that follows the annual meeting at which, whatever the reasons, the decision was taken not to pay dividends on preferred shares or not to pay them in full. This voting right terminates as soon as the first full payment of dividends is made on preferred shares.

No dividends were accrued or paid by the Group in 2017 and 2016.

11. EQUITY AND RESERVES (CONTINUED)

Share premium

Share premium of RUB 10,921,097 thousand was recorded in 2008, as a result of issuance of additional ordinary shares of the Company and excess of cash consideration received over their par value.

Treasury shares

As at 31 December 2016 recorded treasury shares included 122,654,260,310 ordinary shares and 868,897,810 preference shares for the total amount of RUB 358,043 thousand.

In 2017 the Group sold treasury shares, including 122,644,260,310 ordinary shares and 868,897,810 preference shares, for RUB 376,638 thousand.

Loss per share

Loss per ordinary share for the years ended 31 December 2017 and 2016 was calculated based on weighted average number of the Company's ordinary shares outstanding during respective periods and loss attributable to owners of the Company, as follow:

	Year ended 31/12/2017	Year ended 31/12/2016
Loss for the year attributable to owners of the Company that was used in the loss per share calculation	**(210,284)**	**(2,192,776)**
Weighted average number of the Company's ordinary shares, in thousands	1,815,760,043	1,881,842,013
Weighted average number of the Company's preference shares, in thousands	74,987,274	75,055,714
Basic and diluted loss per ordinary and preference share, in RUB	**(0.0001)**	**(0.0011)**

12. LOANS AND BORROWINGS

	31/12/2017		31/12/2016	
	Interest rate, %	Balance	Interest rate, %	Balance
Secured bank loans:				
Bank GPB (JSC)	11.74 – 14.50	2,813,163	11.74 – 13.09	2,804,141
PJSC Sberbank	11.74 – 14.50	2,821,083	11.74 – 13.09	2,812,838
Unsecured bank loans:				
Bank GPB (JSC)	9.50 – 12.25	15,028,589	12.90 –18.00	17,544,638
PJSC Sberbank	9.50 – 11.00	9,568,188	12.50 –14.00	7,994,726
Unsecured borrowings				
ONEXIM HOLDINGS LIMITED	14.5	1,529,214	14.5	1,099,984
Total		**31,760,237**		**32,256,327**
Long-term portion of loans and borrowings		**26,384,365**		**20,098,024**
Short-term portion of loans and borrowings		**5,375,872**		**12 158 303**

The Group received a loan of RUB 2,350,982 thousand from ONEXIM HOLDINGS LIMITED, including RUB 1,919,000 thousand in March – December 2016 and RUB 431,982 thousand in June – September 2017.The loan is to be repaid together with accrued interest on 31 December 2024.

At the initial recognition, the loan was carried at its fair value using the effective interest rate of 14.5% (loan interest rate is 8.25%).The effective interest rate is the market interest rate applicable to commercial loans of the Group at the date of their origination. In 2017 the effect of the loan being recorded at fair value amounted to RUB 177,002 thousand (2016: RUB 879,724 thousand) and was recognised in additional capital net of deferred tax of RUB 35,400 thousand (2016: RUB 175,945 thousand).

(in thousands of Russian Roubles unless otherwise stated)

12. LOANS AND BORROWINGS (CONTINUED)

All bank loans are denominated in roubles and represent individual tranches of credit lines granted to the Group. Interest rates are fixed and are set in each agreement (or supplement) on the use of credit resources.

At 31 December 2017 short-term loans included a short-term payable amount of RUB 1,893,278 thousand (31 December 2016: RUB 5,815,648 thousand) related to renewable credit lines with maturities over twelve months of the period end.

As at 31 December 2017 some credit facilities were secured by pledged property, plant and equipment (Notes 6, 10).

Certain bank credits are subject to restrictive covenants to be met by the Group. All bank credit agreements have acceleration clauses, allowing creditors to request early repayment of outstanding amounts in case of non-compliance with these covenants. Starting from the second half of 2014 the Group has been breaching several covenants of the long-term credit agreements with Bank GPB (JSC) and PJSC Sberbank. In connection with the above, the Group received a written confirmation that the creditors waived their rights to use any sanctions against the Group, including the right to require early repayment of the principal loan and accrued interest.

Available credit facilities

As at the reporting date, the Group had the following unused committed credit facilities:

	31/12/2017	31/12/2016
Secured credit lines	11,008,529	5,863,518
Unsecured credit lines	27,000,000	27,000,000
Overdrafts	500,000	500,000
Less: amounts used by the Group	(30,319,142)	(31,210,355)
Total available credit facilities	**8,189,387**	**2,153,163**
including credit facilities with a due date more than 12 month after reporting date	*3,088,749*	*1,506,443*

Reconciliation of liabilities from financing activities

The table below sets out an analysis of movements in the Group's liabilities from financing activities for 2017:

	Short-term portion of loans and borrowings	Long-term portion of loans and borrowings	Other liabilities from financing activities	Total
At 31 December2016	**12,158,303**	**20,098,024**	**-**	**32,256,327**
Cash flow	(15,977,324)	11,756,010	(1,987)	**(4,223,301)**
Amortisation of discounted liabilities	3,687,551	229,096	165	**3,916,812**
Effect of recording loans at fair value	-	(177,002)	-	**(177,002)**
Reclassification of the short-term portion of long-term loans	5,521,763	(5,521,763)	-	**-**
Other non-cash movements	(14,421)	-	4,662	**(9,759)**
At 31 December2017	**5,375,872**	**26,384,365**	**2,840**	**31,763,077**

In 2017 the cash flow related to short-term loans and the short-term portion of long-term loans comprised payments of the principal amount of RUB 12,297,412 thousand and interest of RUB 3,679,912 thousand.

(in thousands of Russian Roubles unless otherwise stated)

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31/12/2017	31/12/2016
Trade payables	3,631,777	5,955,059
Other payables	381,534	240,999
Total financial liabilities	**4,013,311**	**6,196,058**
Salaries and wages payable	229,040	222,277
Accrued liability for vacations	222,578	207,185
Accrued liability for bonuses	399,513	60,788
Advances received	237,891	228,355
Total non-financial liabilities	**1,089,022**	**718,605**
Total	**5,102,333**	**6,914,663**

In 2017, the average credit period for the Group's suppliers was 43 days (2016: 45 days).

14. PROVISIONS FOR LIAILITIES AND CHARGES

	Year ended 31/12/2017	Year ended 31/12/2016
Balance at the year beginning	**912,807**	**537,743**
Liabilities recognised	361,019	470,206
Provisions used	(308,399)	(71,494)
Write-off of previously recognised liabilities	(61,188)	(23,648)
Balance at the year end	**904,239**	**912,807**

Provisions for liabilities and charges are presented primarily by provisions for legal claims related to payments for delivered and purchased heat energy, and penalties for the failure to meet the initial power capacity provision date at Aleksinskaya HPP (Note 21).

15. OTHER TAXES PAYABLE

	31/12/2017	31/12/2016
Value Added Tax	733,338	577,433
Property tax	170,601	121,984
Insurance contributions	131,098	127,972
Other taxes	55,554	53,513
Total	**1,090,591**	**880,902**

16. STAFF COSTS AND CHARGES

	Year ended 31/12/2017	Year ended 31/12/2016
Salaries and wages	5,248,272	4,749,418
Insurance contributions	1,516,673	1,361,151
Other expenses	58,770	20,616
Total	**6,823,715**	**6,131,185**

In 2017, contributions to the Pension Fund of the Russian Federation amounted to RUB 1,071,892 thousand (2016: RUB 998,634 thousand).

(in thousands of Russian Roubles unless otherwise stated)

17. OTHER OPERATING INCOME AND EXPENSES

Other operating income

	Year ended 31/12/2017	Year ended 31/12/2016
Penalties, fines and interests	240,341	129,973
Insurance compensation	24,967	241,990
Other	294,199	252,571
Total	**559,507**	**624,534**

Other operating expenses

	Year ended 31/12/2017	Year ended 31/12/2016
Services related to cash collection	190,360	187,632
Penalties	113,521	40,169
Non-refundable VAT	110,673	37,273
Insurance expenses	65,294	54,497
Communication expenses	49,744	48,247
Technical diagnostics and expertise services	49,333	28,105
Expenses for work clothes	46,940	37,351
Cleaning services	46,674	36,990
Legal expenses and state fees	37,836	28,225
Amortisation of intangible assets	26,783	24,754
Expenses for holding meeting of shareholders	13,744	30,039
Other	490,563	433,680
Total	**1,241,465**	**986,962**

18. FINANCE COSTS

	Year ended 31/12/2017	Year ended 31/12/2016
Interest expenses on loans and borrowings	3,916,647	4,143,737
Interest expenses on pension liabilities	29,224	27,325
Interest expenses on finance lease liabilities	165	-
Total interest expense	**3,946,036**	**4,171,062**
Interest expenses capitalised in the cost of capital construction assets (Note 6)	(1,515,148)	(2,048,804)
Total	**2,430,888**	**2,122,258**

19. INCOME TAX

Income tax recorded in profit and loss

	Year ended 31/12/2017	Year ended 31/12/2016
Current income tax expense	(28,846)	(25,399)
Deferred income tax (expense)/benefit	(452,947)	286,972
Total income tax	**(481,793)**	**261,573**

(in thousands of Russian Roubles unless otherwise stated)

19. INCOME TAX (CONTINUED)

The income tax rate applicable to the Group's 2017 and 2016 income is 20%. A reconciliation of statutory income tax to the amount of actual income tax expense recorded in profit or loss is presented as follows:

	Year ended 31/12/2017	**Year ended 31/12/2016**
Profit/(loss) before tax	**271,509**	**(2,454,349)**
Income tax at the statutory rate of 20%	(54,302)	490,870
Non-deductible expenses	(201,316)	(176,699)
Increase in unrecognised deferred tax assets	(226,175)	(52,598)
Total	**(481,793)**	**261,573**

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for consolidated financial reporting purposes and their tax bases.

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

(in thousands of Russian Roubles unless otherwise stated)

19. INCOME TAX (CONTINUED)

Major deferred tax assets and deferred tax liabilities of the Group as at 31 December 2017 and 2016 and their changes during the years then ended are as follows:

	31/12/2017	**Recognised in the profit or loss**	**Recognised in other compre-hensive income**	**Recognised in equity**	**31/12/2016**	**Recognised in the profit or loss**	**Recognised in other compre-hensive income**	**Recognised in equity**	**31/12/2015**
Deferred tax assets									
Allowance for doubtful receivables	**585,396**	(713,337)	-	-	**1,298,733**	110,912	-	-	**1,187,821**
Accumulated losses of prior years	**1,165,645**	322,122	-	-	**843,523**	30,324	-	-	**813,199**
Property, plant and equipment	**-**	(153,211)	4,713	-	**148,498**	(26,625)	(19,337)	-	**194,460**
Accounts payable and accrued liabilities	**258,600**	69,831	-	-	**188,769**	58,182	-	-	**130,587**
Pensions	**7,736**	(1,088)	7,671	-	**1,153**	8,259	939	-	**(8,045)**
Others	**183**	3,790	-	(3,607)	**-**	(7,623)	(1,030)	-	**8,653**
Total	**2,017,560**	**(471,893)**	**12,384**	**(3,607)**	**2,480,676**	**173,429**	**(19,428)**	-	**2,326,675**
Offset against deferred tax liabilities	**(2,017,460)**				**(2,331,235)**				**(2,064,550)**
Total deferred tax assets	**100**				**149,441**				**262,125**
Deferred tax liabilities									
Property, plant and equipment	**4,085,715**	(21,162)	1,290,039	-	**2,816,838**	(139,462)	657,859	-	**2,298,441**
Long-term borrowings	**204,340**	2,492	-	35,400	**166,448**	(9,497)	-	175,945	-
Investment property	**8,876**	-	-	-	**8,876**	-	-	-	**8,876**
Others	**12,074**	(276)	-	-	**12,350**	35,416	-	-	**(23,066)**
Total	**4,311,005**	**(18,946)**	**1,290,039**	**35,400**	**3,004,512**	**(113,543)**	**657,859**	**175,945**	**2,284,251**
Offset against deferred tax assets	**(2,017,460)**				**(2,331,235)**				**(2,064,550)**
Total deferred tax liabilities	**2,293,545**				**673,277**				**219,701**

(in thousands of Russian Roubles unless otherwise stated)

19. INCOME TAX (CONTINUED)

As at 31 December 2017, the Group recorded deferred tax assets of RUB 1,165,645 thousand (31 December 2016: RUB 843,523 thousand) in respect of tax loss carry forwards based on the availability of related taxable temporary differences and valid expectations of the Group management regarding receiving sufficient taxable profit against which the unused tax losses may be utilised provided they related to one and the same tax authority and taxpayer.

Effective 1 January 2017, changes in the Russian tax legislation regarding the transfer of tax losses for future periods came into effect. The changes deal with tax losses incurred and accumulated from 2007 that have not been used. The previously applied restriction of 10 years has been cancelled, and the transfer of tax losses for future periods is no longer limited by the period during which it can be implemented. The amendments also establish a limit on the amount of tax losses carried forward over the period from 2017 to 2020. Tax losses that can be utilised each year during that period are limited to 50% of annual taxable profits.

Unrecognised deferred tax assets

	31/12/2017	31/12/2016
Tax loss carry forwards	506,301	502,461
Deductible temporary differences	442,005	219,670
Total	**948,306**	**722,131**

As at 31 December 2017 the Group also did not recognise deferred tax assets related to temporary differences associated with investments in subsidiaries in the amount of RUB 857,199 thousand (2016: RUB 911,976 thousand).

20. RELATED PARTIES

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

Entities under common control with the Group

In 2017 the Group received an insurance compensation from LLC SK Soglasiye in the total amount of RUB 24,967 thousand (2016: RUB 241,464 thousand).

In 2017 insurance services provided by LLC SK Soglasiye amounted to RUB 70,349 thousand (2016: RUB 65,169 thousand).

As disclosed in Note 12, in 2016-2017 the Group received a loan from ONEXIM HOLDINGS LIMITED. As at 31 December 2017 the carrying amount of the loan plus accrued interest calculated using the effective interest rate method, amounted to RUB 1,529,214 thousand and was recognised in non-current liabilities (31 December 2016: RUB 1,099,984 thousand). In 2017, interest expense on the borrowings amounted to RUB 174,250 thousand (2016: RUB 60,708 thousand).

Except for accounts payable related to the loan received from ONEXIM HOLDINGS LIMITED, the Group had no significant balances with related parties as at 31 December 2017 and 31 December 2016.

The Group’s key management personnel

Key management personnel of the Group includes members of the Company’s Board of Directors, General Director, members of the Management Board, Deputy General Directors, and heads of the Company’s subdivisions that report directly to the Company’s General Director.

Compensation to key management personnel is mostly short-term, except for future retirement benefits under defined pension plans. For key management personnel payments under the above pension plans are calculated based on general rules.

(in thousands of Russian Roubles unless otherwise stated)

20. RELATED PARTIES (CONTINUED)

The total amount of short-term compensation to the key management personnel for 2017 was RUB 228,072 thousand (2016: RUB 209,231 thousand). This amount includes personal income tax and insurance contributions.

21. FUTURE AND CONTINGENT LIABILITIES

Capital expenditure commitments

At 31 December 2017 the Group has contractual capital expenditure commitments in respect of property, plant and equipment and capital construction totalling RUB 1,802,990 thousand (31 December 2016: RUB 2,779,345 thousand) including VAT.

Future capital expenditures under contractual obligations relate to the following projects:

	31/12/2017	31/12/2016
Reconstruction of Voronezhskaya HPP-1	956,913	1,022,900
Reconstruction of Aleksinskaya HPP	568,428	1,092,880
Reconstruction of Dyagilevskaya HPP	87,391	381,333
Other assets	190,258	282,232
Total	**1,802,990**	**2,779,345**

Obligations for power capacity delivery in 2011-2018

In 2015, the Group did not meet the power capacity provision date (from 1 January 2015) for the Construction of a combined cycle power unit (with the capacity of 115MW) at Aleksinskaya HPP (hereafter – Aleksinskaya HPP).

In 2016, the Group did not meet the initial power capacity provision date (from 1 January 2016) for the asset under construction ‘Reconstruction of Voronezhskaya HPP-1. Construction of PGU-223MWa (hereafter – Voronezhskaya HPP-1).

In October 2016 the Supervisory Board of NP Market Council approved the cancellation of penalties imposed on the Group for the failure to meet the initial power capacity provision date at Aleksinskaya HPP for the period from 1 May 2015 through 30 September 2017, Voronezhskaya HPP-1 for the period from 1 January 2016 through 30 September 2018.

In October 2017 the Supervisory Board of NP Market Council decided to calculate the penalty to be imposed on the Group for the failure to meet the initial power capacity provision date at Aleksinskaya HPP for the period from 01 October 2017 through 31 December 2017, in the period from April to June 2018.

As at 31 December 2017 the Group accrued an estimated liability in the amount of RUB 123,168 thousand for the failure to meet the initial power capacity provision date at Aleksinskaya HPP for the period from 1 October 2017 through 31 December 2017 (Note 14).

The Group management expresses its confidence that the new asset under construction Aleksinskaya HPP will be put into operation and will start delivering electricity and capacity on the wholesale energy and capacity market in the second quarter of 2018, and Voronezhskaya HPP-1 – in the first quarter of 2019.

Operating lease commitments

The land in the Russian Federation on which the Group’s production facilities are located is partially owned by the State. The Group leases land through operating lease agreements which expire in various years through 2069. According to the term of lease agreements rent fees are revised annually by reference to an order issued by the relevant local authorities. The Group entities have a renewal option at the end of the lease period and an option to buy land at any time, at a price established by the local authorities. The Group also leases other property, plant and equipment. The respective lease agreements have an average life of 1 to 37 years and generally do not have renewal option at the end of the term. There are no restrictions placed upon the Group by entering into these agreements.

(in thousands of Russian Roubles unless otherwise stated)

21. FUTURE AND CONTINGENT LIABILITIES (CONTINUED)

Future minimum lease payments due under non-cancellable operating lease agreements are:

	31/12/2017	**31/12/2016**
Due in the first year	365,689	354,689
Due from second to fifth year	700,296	873,582
Thereafter	886,202	1,303,490
Total	**1,952,187**	**2,531,761**

Legal claims

From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates, management is of the opinion that no significant losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Social commitments

The Group finances social programs for its employees. Management believes that the Group has no significant commitments that should have been recognised at the reporting date.

Tax liabilities in the Russian Federation

Russian tax legislation, which was effective or enacted at the end of the reporting period, is subject to varying interpretations when applied to individual business transactions or activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration becomes more rigorous giving rise to a higher risk of review of transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. Transfer pricing legislation provides for possibility to 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. The management has implemented internal controls to be in compliance with current transfer pricing legislation.

While management estimates that the tax positions and law interpretations that the Group has taken can be sustained with a high probability, there is a risk that an outflow of resources will be required, should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the Group's financial position and results of operations.

Management will vigorously defend the entity's position that was applied in determining taxes recognised in these consolidated financial statements if it is challenged by the authorities.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are immediately recognised. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, the Group’s management believes that there are no significant liabilities for environmental damage.

(in thousands of Russian Roubles unless otherwise stated)

21. FUTURE AND CONTINGENT LIABILITIES (CONTINUED)

Insurance

The Group does not have full insurance coverage for property damage or loss, liabilities to third parties for damage due to accidents with the Group's property operation. At the same time there is a risk that property losses or damage or damages to third parties that are not covered by insurance or the insurance coverage of which is not adequate could have a material adverse effect on the Group's operations and financial position.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements are analysed by level in the fair value hierarchy as follows: (a) Level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (b) 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 (c) Level three measurements are valuations not based on observable market data (that is, unobservable inputs).

Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The Group applies recurring fair value measurements to investment property and property, plant and equipment (level 3 of the fair value hierarchy). The valuation technique, inputs used in the fair value measurement for property, plant and equipment and related sensitivity to reasonably possible changes in those inputs as at 31 December 2017 are disclosed in Note 6.

Financial assets at amortised cost

The estimated fair value of fixed interest rate instruments is based on model of estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. Discount rates used depend on the credit risk of the counterparty. Management of the Group believes that the fair value of cash (level 1 of the fair value hierarchy) and cash equivalents (level 2 of the fair value hierarchy) (Note 9), short-term and long-term accounts receivable (level 3 of the fair value hierarchy) (Note 8) approximate their carrying value.

Liabilities measured at amortised cost

The fair value of liabilities with fixed interest rates is calculated based on expected cash inflows discounted at the interest rate effective for new instruments with similar credit risk and maturity (level 3 of the fair value hierarchy). The carrying value of short-term liabilities: loans and borrowings (Note 12) and accounts payable (Note 13) that are measured at amortised cost approximate their fair value.

As at 31 December 2017 and 31 December 2016 the carrying value of long-term loans and borrowings with fixed interest rates does not differ materially from their fair value.

23. FINANCIAL RISK MANAGEMENT

Key categories of financial instruments

	31/12/2017	31/12/2016
Financial assets		
Trade and other accounts receivable	6,455,041	8,595,344
Cash and cash equivalents	870,987	757,465
Total financial assets	**7,326,028**	**9,352,809**
Financial liabilities		
Loans and borrowings	31,760,237	32,256,327
Trade and other accounts payable	4,013,311	6,196,058
Finance lease liabilities	2,840	-
Total financial liabilities	**35,776,388**	**38,452,385**

Key risks associated with the Group's financial instruments include liquidity risk and credit risk.

(in thousands of Russian Roubles unless otherwise stated)

23. FINANCIAL RISKS MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they become due. Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities and of early withdrawal of cash from deposits in highly reliable banks. The working capital deficit as at 31 December 2017 and 31 December 2016 is disclosed in Note 1.

The Group has in place detailed budgeting and cash forecasting procedures to help ensure that it has adequate resources available to meet its payment obligations. Management of the Group controls current liquidity based on expected cash flows and expected revenue receipts. In the long-term perspective the liquidity risk is determined by forecasting future cash flows at the moment of signing new credit and loan agreements and using budgeting procedures.

The Group has interest bearing and interest free financial liabilities. Interest bearing financial liabilities include loans and borrowings. Interest free financial liabilities include trade and other accounts payable.

Presented below is the maturity profile of the Group's loans and borrowings and accounts payable as at 31 December 2017 based on expected undiscounted contractual payments, including future interest payments:

	Total	Due within one month	Due from one to three months	Due from three months to one year	Due from one to five years	Due thereafter
Loans and borrowings	**39,745,241**	185,526	2,945,384	5,141,760	27,325,026	4,147,545
Trade and other accounts payable	**4,013,311**	2,799,288	598,221	452,267	207	163,328
Finance leases	**4,279**	127	250	1,355	2,547	-
Total	**43,762,831**	**2,984,941**	**3,543,855**	**5,595,382**	**27,327,780**	**4,310,873**

Presented below is the maturity profile of the Group's loans and borrowings and accounts payable as at 31 December 2016 based on expected undiscounted contractual payments, including future interest payments:

	Total	Due within one month	Due from one to three months	Due from three months to one year	Due from one to five years	Due thereafter
Loans and borrowings	**41,272,780**	192,527	1,133,222	14,049,109	22,047,495	3,850,427
Trade and other accounts payable	**6,196,058**	3,612,449	1,093,928	1,489,681	-	-
Total	**47,468,838**	**3,804,976**	**2,227,150**	**15,538,790**	**22,047,495**	**3,850,427**

Credit risk

Credit risk is the risk that the Group's counter-parties will fail to discharge their obligations and cause the Group to incur a financial losses. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Group has a great number of customers operating in different sectors of economy and in different regions of the Russian Federation. Although collectability of receivables can be influenced by economic factors, management believe that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

Due to the absence of an independent assessment of customers' creditworthiness, the Group performs such an assessment at the contracting stage taking into account the customer's financial position and credit history. The Group regularly monitors existing receivables and undertakes actions to collect them and minimize losses.

(in thousands of Russian Roubles unless otherwise stated)

23. FINANCIAL RISKS MANAGEMENT (CONTINUED)

The Group monitors maturity of accounts receivable and identifies past due accounts. Information on past due accounts receivable is disclosed in Note 8.

Cash has been placed in financial institutions, which are considered at the time of deposit to have minimal risk of default. The Group management approves deposit banks as well as rules for making cash deposits. The Group continuously assesses these banks' financial position and reviews ratings assigned by independent agencies, past practice and other factors.

Summary information on cash deposits and their equivalents including names of banks and their ratings as at the end of the reporting period is provided in Note 9.

The Group's maximum exposure to the credit risk is as follows:

	31/12/2017	31/12/2016
Trade and other accounts receivable	6,455,041	8,595,344
Cash and cash equivalents	870,987	757,465
Total	**7,326,028**	**9,352,809**

Capital adequacy risk

The Group's objectives in managing capital are to comply with the Russian legislation and to reduce the cost of capital.

As at 31 December 2017 and 2016 the Company complied with all statutory requirements to the share capital. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The amount of capital that the Group managed as at 31 December 2017 corresponds to the total amount of capital recognized in the consolidated financial statements, and was RUB 27,645,298 thousand (31 December 2016: RUB 22,230,916 thousand).

Management of the Group regularly reviews the structure of capital to assess its cost and risks associated with each capital component.