RUSHYDRO GROUP

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

As at and for the year ended 31 December 2016

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Independent Auditor's Report

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC RusHydro and its subsidiaries (together – the "Group") as at 31 December 2016, 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 2016;
- 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 changes in equity for the year then ended; and
- the consolidated statement of cash flows for the year then ended;
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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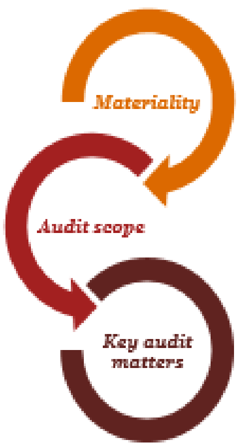
Our audit approach

Overview

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



- Overall group materiality: Russian Roubles ("RUB") 3,600 million, which represents 1% of total revenues and government grants.

- We conducted audit work at those companies of the Group that were considered significant components based on their individual share in the Group's revenue, which exceeds 15%: PJSC RusHydro, PJSC DEK, JSC DGK, PJSC Yakutskenergo.
- Our audit scope covered *inter alia* 67% of the Group's revenues and 83% of the Group's total carrying value of property, plant and equipment.

Key audit matters

- Assessment of impairment of property, plant and equipment
- Assessment of impairment of accounts receivable
- Contingent tax liabilities

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 financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

Overall group materiality	RUB 3,600 million
How we determined it	1% of total revenues and government grants
Rationale for the materiality benchmark applied	We chose total revenues and government grants as the benchmark because, in our view, it is the benchmark against which the Group's performance is represented to the fullest extent possible. We chose 1% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Assessment of impairment of property, plant and equipment	
For matters requiring disclosures and related significant accounting policies, judgements and accounting estimates see Notes 2, 7 and 32 to the consolidated financial statements. At 31 December 2016, the Group's aggregate carrying amount of property, plant and equipment was RUB 765,047 million. This is the most significant asset on the Group's balance sheet, it accounts for 78% of the total value of assets. The Group's management performed analysis of the business performance, industry outlook and operational plans and then assessed the recoverable value of property, plant and equipment by cash generating units for the purpose of impairment testing. Impairment arises when the recoverable amount, which is determined as the higher of the asset's fair value less costs to sell and its value in use, is below the carrying amount of the analysed assets. The management's testing identified impairment of a number of cash generating units, and the Company accrued impairment loss of RUB 26,525 million in the statement of income for the year ended 31 December 2016.	We obtained and reviewed financial models that the management used for assessing the PP&E impairment. We engaged our valuation experts to form our conclusion on the assumptions and methodology that were used in the impairment assessment. Our audit procedures related to the management's assessment of PP&E impairment included: • review of the methodology used by the Group's management for the impairment test purposes; • examination, on a test basis, of key assumptions used in financial models and whether they are in line with the approved budgets and business plans, external available and reliable sources (including macroeconomic forecasts, information on regulated and market electricity and capacity prices, etc.) and our industry-specific expertise; • assessment of competence, skills, experience and objectivity of the management's experts; • examination, on a test basis, of accuracy and relevance of inputs that the management

Key audit matter	How our audit addressed the Key audit matter
The recognition of additional loss also led to a decrease of RUB 4,920 million in the property, plant and equipment revaluation reserve in the consolidated statement of comprehensive income. There was no basis for accrual of or release of earlier accrued impairment loss for those cash generating units for which the results of the management's assessment led the management to conclude that their recoverable amount is either higher than their carrying amount or equal to it. We focused on the property, plant and equipment impairment assessment as this process is complicated, requires significant management's judgements and is based on assumptions that are affected by the projected future market and economic terms that are inherently uncertain. The impairment test is sensitive to reasonably possible changes in assumptions. The most significant judgements are related to the applied discount rate together with the assumptions supporting the relevant forecast cash flows, in particular those concerning the electricity and capacity tariff rates, electricity generation output and capital investments.	incorporated in the financial models for assessing the impairment of property, plant and equipment; • examination, on a test basis, of mathematical accuracy of financial models used by the management to assess the impairment of property, plant and equipment ; • consideration of potential impact of reasonably possible changes in key assumptions; • obtaining management's written representations related to their property, plant and equipment impairment test. As a result of the above procedures, we believe that the key assumptions used by the management are acceptable for the purposes of preparing the accompanying consolidated financial statements. Acceptability of management's current estimates regarding the property, plant and equipment impairment for the purpose of preparing the financial statements for the year ended 31 December 2016 does not guarantee that future events that are inherently uncertain would not lead to a significant change in these estimates. We note that the management's financial models are to a significant extent sensitive to the changes in key assumptions. It could reasonably be expected, that if actual results differ from assumptions made, accordingly, there could arise either additional losses from impairment in the future or gains from the release of previously recognised impairment charge. We also assessed adequacy of disclosures in Notes 2, 7 and 32 to the consolidated financial statements and assessed their compliance with the disclosure requirements of IAS 36 'Impairment of Assets'. Our procedures have not identified any findings that would require significant adjustments to the impairment amount recorded in the consolidated financial statements.

Key audit matter	How our audit addressed the Key audit matter
Assessment of impairment of accounts receivable	
For matters requiring disclosure, and related significant accounting policies, judgements and accounting estimates see Notes 2, 12 and 32 to the consolidated financial statements. At 31 December 2016, the carrying amount of the Group's trade receivables was RUB 33,036 million (RUB 56,936 million less an impairment provision of RUB 23,900 million). Thus, the receivables that are assessed by the Group's management as doubtful, account for a significant portion within the structure of trade receivables (at 31 December 2016, the Group accrued an impairment provision amounting to 42% of the total trade receivables). 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 the future developments that are inherently uncertain. We focused on receivables impairment assessment as this process is complicated and requires significant management's judgements, and the amount of impairment is significant.	Our audit procedures related to the management's assessment of trade receivables impairment included: • review of the 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 trade receivables for assessing the management's conclusion that there is no impairment considering the prospects and timing of collection of such receivables; • sample testing of underlying documents for management's assessment of the debt repayment probability, such as payment orders supporting payments received in 2017; • review of external information from the regulators of the wholesale electricity (capacity) market, including the Supervisory Board of NP Market Council, which regularly takes the decisions on excluding the companies from the registry of participants in the wholesale electricity (capacity) market; there are the Group's buyers of its electricity (capacity) among those excluded companies, with deteriorated solvency as expected; • obtaining management's written representations related to their performed receivables impairment test.

Key audit matter	How our audit addressed the Key audit matter
	We also assessed adequacy of disclosures in Notes 2, 12 and 32 to the consolidated financial statements and assessed their compliance with the disclosure requirements of IAS 39 ‘Financial Instruments: Recognition and Measurement’ and IFRS 7 ‘Financial Instruments: Disclosures’. Acceptability of current estimates of the Group’s management regarding the receivables impairment for the purpose of preparing the financial statements for the year ended 31 December 2016 does not guarantee that future events that are inherently uncertain would not lead to significant changes in these estimates. Our procedures have not identified any findings that evidence that there is a need for significant adjustments to be made to the consolidated financial statements.
Contingent tax liabilities *For matters requiring disclosure and related judgements and accounting estimates see Note 29 to the consolidated financial statements.* We consider this audit issue as a key audit matter because the Russian tax legislation (including transfer pricing legislation and rules for deductibility of certain expenses for income tax purposes), which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by the Group’s management and the formal documentation supporting these tax positions may be challenged by tax authorities. While preparing the consolidated financial statements the Group’s management assesses the probability that tax liabilities will arise and their amounts, taking into account actual or potential tax claims and existing tax law application practice. When the Group management assesses potential tax liability, it takes into account that fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about the review was made.	Our audit procedures aimed at assessing the probability that tax liabilities will arise, and their amount included: • sample testing of accuracy of calculations and recognition of short-term tax liabilities in the consolidated financial statements; • sample testing of correctness of tax incentives application and calculation; • assessing the reasonableness of the management’s position on recording significant tax liabilities arising in the course of the Group’s operations where the Group’s tax positions may be challenged by tax authorities in their audits and in application of tax incentives; • reviewing the tax authorities’ acts and decisions based on the results of their audits; • reviewing court decisions made with respect to tax disputes where Group companies are involved; • analysing court practice in the area of tax disputes related to operations where the Group’s tax positions may be challenged by tax authorities during their audit;

Key audit matter	How our audit addressed the Key audit matter
If the probability of incurring potential tax liabilities is assessed as high (exceeding 50%), the accrued provision is included within short-term liabilities. At 31 December 2016, the accrued provision is insignificant. Other identified potential tax liabilities are disclosed in Note 29 to the consolidated financial statements. While it is not possible to make a sufficiently reliable estimate of the probability of the unfavourable developments for the Group, the impact of such developments may be significant to the overall financial position and financial performance of the Group.	• sample testing of adequacy of provisions for tax liabilities recorded in the consolidated financial statements, where the management assessed their probability as high; • obtaining management's written representations related to their assessment of the amount of potential tax liabilities. When performing the above procedures we engaged our tax specialists. We also assessed adequacy of disclosures on contingent tax liabilities in Note 29 to the consolidated financial statements with reference to the disclosure requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Acceptability of current estimates regarding the contingent tax liabilities made by the Group management in preparing the financial statements for the year ended 31 December 2016 does not guarantee that future events that are inherently uncertain would not lead to a significant change in these estimates. Our procedures have not identified any findings that evidence that there is a need for significant additional disclosures to be made in these consolidated financial statements.

How we tailored our Group audit scope

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

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

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

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

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

On the whole, our audit procedures that were performed at the level of significant and other components of the Group and included, in particular, detailed testing and testing of controls on a sample basis, in our opinion, provided adequate coverage of individual line items in the consolidated financial statements. Thus, for example, our procedures covered 67% of the Group's revenue and 83% of the total carrying value of the Group's property, plant and equipment.

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

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

Other information

Management is responsible for the other information. Other information includes PJSC RusHydro's Annual Report for 2016 and Issuer's Report of PJSC RusHydro for Q1 2017, but does not include the consolidated financial statements and our auditor's report thereon. PJSC RusHydro's Annual Report for 2016 and Issuer's Report of PJSC RusHydro for Q1 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 Alexey Sergeevich Ivanov.

AO PricewaterhouseCoopers Audit

23 March 2017
Moscow, Russian Federation

A. S. Ivanov, certified auditor (licence no. 01-000531), AO PricewaterhouseCoopers Audit

Audited entity: PJSC RusHydro

Certificate of inclusion in the Unified State Register of Legal Entities issued on 26 December 2004 under registration № 1042401810494

Krasnoyarsk, Krasnoyarsk Region, Russian Federation, 660017

Independent auditor:
AO PricewaterhouseCoopers Audit

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

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

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

ORNZ 11603050547 in the register of auditors and audit organizations

(in millions of Russian Rubles unless noted otherwise)

	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	7	765,047	744,585
Investments in associates and joint ventures	8	20,278	14,142
Available-for-sale financial assets	9	21,181	6,094
Deferred income tax assets	16	6,640	5,486
Other non-current assets	10	21,847	21,402
Total non-current assets		**834,993**	**791,709**
Current assets			
Cash and cash equivalents	11	67,354	48,025
Income tax receivable		889	1,396
Accounts receivable and prepayments	12	47,076	49,646
Inventories	13	24,037	23,999
Other current assets	14	9,097	22,574
		148,453	**145,640**
Non-current assets classified as held for sale		-	788
Total current assets		**148,453**	**146,428**
TOTAL ASSETS		**983,446**	**938,137**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	386,255	386,255
Treasury shares	15	(22,578)	(26,092)
Share premium		39,202	39,202
Retained earnings and other reserves		243,790	203,114
Equity attributable to the shareholders of PJSC RusHydro		**646,669**	**602,479**
Non-controlling interest		4,263	11,440
TOTAL EQUITY		**650,932**	**613,919**
Non-current liabilities			
Deferred income tax liabilities	16	39,086	37,034
Non-current debt	18	158,046	135,179
Other non-current liabilities	19	18,726	14,551
Total non-current liabilities		**215,858**	**186,764**
Current liabilities			
Current debt and current portion of non-current debt	18	41,757	62,214
Accounts payable and accruals	20	58,784	60,307
Current income tax payable		858	898
Other taxes payable	21	15,257	14,035
Total current liabilities		**116,656**	**137,454**
TOTAL LIABILITIES		**332,514**	**324,218**
TOTAL EQUITY AND LIABILITIES		**983,446**	**938,137**

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

Chief Accountant Y. G. Medvedeva

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

23 March 2017

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Revenue	22	374,072	347,512
Government grants	23	17,250	14,314
Other operating income	24	12,422	8,230
Operating expenses (excluding impairment losses)	25	(315,705)	(315,103)
Operating profit excluding impairment losses		**88,039**	**54,953**
Impairment of property, plant and equipment	7	(26,525)	(12,593)
Impairment of accounts receivable, net		(7,133)	(4,011)
Impairment of financial assets	10	(4,464)	-
Impairment of loans issued	14	(2,378)	-
Impairment of other non-current assets	10	-	(3,220)
Impairment of goodwill of subsidiary	10	-	(448)
Operating profit		**47,539**	**34,681**
Finance income	26	9,943	12,313
Finance costs	26	(9,041)	(9,744)
Share of results of associates and joint ventures	8	6,682	428
Profit before income tax		**55,123**	**37,678**
Income tax expense	16	(15,372)	(10,519)
Profit for the year		**39,751**	**27,159**
Attributable to:			
Shareholders of PJSC RusHydro		40,205	31,539
Non-controlling interest		(454)	(4,380)
Earnings per ordinary share for profit attributable to the shareholders of PJSC RusHydro – basic and diluted (in Russian Rubles per share)	27	0.1095	0.0865
Weighted average number of shares outstanding – basic and diluted (thousands of shares)	27	367,138,482	364,468,853

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Profit for the year		39,751	27,159
Other comprehensive income / (loss), net of tax:			
Items that will not be reclassified to profit or loss			
Impairment of revalued property, plant and equipment	7	(4,920)	(994)
Remeasurement of pension benefit obligations	17	(274)	(1,495)
Total items that will not be reclassified to profit or loss		**(5,194)**	**(2,489)**
Items that may be reclassified subsequently to profit or loss			
Profit arising on available-for-sale financial assets	9	15,050	1,962
Other comprehensive income / (loss)		5	(85)
Total items that may be reclassified subsequently to profit or loss		**15,055**	**1,877**
Other comprehensive income / (loss)		**9,861**	**(612)**
Total comprehensive income for the year		**49,612**	**26,547**
Attributable to:			
Shareholders of PJSC RusHydro		50,082	31,364
Non-controlling interest		(470)	(4,817)

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**55,123**	**37,678**
Depreciation of property, plant and equipment and amortisation of intangible assets	7, 25	24,130	22,477
Loss on disposal of property, plant and equipment, net	25	555	3,366
Share of results of associates and joint ventures	8	(6,682)	(428)
Other operating income	24	(12,422)	(8,230)
Finance income	26	(9,943)	(12,313)
Finance costs	26	9,041	9,744
Impairment of property, plant and equipment	7	26,525	12,593
Impairment of accounts receivable, net		7,133	4,011
Impairment of financial assets	10	4,464	-
Impairment of loans issued	14	2,378	-
Impairment of other non-current assets	10	-	3,220
Impairment of goodwill of subsidiary	10	-	448
Curtailment in pension payment and pension plan	17, 25	-	(717)
Pension expenses		128	84
Other income		(886)	(298)
Operating cash flows before working capital changes, income tax paid and changes in other assets and liabilities		**99,544**	**71,635**
Working capital changes:			
(Increase) / decrease in accounts receivable and prepayments		(9,243)	1,992
Increase in other current assets		(3,403)	-
Increase in inventories		(28)	(2,047)
Increase in accounts payable and accruals		1,013	1,450
(Decrease) / increase in other taxes payable		(199)	2,122
(Increase) / decrease in other non-current assets		(7,083)	967
Increase in other non-current liabilities		3,549	1,630
Income tax paid		(12,777)	(7,949)
Net cash generated by operating activities		**71,373**	**69,800**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(60,957)	(79,238)
Proceeds from sale of property, plant and equipment		266	3,386
Proceeds from sale of dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs	10	10,950	-
Investment in bank deposits and purchase of other investments		(9,993)	(56,789)
Redemption of bank deposits and proceeds from sale of other investments		25,477	75,817
Placement of special funds on special accounts		(6,998)	-
Return of special funds from special accounts		6,098	-
Proceeds from sale of subsidiaries, net of disposed cash	4	3,559	60
Purchase of shares of subsidiary	15	(414)	-
Purchase of subsidiaries from third parties, net of cash acquired		-	(651)
Proceeds from sale of investments in associates		-	81
Interest received		7,094	8,953
Net cash used in investing activities		**(24,918)**	**(48,381)**

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from current debt	18	64,855	83,896
Proceeds from non-current debt	18	71,829	36,487
Repayment of debt	18	(128,291)	(102,851)
Interest paid		(20,271)	(19,498)
Dividends paid to the shareholders of PJSC RusHydro		(14,228)	(5,712)
Dividends paid by subsidiaries to non-controlling interest holders		(234)	(102)
Proceeds from share issue	15	33	-
Finance lease payments		(530)	(804)
Net cash used in by financing activities		**(26,837)**	**(8,584)**
Foreign exchange difference on cash balances		(289)	796
Increase in cash and cash equivalents		**19,329**	**13,631**
Cash and cash equivalents at the beginning of the year		**48,025**	**34,394**
Cash and cash equivalents at the end of the year	**11**	**67,354**	**48,025**

RusHydro Group
Consolidated Statement of Changes in Equity
(in millions of Russian Rubles unless noted otherwise)

	Note	Share capital	Treasury shares	Share premium	Merger reserve	Foreign currency translation reserve	Revaluation reserve on property, plant and equipment	Revaluation reserve on available-for-sale financial assets	Reserve for remeasurement of pension benefit obligation	Retained earnings	Equity attributable to shareholders of PJSC RusHydro	Non-controlling interest	Total equity
As at 1 January 2015		**386,255**	**(26,092)**	**39,202**	**(135,075)**	**(362)**	**190,476**	**-**	**1,721**	**122,796**	**578,921**	**16,230**	**595,151**
Profit for the year		-	-	-	-	-	-	-	-	31,539	31,539	(4,380)	27,159
Profit arising on available-for-sale financial assets	9	-	-	-	-	-	-	1,952	-	-	1,952	10	1,962
Remeasurement of pension benefit obligations	17	-	-	-	-	-	-	-	(1,032)	-	(1,032)	(463)	(1,495)
Impairment of revalued property, plant and equipment	7	-	-	-	-	-	(994)	-	-	-	(994)	-	(994)
Other comprehensive loss		-	-	-	-	(112)	18	-	-	(7)	(101)	16	(85)
Total other comprehensive loss		-	-	-	-	(112)	(976)	1,952	(1,032)	(7)	(175)	(437)	(612)
Total comprehensive income		-	-	-	-	**(112)**	**(976)**	**1,952**	**(1,032)**	**31,532**	**31,364**	**(4,817)**	**26,547**
Dividends	15	-	-	-	-	-	-	-	-	(5,710)	(5,710)	(102)	(5,812)
Offer for shares of PJSC RAO ES East	15	-	-	-	-	-	-	-	-	(2,108)	(2,108)	-	(2,108)
Transfer of revaluation reserve to retained earnings		-	-	-	-	-	(948)	-	-	948	-	-	-
Effect of changes in non-controlling interest	15	-	-	-	-	-	-	-	-	12	12	129	141
As at 31 December 2015		**386,255**	**(26,092)**	**39,202**	**(135,075)**	**(474)**	**188,552**	**1,952**	**689**	**147,470**	**602,479**	**11,440**	**613,919**

(in millions of Russian Rubles unless noted otherwise)

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

Note 1. The Group and its operations

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2016 for PJSC RusHydro (hereinafter referred to as "the Company") and its subsidiaries (hereinafter referred to as the "Group").

The Company was incorporated and is domiciled in the Russian Federation. The Company is a joint stock company limited by shares and was set up in accordance with Russian regulations.

The Group's primary activities are generation and sale of electricity and capacity on the Russian wholesale and retail markets, as well as generation and sale of heat energy.

Economic environment in the Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 29). During 2016 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating is still below investment grade.

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.

Relations with the Government and current regulation. As at 31 December 2016 the Russian Federation owned 66.84 percent of the total voting ordinary shares of the Company (31 December 2015: 66.84 percent).

The Group's major customer base includes a large number of entities controlled by, or related to the Government. Furthermore, the Government controls contractors and suppliers, which provide the Group with electricity dispatch, transmission and distribution services, and a number of the Group's fuel and other suppliers (Note 6).

In addition, the Government affects the Group's operations through:

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

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

Overview of the electricity and capacity market. Capacity and electricity, while interrelated, are treated as separate economic products. The capacity market represents the obligation and ability to keep sufficient generation capability in reserve in order to satisfy a target level of potential demand, while the sale of electricity represents the actual delivery of electricity to the purchaser.

The Russian electricity and capacity market consists of wholesale and retail markets.

Participants of the wholesale market include: generating companies, electricity sales companies (including guaranteeing suppliers), electricity export / import operator, Federal Grid Company (in terms of electricity purchases to cover transmission losses), large electricity consumers. Participants of the wholesale market can act as electricity and capacity sellers and buyers.

Participants of the retail markets include: consumers, providers of public utilities, guaranteeing suppliers, electricity sales (supply) companies, electricity generators of retail markets, grid companies, participants of electricity dispatch.

Wholesale electricity and capacity market. The wholesale electricity and capacity market operates in accordance with the Resolution of the Russian Government No. 1172 dated 27 December 2010.

A wholesale market for electricity and capacity functions on the territory of the regions, which are integrated in pricing areas. European Russia and Urals are included in the first pricing area, Siberia is included in the second pricing area. In non-pricing areas (Arkhangelsk and Kaliningrad regions, Komi Republic, regions of the Far East), where the competitive market relationships are not possible due to technological reasons, sales of electricity and capacity are carried out based on special rules.

In the isolated energy systems which are not technically integrated into the country's unified energy system, there is no electricity and capacity wholesale market and electricity is supplied through the regulated markets.

Wholesale electricity market

The wholesale electricity market has a number of sectors varying in contractual terms, conditions and delivery timeframes: sector of regulated contracts, day-ahead market, sector of unregulated bilateral contracts and the balancing market.

During 2016 the electricity traded in pricing zones of wholesale market was sold at unregulated prices excluding volumes designated for delivery to population, groups of customers equivalent to population and customers located in North Caucasus and Republic of Tyva.

Electricity and capacity supply tariffs for the Russian Federation are calculated using the price indexing formulas determined by the Federal Tariff Service (hereinafter referred to as “the FTS”).

Electricity and capacity supply volumes are determined based on the estimated consolidated balance of electricity production and supply prepared by the FTS, so that for each electricity and capacity supplier, supply under regulated contracts does not exceed 35 percent of the total electricity and capacity supply to the wholesale market determined by the decision on balance for such supplier.

Electricity volumes that are not covered by the regulated contracts are sold at unregulated prices on the day-ahead market (DAM) and balancing market (BM).

DAM is a competitive selection of seller and buyer price bids on the day ahead of planned electricity supply, including prices and volumes for each of the following 24 hours. The selection is managed by the Commercial Operator of the wholesale market (JSC TSA). At the DAM, the price is determined by balancing the demand and supply, and such price is applied to all market participants. To mitigate the price manipulation risk, the DAM introduced a system encouraging the participants to submit competitive price bids – in accordance with the trading rules, the lowest price bids for electricity supply are satisfied first.

Price indices and trade volumes for the DAM are published daily on the web-site of JSC TSA.

Electricity volumes sold under bilateral contracts and at the DAM constitute scheduled electricity consumption. However, actual consumption is inevitably different from the planned one. Deviations from scheduled production / consumption are traded on a real-time basis on BM, and the System Operator of the wholesale market (OJSC SO UES) holds additional tenders to select bids every three hours.

Under unregulated bilateral contracts, the market participants independently determine supply counter parties, prices, timing and volumes.

Wholesale capacity market

Capacity is traded based on the following trading mechanisms:

- purchase / sale of capacity under capacity sales contracts, concluded as a result of capacity competitive selection of bids;
- purchase / sale of capacity under unregulated contracts;
- purchase / sale of capacity under contracts to provide capacity and under sale contracts of new nuclear power plants and hydroelectric power plants, similar to capacity sale contracts;
- purchase / sale of capacity produced by forced generators;
- purchase / sale of capacity under regulated contracts (within the volumes for delivery to population and groups of customers equivalent to population);
- purchase / sale of capacity produced by qualified renewable energy projects under contracts to provide capacity concluded on the results of the tender for the construction of renewable energy projects.

Competitive capacity selection (CCS) held by OJSC SO UES is the basis of the capacity market and determines which capacity will be paid the wholesale market.

The Resolution of the Russian Government No. 893 dated 27 August 2015 approved new rules for CCS and improved capacity trading principles on the wholesale market. Starting from 2016, capacity under the CCS will be annually selected for the year which is in three calendar years’ time from the year of the respective CCS. The CCS procedures are performed for the pricing zones not separated into free power transfer zones. Indexation is performed if CCS is conducted for more than one year ahead. The CCS price is indexed for CPI decreased by 1 percent for the period from 1 January of the year following the year when the CCS was conducted to 1 January of the year of supply.

The CCS price represents the maximum of prices in the selected bids and the price at which the demand function takes a value equal to the cumulative volume of the capacity selected (including the capacity to be paid irrespective of the CCS results). The CCS price for each pricing zone is the same for all selected generating facilities. Non-selected capacity that failed to pass through the competitive selection is not paid for. If the actual demand for capacity exceeds the volume of generating capacity selected, an adjusting CCS procedure can be conducted.

Capacity commissioned under capacity supply contracts (CSC) entered into with heating generation sites and contracts with nuclear power plants and hydropower plants similar to CSC and that of generating sites that are required to maintain the technological operating modes of the energy system or supply heat (“forced” generators) is paid for irrespective of the CCS results.

During 2016, similar to trading operations with electricity, capacity is supplied under regulated contracts only in the volumes required for supply to the population, equivalent consumer categories and consumers operating in some parts of the wholesale market pricing zones, comprising Russian constituent territories as determined by the Russian Government (North Caucasus and Republic of Tyva).

According to the Resolution of the Russian Government No. 374 dated 28 April 2015 approving changes to the regulations of the wholesale electricity and capacity market, all capacity of hydropower plants located in the second pricing area (Siberia) is supplied at the price of CCS from 1 May 2016.

Non-pricing zone of the Far East

Territories of the Amur Region, Primorsky Region, Khabarovsk Region, Jewish Autonomous Region and the Southern District of the Sakha Republic (Yakutia) are integrated into a single non-pricing zone of the wholesale electricity and capacity market of the Far East. There are specific features of managing electricity and capacity trading operations due to limitations in the competition among electricity suppliers and grid-imposed limitations for electricity flow.

Tariffs for electricity supplied by the Far East energy companies to the consumer (end-consumer tariffs) are approved by regional regulatory authorities based on the threshold tariff levels approved by the FTS for the regulated period.

The threshold tariff levels for electricity supplied to population or equivalent consumer categories and other consumers in the Russian constituent territories are determined by the FTS in accordance with the forecast of social and economic development in the Russian Federation for the regulated period.

The single buyer wholesale market model is implemented in the Far East non-pricing zone. Suppliers of the wholesale market supply electricity and capacity to the wholesale market using the tariffs established for them by the FTS.

The single buyer purchases electricity and capacity on the wholesale market at indicative prices calculated by JSC TSA based on the tariffs for suppliers of wholesale market approved by the FTS.

JSC TSA ensures settlements between the electricity suppliers and buyers. Functions of the single buyer are assigned to PJSC DEK, subsidiary of the Group, on the territory of Amur Region, Jewish Autonomous Region, Khabarovsk Region, Primorsky Region and the Southern District of the Sakha Republic (Yakutia).

However there are regions with only retail market operations – they are isolated energy systems of Kamchatsky Region, Magadan Region, Chukotsk Autonomous Region, Western and Central Regions of Sakha Republic (Yakutia) and Sakhalin Region where systems are not technically integrated into the unified energy system of the country.

Federal Law No. 508-FZ dated 28 December 2016 “On Amendments to the Federal Law“ On Electric Power Industry“ introduces a premium to the price for capacity in the first and second price zones, due to which tariffs in the Far East will be reduced to the average Russian level. This law is the law of indirect action. In early 2017, it is expected that the necessary subordinate legislation will be adopted to implement this support mechanism.

Retail electricity markets. In the retail electricity markets the sales of electricity purchased on the wholesale electricity and capacity market and electricity of generating companies which are not participants of the wholesale market are carried out.

The retail market rules were approved by Resolution of the Government No. 442 dated 4 May 2012 “On functioning of retail electricity markets, complete and (or) partial constraint of electricity consumption” (hereinafter referred to as “the retail market rules”).

In the territories of the constituent regions of the Russian Federation integrated into pricing zones of the wholesale market electricity is sold at unregulated prices except for electricity sales to population and equivalent consumer categories.

Electricity is supplied to population and groups of customers equivalent to population at regulated prices (tariffs) approved by executive authorities of the constituent regions of the Russian Federation in terms of state tariff regulation.

Regulated prices are established based on forecast of social and economic development of Russian Federation for the next year approved by the Government. The FTS determines the threshold levels for regulated tariffs for electricity supplied to population and equivalent consumer categories.

The guaranteeing suppliers sell electricity at unregulated prices within the threshold limits of unregulated prices determined and applied according to the retail market rules. Electricity sales (supply) companies sell electricity at unregulated prices. Electricity generators in the retail markets sell electricity at unregulated prices.

In the territories of the constituent regions of the Russian Federation integrated into non-pricing zones of the wholesale market for determination of prices for electricity supplied to final customers in the retail markets principles of prices translation of wholesale market are applied. Translation of prices of wholesale market is performed for all final customers except for population and equivalent consumer categories.

Translation prices calculated by electricity sales companies according to the Rules of application of the prices (tariffs) are determined based on regulated tariffs set up for the respective group of customers and cost of purchase of electricity and capacity by guaranteeing supplier (electricity sales company) in the wholesale market. Population and equivalent consumer categories pay for electricity under the tariffs set up by executive authorities of the constituent regions of the Russian Federation.

In the territories of isolated energy systems – sales of electricity to all consumer categories are carried out at regulated prices approved by the FTS and executive authorities of the constituent regions of the Russian Federation in terms of state tariff regulation in the territories where such energy systems are located.

Heating market. Operations of the heating market are regulated by Federal Law No.190-FZ “On Heating” dated 27 July 2010 and Resolution of the Government No. 1075 dated 22 October 2012 “On pricing of heating supply”.

The Group’s entities that are included into the segment RAO ES East Group are participants on the retail heating markets in the territories of their presence. Heat energy is supplied on the centralised basis from the heat power plants and boiling houses operated by the energy systems. And a number of energy systems are involved in supplies of heat, generating and distributing heat energy, while others – just generate heat energy.

Heating market provides for:

- supply of heat and heat transfer public utilities relating to hot water and heating supply needs;
- supply of heat for the entities’ technological needs.

According to the Russian legislation, sales of heat energy are fully regulated.

Prices (tariffs) for heat supplied by utilities for all consumer groups are approved by executive authorities in the Russian constituent regions responsible for state regulation of prices (tariffs) within the threshold limits of tariffs approved by the FTS. Starting from 2016, tariffs for heat energy supplied by heat suppliers to other customers are not limited to the maximum level of tariff growth, but the growth of tariffs for heat energy for the population and equivalent consumer categories is limited by the index of changes in the amount of utility payments paid by citizens for the subjects of the Russian Federation established by the Government of the Russian Federation on annual basis. Tariffs for heat energy produced in the mode of combined generation of electric and heat energy by heat energy sources with the installed generating capacity of electric power production of 25 MW or more are approved by the executive authorities of the subjects of the Russian Federation in the field of state regulation of prices (tariffs) within the limits of tariff levels approved by FTS.

Service fee for maintenance of spare heat capacity when there is no heat consumption and fee for connection to the system of heating supply are also regulated by executive authorities in the Russian constituent regions responsible for state regulation of prices.

Note 2. Summary of significant accounting policies

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

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

Functional and presentation currency. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, the Russian Ruble.

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

As at 31 December 2016, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between Russian Ruble and US Dollar (hereinafter referred to as "USD") was RR 60.66: USD 1.00 (31 December 2015: RR 72.88: USD 1.00), between Russian Ruble and Euro was RR 63.81: EUR 1.00 (31 December 2015: RR 79.70: EUR 1.00).

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

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

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

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

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

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

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

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

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment property. Investment property is property held by the Group to earn rental income which is not occupied by the Group (Note 10). Investment properties are stated at cost. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs of disposal. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Intangible assets and goodwill. The Group's intangible assets other than goodwill have definite useful lives and primarily include customer base acquired in business combination (Note 10), which is amortised over 5 years, and capitalised computer software. Intangible assets are amortised using the straight-line method over their useful lives. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of available-for-sale financial assets. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

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

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

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

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

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

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

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

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

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 consolidated statement of financial position as "non-current assets classified as 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 12 months after the reporting period. Assets are reclassified when all of the following conditions are met: (i) the assets are available for immediate sale in their present condition; (ii) the Group's management approved and initiated an active programme to locate a buyer; (iii) the assets are actively marketed for a sale at a reasonable price; (iv) the sale is expected within one year; and (v) 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 consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current and / 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. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. If reclassification is required, both the current and non-current portions of an asset are reclassified.

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

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.

Disposal groups or non-current assets that ceases to be classified as held for sale are measured at the lower of (i) its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale, and (ii) its recoverable amount at the date of the subsequent decision not to sell.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenue transactions under free bilateral contracts are shown net of related purchases of equivalent electricity volumes which the market participant is obliged to make in accordance with the industry regulations. For the year ended 31 December 2016 there was no additional turnover. For the year ended 31 December 2015 additional turnover in the amount of RR 6,288 million was shown net for presentation purposes to reflect the economic substance of transactions.

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

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

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

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

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

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

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

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

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

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

Critical accounting estimates and judgments in applying accounting policies

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

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

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

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

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

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

Reclassifications

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

Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective from 1 January 2016 but did not have any material impact on the Group's consolidated financial statements:

- Amendments Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued in May 2014 and effective for the periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

Note 3. New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted. These standards and interpretations have been approved for adoption in the Russian Federation unless noted otherwise.

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

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

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers *(issued in May 2014 and effective for the periods beginning on or after 1 January 2018).* The new 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 bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

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

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

Disclosure Initiative - Amendments to IAS 7 *(issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).* The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 financial statements.

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- 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).

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

(in millions of Russian Rubles unless noted otherwise)

Note 4. Principal subsidiaries

All principal subsidiaries are incorporated and operate in the Russian Federation. Differences between the ownership interest and voting interest held by some subsidiaries represent the effect of preference shares and / or effects of indirect ownership, or shares of limited liability companies (LLC).

The Group operates in the three main reportable segments one of which is represented by the Group's parent company – PJSC RusHydro (Note 5). The principal subsidiaries are presented below according to their allocation to the reportable segments as at 31 December 2016 and 31 December 2015.

ESC RusHydro subgroup segment

ESC RusHydro subgroup segment includes the Group's subsidiaries which sell electricity to final customers. All the entities included in this segment with the exception of JSC ESC RusHydro have the guaranteeing supplier status and are obliged to sign contracts on supplies with all final consumers of their region upon their request.

	31 December 2016		31 December 2015	
	% of ownership	% of voting	% of ownership	% of voting
JSC ESC RusHydro	100.00%	100.00%	100.00%	100.00%
PJSC Krasnoyarskenergosbyt	65.81%	69.40%	65.81%	69.40%
PJSC Ryazan Power Distributing Company	90.52%	90.52%	90.52%	90.52%
JSC Chuvashskaya energy retail company	100.00%	100.00%	100.00%	100.00%
LLC ESC Bashkortostan	-	-	100.00%	-

In December 2016 the Group completed the sale transaction of 100 percent shares of LLC ESC Bashkortostan (electricity sales company, guaranteeing supplier of electricity in the Republic of Bashkortostan) to Inter RAO Group. The total consideration amounted to RR 4,100 million including RR 3,600 million received in cash as at 31 December 2016 and deferred consideration of RR 500 million, that was received by the Group in February, 2017.

Net assets of LLC ESC Bashkortostan at the date of disposal are represented below:

Non-current assets	567
Cash and cash equivalents	41
Accounts receivable and prepayments	6,018
Other current assets	11
Total assets of LLC ESC Bashkortostan	**6,637**
Non-current liabilities	197
Current debt and current portion of non-current debt	2,220
Accounts payable and accruals	3,053
Taxes payable	115
Total liabilities of LLC ESC Bashkortostan	**5,585**
Net assets of LLC ESC Bashkortostan	**1,052**

Profit from the sale of LLC ESC Bashkortostan in the amount of RR 3,048 million is included in Other operating income.

	Date of disposal
Net assets of LLC ESC Bashkortostan	(1,052)
Fair value of consideration	4,100
Profit from the sale of LLC ESC Bashkortostan	**3,048**

(in millions of Russian Rubles unless noted otherwise)

RAO ES East subgroup segment

RAO ES East subgroup segment consists of PJSC RAO ES East and its subsidiaries that generate distribute and sell electricity and heat in the Far East region of the Russian Federation and render transportation, construction, repair and other services.

Principal subsidiaries of this segment are presented below:

	31 December 2016		31 December 2015	
	% of ownership	% of voting	% of ownership	% of voting
PJSC RAO ES East*	99.98%	99.98%	85.92%	86.20%
PJSC DEK	52.11%	52.17%	44.92%	52.17%
JSC DGK	52.11%	100.00%	44.92%	100.00%
JSC DRSK	52.11%	100.00%	44.92%	100.00%
PJSC Kamchatskenergo	98.72%	98.74%	84.83%	98.74%
PJSC Magadanenergo**	48.99%	49.00%	42.10%	49.00%
PJSC Sakhalinenergo	57.80%	57.82%	49.67%	57.82%
PJSC Yakutskenergo	79.15%	79.16%	72.21%	79.16%

** Voting and ownership percent interests in PJSC RAO ES East as at 31 December 2016 include 15.59 percent interest held by the Group's subsidiary LLC Vostok-Finance (31 December 2015: 1.81 percent).*

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

The Group's share in PJSC RAO ES East and its subsidiaries increased as a result of voluntary and obligatory offers to purchase shares of PJSC RAO ES East (Note 15).

Other segments

Other segments include:

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

Principal subsidiaries included in other segments are presented below:

	31 December 2016		31 December 2015	
	% of ownership	% of voting	% of ownership	% of voting
JSC Blagoveschensk HPP	100.00%	100.00%	100.00%	100.00%
JSC VNIIG	100.00%	100.00%	100.00%	100.00%
JSC Geotherm	99.65%	99.65%	99.65%	99.65%
JSC Gidroremont-VKK	100.00%	100.00%	100.00%	100.00%
JSC Zagorskaya GAES-2	100.00%	100.00%	100.00%	100.00%
JSC Zaramag HS	99.75%	99.75%	99.75%	99.75%
JSC Institute Hydroproject	100.00%	100.00%	100.00%	100.00%
PJSC Kolimaenergo	98.76%	98.76%	98.76%	98.76%
JSC Lenhydroproject	100.00%	100.00%	100.00%	100.00%
JSC NIIES	100.00%	100.00%	100.00%	100.00%
JSC Nizhne-Bureiskaya HPP	100.00%	100.00%	100.00%	100.00%
JSC Sahalin GRES-2	100.00%	100.00%	100.00%	100.00%
JSC Sulak GidroKaskad	100.00%	100.00%	100.00%	100.00%
JSC HPP in Sovetskaya Gavan	100.00%	100.00%	100.00%	100.00%
JSC Ust'-Srednekangesstroy	98.76%	100.00%	98.76%	100.00%
JSC Ust'-Srednekanskaya HPP	99.63%	100.00%	99.63%	100.00%
JSC Chirkeigesstroy	100.00%	100.00%	100.00%	100.00%
JSC ESCO UES	100.00%	100.00%	100.00%	100.00%
JSC Yakutskaya GRES-2	100.00%	100.00%	100.00%	100.00%

(in millions of Russian Rubles unless noted otherwise)

Non-controlling interest

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

	RAO ES East subgroup		including DEK subgroup	
Financial position	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
Share of non-controlling interest	0.02%	14.08%	47.89%	55.08%
Share of voting rights, attributable to non-controlling interest	0.02%	13.80%	47.83%	47.83%
Non-current assets	114,628	104,873	65,407	57,183
Current assets	57,587	57,638	25,645	23,993
Non-current liabilities	(87,668)	(57,768)	(61,392)	(35,095)
Current liabilities	(74,421)	(88,518)	(33,433)	(54,549)
Net assets / (liabilities)	**10,126**	**16,225**	**(3,773)**	**(8,468)**
Carrying value of non-controlling interest	**3,014**	**9,732**	**(421)**	**(2,656)**
Financial results	**Year ended 31 December 2016**	**Year ended 31 December 2015**	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Revenue	175,545	162,713	119,179	109,327
(Loss) / profit for the year	(6,184)	(7,518)	1,573	(8,756)
Total comprehensive (loss) / income for the year	(6,397)	(8,410)	1,744	(9,402)
(Loss)/ profit for the year, attributable to non-controlling interest	(221)	(4,621)	1,641	(4,522)
Changes in other comprehensive (loss) / income, attributable to non-controlling interest	(110)	(446)	114	(59)
Cash flows				
Cash generated by operating activities	12,982	10,919	11,397	5,592
Cash used in investing activities	(17,632)	(14,854)	(6,093)	(6,406)
Cash (used in) / generated by financing activities	(355)	1,786	(4,980)	(191)
(Decrease) / increase in cash and cash equivalents	**(5,005)**	**(2,149)**	**324**	**(1,005)**

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

Note 5. Segment information

Operating segments are components of the Group engaged in operations from which they may earn revenue and incur expenses, including revenue and expenses relating to transactions with other components of the Group. The individual financial information of the operating segments, which based on the same principles as the present consolidated financial statements, is available and is regularly reviewed by the chief operating decision maker (CODM) to make operating decisions about resources to be allocated to the segments and the performance of the segments' operating activities.

The CODM analyses the information concerning the Group by the groups of operations which are aggregated in operating segments presented by the following separate reportable segments: PJSC RusHydro (the Group's parent company), ESC RusHydro subgroup, RAO ES East subgroup and other segments (Note 4). Transactions of other segments are not disclosed as reportable segments based on quantitative indicators for the periods presented.

Management of operating activities of segments is performed with direct participation of individual segment managers accountable to the CODM. Segment managers on a regular basis submit for approval to the CODM results of operating activities and financial performance of segments. The CODM approves the annual business plan at the level of reportable segments as well as analyses actual financial performance of segments. Management bears responsibility for execution of approved plan and management of operating activities at the level of segments.

The segments' operational results are estimated on the basis of EBITDA, which is calculated as operating profit / loss excluding insurance indemnity, depreciation of property, plant and equipment and amortisation of intangible assets, impairment of property, plant and equipment, impairment of other non-current assets, impairment of financial assets, impairment of goodwill, impairment of available-for-sale financial assets, of accounts receivable, of long-term promissory notes, loss on disposal of property, plant and equipment, gain on disposal of subsidiaries and associates, profit on disposal of other non-current assets, curtailment in pension payment and pension plan and other non-monetary items of operating expenses. This method of definition of EBITDA may differ from the methods applied by other companies. CODM believes that EBITDA represents the most useful means of assessing the performance of ongoing operating activities of the Company and the Group's subsidiaries, as it reflects the earnings trends without showing the impact of certain charges.

Segment information also contains capital expenditures and the amount of debt as these indicators are analysed by the CODM. Intersegment debt's balances are excluded.

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

Intersegment sales are carried out at market prices.

Segment information for the years ended 31 December 2016 and 31 December 2015 and as at 31 December 2016 and 31 December 2015 is presented below:

(in millions of Russian Rubles unless noted otherwise)

Year ended 31 December 2016	PJSC RusHydro	ESC RusHydro subgroup	RAO ES East subgroup	Other segments	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	**115,037**	**88,748**	**175,545**	**29,502**	**408,832**	**(34,760)**	**374,072**
including:							
from external companies	*104,441*	*88,715*	*174,716*	*6,200*	***374,072***	*-*	***374,072***
sales of electricity	*74,802*	*87,595*	*109,586*	*599*	***272,582***	*-*	***272,582***
sales of heat and hot water sales	*168*	*-*	*38,681*	*-*	***38,849***	*-*	***38,849***
sales of capacity	*28,881*	*-*	*7,795*	*392*	***37,068***	*-*	***37,068***
other revenue	*590*	*1,120*	*18,654*	*5,209*	***25,573***	*-*	***25,573***
from intercompany operations	*10,596*	*33*	*829*	*23,302*	***34,760***	*(34,760)*	***-***
Government grants	-	-	17,184	66	**17,250**	-	**17,250**
Other operating income (excluding non-monetary items)	29	1	82	340	**452**	(17)	**435**
Operating expenses (excluding depreciation and other non-monetary items)	(39,707)	(85,869)	(168,917)	(29,788)	**(324,281)**	32,865	**(291,416)**
EBITDA	**75,359**	**2,880**	**23,894**	**120**	**102,253**	**(1,912)**	**100,341**
Insurance indemnity	-	-	-	1,737	**1,737**	**-**	**1,737**
Depreciation of property, plant and equipment and amortisation of intangible assets	(13,641)	(752)	(7,747)	(2,247)	**(24,387)**	257	**(24,130)**
Other non-monetary items of operating income and expenses	**(3,078)**	**881**	**(12,501)**	**(15,711)**	**(30,409)**	**-**	**(30,409)**
including:							
impairment of property, plant and equipment	*(6,743)*	*-*	*(5,581)*	*(14,201)*	***(26,525)***	*-*	***(26,525)***
profit on disposal of other non-current assets	*7,202*	*-*	*-*	*-*	***7,202***	*-*	***7,202***
impairment of financial assets	*-*	*(243)*	*(3,120)*	*(1,101)*	***(4,464)***	*-*	***(4,464)***
impairment of loans issued	*(2,378)*	*-*	*-*	*-*	***(2,378)***	*-*	***(2,378)***
impairment of accounts receivable, net	*(1,014)*	*(1,911)*	*(3,968)*	*(240)*	***(7,133)***	*-*	***(7,133)***
loss on disposal of property, plant and equipment, net	*(145)*	*(13)*	*(228)*	*(169)*	***(555)***	*-*	***(555)***
gain on disposal of subsidiaries and associates	*-*	*3,048*	*396*	*-*	***3,444***	*-*	***3,444***
Operating profit / (loss)	**58,640**	**3,009**	**3,646**	**(16,101)**	**49,194**	**(1,655)**	**47,539**
Finance income							9,943
Finance costs							(9,041)
Share of results of associates and joint ventures							6,682
Profit before income tax							**55,123**
Total income tax expense							(15,372)
Profit for the year							**39,751**
Capital expenditure	**29,987**	**204**	**20,809**	**27,366**	**78,366**	**2,699**	**81,065**
31 December 2016							
Non-current and current debt	**107,274**	**550**	**86,912**	**5,067**	**199,803**	**-**	**199,803**

(in millions of Russian Rubles unless noted otherwise)

Year ended 31 December 2015	PJSC RusHydro	ESC RusHydro subgroup	RAO ES East subgroup	Other segments	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	**100,826**	**86,955**	**162,713**	**28,113**	**378,607**	**(31,095)**	**347,512**
including:							
from external companies	*90,960*	*86,925*	*162,441*	*7,186*	***347,512***	*-*	***347,512***
sales of electricity	*64,198*	*85,850*	*104,021*	*449*	***254,518***	*-*	***254,518***
sales of heat and hot water sales	*154*	*-*	*35,227*	*-*	***35,381***	*-*	***35,381***
sales of capacity	*25,611*	*-*	*7,047*	*380*	***33,038***	*-*	***33,038***
other revenue	*997*	*1,075*	*16,146*	*6,357*	***24,575***	*-*	***24,575***
from intercompany operations	*9,866*	*30*	*272*	*20,927*	***31,095***	*(31,095)*	***-***
Government grants	-	-	14,268	46	**14,314**	-	**14,314**
Other operating income (excluding non-monetary items)	-	-	498	800	**1,298**	(4)	**1,294**
Operating expenses (excluding depreciation and other non-monetary items)	(41,387)	(84,075)	(164,682)	(29,206)	**(319,350)**	29,613	**(289,737)**
EBITDA	**59,439**	**2,880**	**12,797**	**(247)**	**74,869**	**(1,486)**	**73,383**
Insurance indemnity	-	-	-	6,471	**6,471**	-	**6,471**
Depreciation of property, plant and equipment and amortisation of intangible assets	(12,523)	(826)	(7,624)	(1,769)	**(22,742)**	265	**(22,477)**
Other non-monetary items of operating income and expenses	**(12,586)**	**(1,387)**	**(3,547)**	**(5,014)**	**(22,534)**	**(162)**	**(22,696)**
including:							
impairment of property, plant and equipment	*(9,747)*	*-*	*(1,953)*	*(893)*	***(12,593)***	*-*	***(12,593)***
impairment of other non-current assets	*(3,220)*	*-*	*-*	*-*	***(3,220)***	*-*	***(3,220)***
impairment of goodwill of subsidiary	*-*	*-*	*-*	*(448)*	***(448)***	*-*	***(448)***
reversal / (impairment) of accounts receivable, net	*1,078*	*(1,345)*	*(3,021)*	*(723)*	***(4,011)***	*-*	***(4,011)***
(loss) / profit on disposal of property, plant and equipment, net	*(537)*	*(42)*	*59*	*(2,950)*	***(3,470)***	*104*	***(3,366)***
curtailment in pension payment and pension plan	*-*	*-*	*717*	*-*	***717***	*-*	***717***
(loss) / gain on disposal of subsidiaries and associates	*(160)*	*-*	*651*	*-*	***491***	*(266)*	***225***
Operating profit / (loss)	**34,330**	**667**	**1,626**	**(559)**	**36,064**	**(1,383)**	**34,681**
Finance income							12,313
Finance costs							(9,744)
Share of results of associates and joint ventures							428
Profit before income tax							**37,678**
Total income tax expense							(10,519)
Profit for the year							**27,159**
Capital expenditure	**35,206**	**223**	**19,554**	**41,956**	**96,939**	**4,896**	**101,835**
31 December 2015							
Non-current and current debt	**121,861**	**1,847**	**68,019**	**5,666**	**197,393**	**-**	**197,393**

(in millions of Russian Rubles unless noted otherwise)

Note 6. Related party transactions

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

The Group's principal related parties for the years ended 31 December 2015 and 31 December 2015 were joint ventures, associates of the Group (Note 8) and government-related entities.

Joint ventures

The Group had the following balances with its joint ventures:

	Note	31 December 2015	31 December 2015
Promissory notes	10	6,269	5,711
Advances to suppliers		800	-
Loans issued		15	2,725
Loans received		750	750

The Group had the following transactions with its joint ventures:

	Year ended 31 December 2016	Year ended 31 December 2015
Sales of electricity and capacity	931	851
Other revenue	648	778
Purchased electricity and capacity	2,811	2,149

Associates

The Group had the following balances with its associates:

	Year ended 31 December 2016	Year ended 31 December 2015
Trade and other receivables	491	440
Accounts payable	781	481

The Group had the following transactions with its associates:

	Year ended 31 December 2016	Year ended 31 December 2015
Sales of electricity and capacity	2,679	2,351
Other revenue	137	258
Rent	521	447
Purchased electricity and capacity	17	19

Government-related entities

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

The Group had transactions during the years ended 31 December 2016 and 31 December 2015 and balances outstanding as at 31 December 2016 and 31 December 2015 with the following government-related banks: SC Vnesheconombank, PJSC Sberbank, JSC Rosselkhozbank, Bank GPB (JSC), PJSC VTB Bank, OJSC Bank of Moscow, PJSC VTB24 (Notes 10, 11, 14, 18). All transactions are carried out on market rates.

The Group's sales of electricity, capacity and heat to government-related entities comprised approximately 30 percent of total sales of electricity, capacity and heat for the year ended 31 December 2016 (for the year ended 31 December 2015: approximately 30 percent). Sales of electricity and capacity under the regulated contracts are conducted directly to the consumers, within the day-ahead market (DAM) – through commission agreements with JSC Centre of Financial Settlements (CFS). Electricity and capacity supply tariffs under the regulated contracts and electricity and heating supply tariffs in non-pricing zone of the Far East are approved by FTS and by regional regulatory authorities of the Russian Federation. On DAM the price is determined by balancing the demand and supply and such price is applied to all market participants. During the period the Group received government subsidies in amount of RR 17,250 million (in 2015 in the amount of RR 14,314 million) (Note 23).

The Group's purchases of electricity, capacity and fuel from government-related entities comprised approximately 20 percent of total expenses on purchased electricity, capacity and fuel for the year ended 31 December 2016 (for the year ended 31 December 2015: approximately 20 percent).

Electricity distribution services provided to the Group by government-related entities comprised approximately 60 percent of total electricity distribution expenses for the year ended 31 December 2016 (for the year ended 31 December 2015: approximately 50 percent). The distribution of electricity is subject to tariff regulations.

Key management of the Group. Key management of the Group includes members of the Board of Directors of the Company, members of the Management Board of the Company, heads of the business subdivisions of the Company and their deputies, key management of subsidiaries of RAO ES East subgroup segment.

Remuneration to the members of the Board of Directors of the Company for their services in their capacity and for attending Board meetings is paid depending on the results for the year and is calculated based on specific remuneration policy approved by the Annual General Shareholders Meeting of the Company.

Remuneration to the members of the Management Board and to other key management of the Group is paid for their services in full time management positions and is made up of a contractual salary and performance bonuses depending on the results of the work for the period based on key performance indicators approved by the Board of Directors of the Company.

Main compensation for Key management of the Group generally is short-term excluding future payments under pension plans with defined benefits. Pension benefits for key management of the Group are provided on the same terms as for the rest of employees.

Short-term remuneration paid to the key management of the Group for the year ended 31 December 2016 comprised RR 1,419 million including accrual for bonuses in the amount of RR 165 million (for the year ended 31 December 2015: RR 2,174 million).

(in millions of Russian Rubles unless noted otherwise)

Note 7. Property, plant and equipment

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

Revalued amount / cost	Buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Balance as at 31 December 2014	**81,110**	**378,702**	**226,137**	**256,121**	**14,925**	**956,995**
Impairment of revalued property, plant and equipment	(26)	(1,160)	(56)	-	-	(1,242)
Reclassification	(55)	89	(1,806)	2,597	(825)	-
Additions	979	808	1,611	97,417	1,020	101,835
Reclassification to non-current assets and assets of disposal group classified as held for sale	(880)	-	-	-	-	(880)
Transfers	2,925	20,357	43,503	(67,292)	507	-
Disposals and write-offs	(166)	(103)	(876)	(3,551)	(1,981)	(6,677)
Balance as at 31 December 2015	**83,887**	**398,693**	**268,513**	**285,292**	**13,646**	**1,050,031**
Accumulated depreciation (including impairment)						
Balance as at 31 December 2014	**(29,504)**	**(116,411)**	**(89,161)**	**(29,062)**	**(6,667)**	**(270,805)**
Impairment charge	(644)	(4,318)	(2,180)	(6,143)	(55)	(13,340)
Reversal of impairment	346	94	299	8	-	747
Depreciation charge	(2,152)	(8,302)	(11,782)	-	(1,439)	(23,675)
Reclassification to non-current assets and assets of disposal group classified as held for sale	92	-	-	-	-	92
Transfers	12	(2,741)	(3,607)	5,819	517	-
Disposals and write-offs	47	22	550	186	730	1,535
Balance as at 31 December 2015	**(31,803)**	**(131,656)**	**(105,881)**	**(29,192)**	**(6,914)**	**(305,446)**
Net book value as at 31 December 2015	**52,084**	**267,037**	**162,632**	**256,100**	**6,732**	**744,585**
Net book value as at 31 December 2014	**51,606**	**262,291**	**136,976**	**227,059**	**8,258**	**686,190**

As at 31 December 2016 included in the net book value of the property, plant and equipment are office buildings and plots of land owned by the Group in the amount of RR 7,745 million (31 December 2015: RR 7,793 million) which are stated at cost.

Assets under construction represent the expenditures for property, plant and equipment that are being constructed, including hydropower plants under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2016 such advances amounted to RR 47,105 million (31 December 2015: RR 59,531 million).

Additions to assets under construction included capitalised borrowing costs in the amount of RR 14,276 million, the capitalisation rate was 10.55 percent (for the year ended 31 December 2015: RR 14,706 million, the capitalisation rate was 11.28 percent).

Additions to assets under construction included capitalised depreciation in the amount of RR 1,042 million (for the year ended 31 December 2015: RR 1,088 million).

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

Management of the Group considers that the carrying amount of property, plant and equipment as at 31 December 2016 and 31 December 2015 does not differ materially from their fair value at the end of the reporting period.

Process of fair value of property, plant and equipment assessment

Management of the Group determines the fair value of property, plant and equipment according to the following procedures.

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

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

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

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

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

(in millions of Russian Rubles unless noted otherwise)

Impairment of property, plant and equipment as at 31 December 2016 and 31 December 2015

The following key assumptions were used when the cash flow testing was performed for the years ended 31 December 2016 and 31 December 2015:

Key assumptions used in the cash flow testing	Year ended 31 December 2016	Year ended 31 December 2015
Information used	Actual operating results for 2016 and business plans for 2017–2022	Actual operating results for 2015 and business plans for 2016–2021
Forecast period*	For existing plants 10 years (2017–2026) For plants under construction - 20 years after commissioning and before the completion of capacity sale contracts (2017–2040) For cash-generating units of the Far East - 11-25 years (2017–2041)	For existing plants 10 years (2016–2025) For plants under construction - 20 years after commissioning and before the completion of capacity sale contracts (2016–2039) For cash-generating units of the Far East - 11-25 years (2016–2040)
Forecasted growth rates in terminal period	3.83 percent	4.0 percent
Discount rate before tax (based on weighted average cost of capital)	14.45–17.4 percent (RR)	14.97–16.8 percent (RR)
Forecast of electricity and capacity tariffs in the isolated energy systems and in non-pricing zone of the Far East	Based on methodology of tariffs calculation adopted by regulatory authority	
Forecast of electricity and capacity prices in competitive market	Based on the forecast of JSC TSA and forecast rates on energy prices growth prepared by the Ministry of Economic Development of RF	
Forecast of capacity prices related to competitive capacity selection	For 2017–2020 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used For 2021 and after – adjusted on consumer index price and forecasts of JSC TSA	For 2016–2019 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used For 2020 and after – adjusted on consumer index price and forecasts of JSC TSA
Forecast of electricity and capacity volumes	Based on the Company's management assessment of future trends in the business	
Forecast of capital expenditures	Based on the management valuation of capital expenditures on modernisation and reconstruction programme	

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

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

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

As a result of analysis of property, plant and equipment of the Group on impairment as at 31 December 2016 an impairment loss in the amount of RR 33,099 million was recognised in the Consolidated Income Statement and decrease of previously recognised revaluation reserve in the amount of RR 6,150 million (before income tax of RR 1,230 million) – in other comprehensive loss, the effects relate mainly to the following cash-generating units:

- Saratovskaya HPP – impairment loss in the amount of RR 3,368 million and decrease of previous revaluation reserve in the amount of RR 2,585 million;
- Blagoveschenskaya TPP – impairment loss in the amount of RR 4,731 million;
- Leningradskaya PSHPP – impairment loss in the amount of RR 4,337 million;

(in millions of Russian Rubles unless noted otherwise)

- Votkinskaya HPP – impairment loss in the amount of RR 1,901 million and decrease of previous revaluation reserve in the amount of RR 2,418 million;
- Sakhalinenergo – impairment loss in the amount of RR 3,101 million and decrease of previous revaluation reserve in the amount of RR 76 million;
- Magadanenergo – impairment loss in the amount of RR 2,525 million and decrease of previous revaluation reserve in the amount of RR 9 million;
- Kabardino-Balkarian branch – impairment loss in the amount of RR 1,606 million and decrease of previous revaluation reserve in the amount of RR 301 million;
- Yakutskenergo – impairment loss in the amount of RR 1,261 million and decrease of previous revaluation reserve in the amount of RR 407 million;
- Sakhaenergo – impairment loss in the amount of RR 1,165 million;
- Kamchatskenergo – impairment loss in the amount of RR 1,093 million;
- Cascade Verkhnevolszhskih HPP – impairment loss in the amount of RR 725 million and decrease of previous revaluation reserve in the amount of RR 345 million.

At the same time, a reversal of impairment in the amount of RR 6,582 million was recognised in the Consolidated Income Statement in respect of respect of the following cash-generating units impaired in previous periods:

- Khabarovskaya Generation – in the amount of RR 3,680 million;
- Sayno-Shushenskaya HPP – in the amount of RR 2,137 million;
- Primorskaya Generation – in the amount of RR 765 million.

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

As a result of property, plant and equipment impairment as at 31 December 2015 its net book value decreased by the total amount of RR 13,835 million. As a result, impairment loss in the amount of RR 12,593 million was recognised in Consolidated Income Statement and decrease of previous revaluation reserve in the amount of RR 1,242 million (before income tax of RR 248 million) – in other comprehensive loss.

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

	Production buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Net book value as at 31 December 2016	34,278	111,189	169,428	264,645	2,134	581,674
Net book value as at 31 December 2015	29,793	111,249	152,336	260,080	1,492	554,950

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

Other operating income for the year ended 31 December 2016 include insurance indemnity received from JSC SOGAZ in the amount of RR 1,384 million (for the year ended 31 December 2015: RR 868 million) and from JSC AlfaStrakhovanie in the amount of RR 353 million (for the year ended 31 December 2015: RR 847 million). For the year ended 31 December 2015 insurance indemnity from PIJSC Ingosstrakh in the amount of RR 4,756 million was also recognised.

(in millions of Russian Rubles unless noted otherwise)

For the year ended 31 December 2016 a loss on disposal of damaged equipment and assets under construction which are not recoverable was recognised in Operating expenses in the amount of RR 15 million. Also for the year ended 31 December 2016 the Group has carried expenses on recovery works in the total amount of RR 1 585 million which are recognized in the following items of Operating expenses: other third parties services, other materials, employee benefit expenses, rent expenses.

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

Management of the Group believes that property, plant and equipment at Zagorskaya GAES-2 is not impaired as at 31 December 2016 as there were capacity supply contracts concluded in respect of new power generation facilities of Zagorskaya GAES-2, that guarantee the payback period of 20 years for the total cost of construction for the period. The carrying amount of Zagorskaya GAES-2 property, plant and equipment is RR 61,142 million.

Leased equipment. As at 31 December 2016 the net book value of assets held under finance lease and included in property, plant and equipment was RR 1,964 million (31 December 2015: RR 3,107 million). Assets held under finance lease were mainly represented by plant and equipment.

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

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

	31 December 2016	31 December 2015
Less than one year	2,175	2,309
Between one and five years	7,404	3,826
After five years	30,524	38,852
Total	**40,103**	**44,987**

Pledged assets. As at 31 December 2016 RR and 31 December 201 5no property, plant and equipment have been pledged as collateral for borrowings.

Note 8. Investments in associates and joint ventures

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

	Place of business	% held		Carrying value	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
Associates					
OJSC Irkutsk Electronetwork Company (OJSC IENC)	Russia	42.75%	42.75%	7,528	7,777
OJSC Sakhalin Energy Company (OJSC SEC)	Russia	36.09%	36.09%	1,982	3,429
Other				193	172
Total associates				**9,703**	**11,378**
Joint ventures					
BoGES Group	Russia	50.00%	50.00%	9,230	1,229
BALP Group	Russia	50.00%	50.00%	-	-
Other				1,345	1,535
Total joint ventures				**10,575**	**2,764**
Total investments in associates and joint ventures				**20,278**	**14,142**

(in millions of Russian Rubles unless noted otherwise)

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

	Year ended 31 December 2016	Year ended 31 December 2015
Associates		
OJSC IENC	(249)	(283)
OJSC SEC	(1,447)	(12)
Other	24	(19)
Total associates	**(1,672)**	**(314)**
Joint ventures		
BoGES Group	8,546	684
BALP Group	-	-
Other	(192)	58
Total joint ventures	**8,354**	**742**
Share of results of associates and joint ventures	**6,682**	**428**

Associates

OJSC Irkutsk Electronetwork Company (OJSC IENC)

OJSC IENC maintains electric power transmission grids with voltage of 220-500 kV and distribution grids with voltage of 0.4-110 kV in the Irkutsk region.

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

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

OJSC Sakhalin Energy Company (OJSC SEC)

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

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

Summarised financial information for significant associates for the years ended 31 December 2016 and 31 December 2015 and as at 31 December 2016 and 31 December 2015:

	OJSC SEC		OJSC IENC	
As at 31 December	**2016**	**2015**	**2016**	**2015**
Non-current asssets	7,407	11,242	24,169	24,862
Current assets	1,066	761	1,151	1,037
Non-current liabilities	-	(12)	(1,814)	(1,571)
Current liabilities	(543)	(54)	(8,111)	(8,350)
Net assets	**7,930**	**11,937**	**15,395**	**15,978**
For the year ended 31 December	**2016**	**2015**	**2016**	**2015**
Revenue	535	449	18,809	16,995
Impairment of property, plant and equipment	(4,921)	-	-	-
Loss for the year	**(4,007)**	**(35)**	**(583)**	**(661)**
Total comprehensive loss for the year	**(4,007)**	**(35)**	**(583)**	**(661)**

(in millions of Russian Rubles unless noted otherwise)

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

	OJSC SEC	OJSC IENC	Others	Total
Net assets as at 31 December 2014	**10,972**	**16,639**	**1,026**	**28,637**
Loss for the year	(35)	(661)	(32)	(728)
Additional share issue	1,000	-	-	1,000
Disposal	-	-	(402)	(402)
Reclassification to available-for-sale financial assets	-	-	19	19
Net assets as at 31 December 2015	**11,937**	**15,978**	**611**	**28,526**
Interest in associates	4,308	6,831	172	11,311
Goodwill	-	946	-	946
Additional share issues	(879)	-	-	(879)
Carrying value as at 31 December 2015	**3,429**	**7,777**	**172**	**11,378**
Net assets as at 31 December 2015	**11,937**	**15,978**	**611**	**28,526**
Loss for the year	(4,007)	(583)	90	(4,500)
Net assets as at 31 December 2016	**7,930**	**15,395**	**701**	**24,026**
Interest in associates	2,861	6,582	193	9,636
Goodwill	-	946	-	946
Other movement	(879)	-	-	(879)
Carrying value as at 31 December 2016	**1,982**	**7,528**	**193**	**9,703**

Joint ventures

BoGES Group and BALP Group

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

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

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

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

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

(in millions of Russian Rubles unless noted otherwise)

Summarised financial information for significant joint ventures for the years ended 31 December 2016 and 31 December 2015 and as at 31 December 2016 and 31 December 2015:

	BoGES Group		BALP Group	
As at 31 December	**2016**	**2015**	**2016**	**2015**
Non-current assets	66,472	45,007	27,476	1,475
Current assets including:	3,140	3,681	6,208	6,315
Cash and cash equivalents	898	442	1,141	498
Non-current liabilities including:	(43,932)	(44,343)	(93,907)	(96,872)
Non-current financial liabilities (excluding trade payables)	(38,021)	(37,715)	(93,907)	(96,872)
Current liabilities including:	(7,236)	(1,918)	(2,172)	(3,877)
Current financial liabilities (excluding trade payables)	(835)	(678)	(16)	(3)
Net assets	**18,444**	**2,427**	**(62,395)**	**(92,959)**
For the year ended 31 December	**2016**	**2015**	**2016**	**2015**
Revenue	16,141	14,632	23,155	11,558
Depreciation of property, plant and equipment	(1,192)	(1,191)	(1,717)	(111)
Impairment of promissory notes	(6,000)	(5,780)	-	-
Interest income	877	489	-	7
Interest expense	(3,412)	(2,849)	(7,901)	(6,460)
Foreign exchange differences	(2)	(10)	14,713	(19,118)
Reversal / (impairment) of property, plant and equipment	25,390	-	23,402	(3,869)
Profit / (loss) before income tax	**19,484**	**(125)**	**30,564**	**(30,123)**
Income tax (expense) / benefit	(3,467)	500	-	(13,201)
Profit / (loss) for the year	**16,017**	**375**	**30,564**	**(43,324)**
Total comprehensive income / (loss) for the year	**16,017**	**375**	**30,564**	**(43,324)**

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

	BoGES Group	BALP Group	Others	Total
Net assets as at 31 December 2014	**2,052**	**(49,635)**	**2,105**	**(45,478)**
Net assets at the date of the purchase	-	-	1,003	1,003
Profit / (loss) for the year	375	(43,324)	(623)	(43,572)
Net assets as at 31 December 2015	**2,427**	**(92,959)**	**2,485**	**(88,047)**
Interest in joint ventures	1,214	(46,480)	1,129	(44,137)
Non-controlling interest	15	-	-	15
Accumulated losses	-	46,480	406	46,886
Carrying value as at 31 December 2015	**1,229**	**-**	**1,535**	**2,764**
Net assets as at 31 December 2015	**2,427**	**(92,959)**	**2,485**	**(88,047)**
Profit for the year	16,017	30,564	44	47,569
Net assets as at 31 December 2016	**18,444**	**(62,395)**	**2,529**	**(41,422)**
Interest in joint ventures	9,222	(31,198)	1,146	(20,830)
Non-controlling interest	8	-	-	8
Accumulated losses	-	31,198	199	31,397
Carrying value as at 31 December 2016	**9,230**	**-**	**1,345**	**10,575**

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

(in millions of Russian Rubles unless noted otherwise)

Note 9. Available-for-sale financial assets

	31 December 2016		31 December 2015	
	% of ownership	Fair value	% of ownership	Fair value
PJSC Inter RAO	4.92%	19,495	4.92%	5,606
PJSC Russian Grids	0.23%	638	0.28%	228
PJSC Boguchanskaya HPP	2.89%	505	2.89%	-
PJSC FGC UES	0.13%	338	0.13%	99
Other	-	205	-	161
Total available-for-sale financial assets		**21,181**		**6,094**

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

Profit arising on available-for-sale financial assets for the year ended 31 December 2016 totaled RR 15,050 million (net of tax), including revaluation of PJSC Inter RAO – RR 13,889 million, was recorded within other comprehensive income (for the year ended 31 December 2015 loss totaled RR 1,962 million).

Note 10. Other non-current assets

	31 December 2016	31 December 2015
Long-term promissory notes	38,931	38,189
Discount	(16,415)	(16,946)
Impairment provision	(14,025)	(14,025)
Long-term promissory notes, net	8,491	7,218
Long-term advances to suppliers	3,173	60
VAT recoverable	2,036	2,546
Goodwill	481	481
Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs	-	2,164
Customer base of LLC ESC Bashkortostan	-	553
Other non-current assets	7,666	8,380
Total other non-current assets	**21,847**	**21,402**

Other non-current assets in the amount of RR 7,666 million (31 December 2015: RR 8,380 million) mainly include intangible assets, research and development costs and long-term accounts receivable. Also included in other non-current assets is the amortised value of cash and deposits placed with Peresvet Bank of RR 217 million. The amortised value of these assets was determined using the discounted cash flows expected from the conversion of the balance of RR 4,681 million into convertible bonds of Peresvet Bank (Note 11) with recognition of impairment of financial assets in the amount of RR 4,464 million.

	Rating	Rating agency	Effective interest rate	Maturity date	31 December 2016	31 December 2015
Long-term promissory notes						
PJSC Boguchanskaya HPP	-	-	9.75%	2029	6,269	5,711
PJSC ROSBANK	Ba1	Moody's	10.90–14.58%	2020–2022	888	784
JSC Alfa Bank	BB+	Fitch Ratings	11.39–16.35%	2020–2022	761	673
PJSC Bank VTB	BB+	Standard & Poor's	11.82–13.67%	2018–2021	511	-
Other					62	50
Total long-term promissory notes					**8,491**	**7,218**

Promissory notes of PJSC Boguchanskaya HPP. As at 31 December 2016 the amortised cost of interest-free long-term promissory notes of PJSC Boguchanskaya HPP (payable not earlier than 31 December 2029 with total nominal value of RR 21,027 million) pledged as collateral to the State Corporation Vnesheconombank amounted to RR 6,269 million (31 December 2015: RR 5,711 million) (Note 8).

(in millions of Russian Rubles unless noted otherwise)

Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs. In November 2016 the Group completed the transaction to sell dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs to EuroSibEnergo Group. These dams are part of technological complex of EuroSibEnergo's cascade of hydropower plants located on the Angara river. The dams were received by the Company in 2011 in course of additional share issue and were leased by EuroSibEnergo Group before the sale. The transaction amount is RR 10,950 million (including VAT). Profit from the dams' sale is included in Other operating income (Note 24).

Goodwill. Presented below is the carrying value of goodwill:

	Year ended 31 December 2016	Year ended 31 December 2015
Carrying amount as of 1 January	**481**	**929**
Impairment loss	-	(448)
Carrying amount as of 31 December	**481**	**481**

Goodwill of JSC Institute Hydroproject. Goodwill of RR 929 million was recognised at the date of the acquisition of JSC Institute Hydroproject in October 2010 as the Group was able to receive economic benefits from the expected synergy from the high qualification of engineering specialists and long-term relationships between JSC Institute Hydroproject and customers, including the Group entities.

As at 31 December 2016 and 31 December 2015, the Group tested goodwill related to JSC Institute Hydroproject for its potential impairment. For the testing purposes, JSC Institute Hydroproject was considered as a single cash generating asset.

Presented below are key assumptions used for the impairment testing purposes for the years ended 31 December 2016 and 31 December 2015:

Key assumptions used for the impairment testing purposes	For the year ended 31 December 2016	For the year ended 31 December 2015
Information used	Actual performance for 2016 and results of business plans for 2017-2021	Actual performance for 2015 and results of business plans for 2016-2020
Forecast period	5 years	5 years
Growth interest rate after the forecast period	4.0 percent	4.0 percent
Discount rate	15.6 percent	15.6 percent
Net cash inflow after the forecast period	Minimum expectation: RR 57 million in 2017, RR 148 million in 2018, RR 186 million in 2019, RR 217 million in 2020, RR 236 million in 2021	Minimum expectation: RR 148 million in 2016, RR 67 million in 2017, RR 94 million in 2018, RR 110 million in 2019, RR 122 million in 2020
Net cash inflow after the forecast period	Minimum expectation: RR 255 million per year	Minimum expectation: RR 114 million per year

Based on the above assumptions, as at 31 December 2016 the recoverable amount of JSC Institute Hydroproject as a cash generating asset was higher than the carrying amount - there is no economic impairment. As at 31 December 2015 recoverable amount of JSC Institute Hydroproject as a cash generating asset was less than the carrying amount and the Group recognised impairment if goodwill in the amount of RR 448 million.

Note 11. Cash and cash equivalents

	31 December 2016	31 December 2015
Cash equivalents (contractual interest rate: 6.72-10.94%)	52,594	36,137
Cash at bank	14,738	11,857
Cash in hand	22	31
Total cash and cash equivalents	**67,354**	**48,025**

Cash equivalents held as at 31 December 2016 and 31 December 2015 comprised short-term bank deposits with original maturities of three months or less.

Cash and cash equivalents balances denominated in US Dollars as at 31 December 2016 were RR 736 million (31 December 2015: RR 2,801 million). Cash and cash equivalents balances denominated in Euros as at 31 December 2016 were RR 67 million (31 December 2015: RR 61 million).

(in millions of Russian Rubles unless noted otherwise)

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

	Rating	Rating agency	31 December 2016	31 December 2015
Cash at banks				
Bank GPB (JSC)	BB+	Fitch Ratings	7,255	3,573
PJSC Sberbank	BBB-	Fitch Ratings	4,281	4,630
PJSC Bank VTB	BB+	Standard & Poor’s	2,047	719
PJSC ROSBANK	BBB-	Fitch Ratings	387	124
PJSC Bank FK Otkritie	BB-	Standard & Poor’s	169	63
CJSC ARDSHINBANK	B+	Fitch Ratings	157	170
PJSC VTB24	Ba1	Moody's	67	230
JSC Alfa-Bank	BB+	Fitch Ratings	12	364
Peresvet Bank	-	-	-	1,405
Other	-	-	363	579
Total cash at banks			**14,738**	**11,857**
Bank deposits				
PJSC Bank VTB	BB+	Standard & Poor’s	23,152	4,832
Bank GPB (JSC)	BB+	Fitch Ratings	13,922	2,084
PJSC Sberbank	BBB-	Fitch Ratings	13,283	8,992
JSC Rosselkhozbank	BB+	Fitch Ratings	838	519
PJSC Promsvyazbank	BB-	Standard & Poor’s	536	-
PJSC Bank FK Otkritie	BB-	Standard & Poor’s	525	7,753
PJSC VTB24	Ba1	Moody's	322	6
Peresvet Bank	-	-	-	6,280
Sviaz-Bank	-	-	-	2,724
JSC Bank Severny Morskoy Put	-	-	-	1,875
GLOBEXBANK	-	-	-	1,000
Other	-	-	16	72
Total cash equivalents			**52,594**	**36,137**

Group’s Cash and Deposits with Peresvet Bank

On 21 October 2016 the Russian Central Bank introduced the temporary administration in Peresvet Bank for a period of six months due to Peresvet Bank’s failure to discharge its creditors' claims on monetary liabilities within the established period and in order to determine the financial position and future perspectives of the credit institution. At the same time, in accordance with the Russian law ‘On Insolvency’ a moratorium on discharge of Peresvet Bank creditors’ claims for a period of three months was imposed, which was extended for another three month on 23 January 2017.

On 20 February 2017 functions of temporary administration of Peresvet Bank were assigned to the State Corporation Deposit Insurance Agency.

The temporary administration of Peresvet Bank has proposed to convert part of Peresvet Bank’s monetary obligations into the bank’s convertible bonds due in 15 years. This will allow the bank to partially settle its obligations.

As at 31 December 2016 cash and deposits placed with Peresvet Bank together with interest accrued on deposits totalled RUB 5,507 million. Under the proposed action plan which the Group’s management considers most likely based on the information available as of the date of the issue of these consolidated financial statements, the Group’s cash and deposits are to be converted to subordinated bonds of Peresvet Bank in the amount of RUB 4,681 million or 85% of the total cash and deposits. These assets are recorded within Other non-current assets at amortised value (Note 10). The remaining RUB 826 million of cash is recorded as restricted cash within Other current assets because its receipt is expected within 12 months of the reporting date (Note 14).

(in millions of Russian Rubles unless noted otherwise)

Note 12. Accounts receivable and prepayments

	31 December 2016	31 December 2015
Trade receivables	56,936	55,075
Provision for impairment of trade receivables	(23,900)	(20,158)
Trade receivables, net	**33,036**	**34,917**
VAT recoverable	**7,329**	**8,156**
Advances to suppliers and other prepayments	2,617	3,540
Provision for impairment of advances to suppliers and other prepayments	(629)	(1,021)
Advances to suppliers and other prepayments, net	**1,988**	**2,519**
Other receivables	8,485	7,248
Provision for impairment of other receivables	(3,762)	(3,194)
Other receivables, net	**4,723**	**4,054**
Total accounts receivable and prepayments	**47,076**	**49,646**

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

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

	Year ended 31 December 2016	Year ended 31 December 2015
As at 1 January	23,352	21,526
Charge for the year	8,541	6,650
Reversal of impairment	(1,304)	(3,808)
Trade receivables written-off as uncollectible	(1,678)	(1,016)
Disposal of impairment provision due to disposal of subsidiaries	(1,249)	-
As at 31 December	**27,662**	**23,352**

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

	31 December 2016	Provision as at 31 December 2016	31 December 2015	Provision as at 31 December 2015
Not past due	29,547	(1,652)	29,622	(2,426)
Past due for less than 3 months	6,098	(1,378)	6,655	(1,260)
Past due for 3 months to 1 year	9,343	(5,228)	7,499	(2,834)
Past due for more than 1 year	20,052	(19,404)	17,959	(16,832)
Total	**65,040**	**(27,662)**	**61,735**	**(23,352)**

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

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

Note 13. Inventories

	31 December 2016	31 December 2015
Fuel	14,825	14,291
Materials and supplies	6,402	6,555
Spare parts	2,539	2,782
Other materials	565	606
Total inventories before provision for impairment	**24,331**	**24,234**
Provision for impairment of inventories	**(294)**	**(235)**
Total inventories	**24,037**	**23,999**

There are no inventories pledged as collateral for borrowings as at 31 December 2016 and as at 31 December 2015.

(in millions of Russian Rubles unless noted otherwise)

Note 14. Other current assets

	31 December 2016	31 December 2015
Special funds	**3,507**	**-**
Deposits and promissory notes	**4,292**	**19,532**
Restricted cash (Note 11)	**826**	**-**
Loans issued	2,808	2,837
Provision for loans issued	(2,498)	(109)
Loans issued, net	**310**	**2,728**
Other short-term investments	**162**	**314**
Total other current assets	**9,097**	**22,574**

As at 31 December 2016 the rest of special funds in the amount of RR 3,507 million received by the Group to fund construction of generating facilities are located on special accounts of the Federal Treasury of Russia. These special funds may be used by the Group only after the due procedure of expenditure approval performed by the Federal Treasury of Russia according to the Order of Ministry of Finance of the Russian Federation No. 213n dated 25 December 2015.

As at 31 December 2016 the Group impaired loans issued to ZAO Verkhne-Narynskye HPPs in the amount of RR 2,378 million due to denouncement of agreements between Russian Government and Kyrgyzstan Republic on construction of upper Naryn cascade of hydropower plants.

	Rating	Rating agency	Effective interest rate	31 December 2016	31 December 2015
Deposits					
PJSC Sberbank	BBB-	Fitch Ratings	7.25–10.85%	4,140	18,322
Other deposits	-	-	-	150	1,168
Promissory notes					
JSC Alfa-Bank	-	-	-	-	35
Other promissory notes	-	-	-	2	7
Total deposits and promissory notes				**4,292**	**19,532**

Note 15. Equity

	Number of issued and fully paid ordinary shares (Par value of RR 1.00)
As at 31 December 2016	386,255,464,890
As at 31 December 2015	386,255,464,890
As at 31 December 2014	386,255,464,890

Treasury shares. As at 31 December 2016 treasury shares were represented by 18,852,353,167 ordinary shares in the amount of RR 22,578 million (31 December 2015: 21,786,611,933 ordinary shares in the amount of RR 26,092 million).

During the year ended 31 December 2016, 2,934,258,766 treasury shares were transferred to non-controlling interest shareholders of PJSC RAO ES East in exchange for purchased shares of the subsidiary under voluntary and obligatory offers to purchase shares of PJSC RAO ES East as described below.

Voluntary and obligatory offers to purchase shares of PJSC RAO ES East. On 3 November 2015 in accordance with decision of the Board of Directors of the Company LLC Vostok-Finance, a subsidiary of the Group, declared a voluntary offer to purchase shares of PJSC RAO ES East. Under the voluntary offer, shareholders of PJSC RAO ES East could choose to sell their ordinary and preferred shares of PJSC RAO ES East for a cash consideration or exchange them for ordinary shares of the Company.

During 2016, PJSC RAO ES East non-controlling interest shareholders that accepted terms of the voluntary offer transferred 4,715,738,904 ordinary shares and 346,195,762 preference shares of PJSC RAO ES East to LLC Vostok-Finance for a cash consideration of RR 34 million and in exchange for 2,934,258,766 shares of the Company in the amount of RR 3,514 million.

According to current Russian legislation repurchase of more than 10 percent and consolidation of more than 95 percent of PJSC RAO ES East shares allowed the Group to make an obligatory offer to the remaining shareholders to sell their shares.

(in millions of Russian Rubles unless noted otherwise)

Under the obligatory offer to purchase shares LLC Vostok-Finance has purchased 887,217,472 ordinary shares and 312,687,580 preference shares of PJSC RAO ES East for a cash consideration of RR 380 million.

As a result of voluntary and obligatory purchase of PJSC RAO ES East's shares as at 31 December 2016 the share of the Group in share capital of the PJSC RAO ES East increased up to 99.98 percent (Note 4).

Effect of changes in non-controlling interest of subsidiaries. As a result of the voluntary and obligatory offers to purchase shares of PJSC RAO ES East as described above non-controlling interest decreased by RR 6,694 million.

Retained earnings of the Group increased by RR 4,872 million as a result of treasury shares disposal, decrease in non-controlling interest and derecognition of the remaining obligation to purchase shares after they were partly purchased for cash.

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

In March 2015 the Group's share in subsidiaries OJSC Daltehenergo and OJSC Guberovskiy machinery and repair plant was sold. In October 2015 share in JSC Kamchatskenergoremont was sold. During the year ended 31 December 2015 LLC Energokomfort Amur electricity wholesale company and JSC Amyrskaya Zhemchuzhina went bankrupt, also in June 2015 OJSC Kamchatskenergoremservis was liquidated. As a result non-controlling interest increased by RR 141 million due to decrease of share in losses of these subsidiaries previously absorbed by shareholders of the Group.

Additional share issue. On 22 November 2016 the Board of Directors adopted a resolution to make a placement of 40,429,000,000 ordinary shares with a par value of RR 1.00 per share by open subscription. The placement price of additional issue shares is determined at RR 1.00 per share. On 7 December 2016 the share issue of 40,429,000,000 ordinary shares was registered with the Bank of Russia (Note 34).

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

On 26 June 2015 the Company declared dividends for the year ended 31 December 2014 of RR 0.0156 per share in the total amount of RR 6,033 million (RR 5,710 million excluding dividends to subsidiaries).

Declared dividends of the Group's subsidiaries in favour of non-controlling interest holders amounted to RR 234 million for the year ended 31 December 2016 (for the year ended 31 December 2015: RR 102 million).

Note 16. Income tax

Income tax expense is as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax expense	13,258	8,881
Deferred income tax expense	2,114	1,638
Total income tax expense	**15,372**	**10,519**

The income tax rate applicable to the majority of the Group's entities for the year ended 31 December 2016 is 20 percent (for the year ended 31 December 2015: 20 percent).

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

	Year ended 31 December 2016	Year ended 31 December 2015
Profit before income tax	**55,123**	**37,678**
Theoretical tax expense at a statutory rate of 20 percent	(11,025)	(7,536)
Tax effect of items which are not deductible or assessable for taxation purposes	(1,827)	(1,230)
Increase in other unrecognised deferred tax assets	(4,003)	(2,465)
Change in unrecognised deferred tax assets in respect of associates and joint ventures	1,336	86
Other	147	626
Total income tax expense	**(15,372)**	**(10,519)**

(in millions of Russian Rubles unless noted otherwise)

The total amount of deductible temporary differences for which deferred income tax assets have not been recognised by the Group as at 31 December 2016 comprised RR 80,055 million (31 December 2015: RR 64,285 million). These temporary differences mainly relate to accumulated impairment of property, plant and equipment, assets under construction and pension liabilities of several Group's subsidiaries.

Deferred income tax. Differences between IFRS and statutory taxation regulations in the Russian Federation give rise to temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20 percent (for the year ended 31 December 2015: 20 percent).

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

	31 December 2014	Income tax charge	Charged directly to other comprehensive income	Reclassification of discontinued operations and disposal of subsidiaries	31 December 2015
Deferred income tax assets	**5,355**	**(142)**	**259**	**14**	**5,486**
Property, plant and equipment	3,425	76	-	15	3,516
Accounts receivable	5,799	704	-	6	6,509
Losses carried forward	1,574	(217)	-	(7)	1,350
Other	2,622	914	259	-	3,795
Deferred tax offset	*(8,065)*	*(1,619)*	-	-	*(9,684)*
Deferred income tax liabilities	**(35,891)**	**(1,496)**	**353**	**-**	**(37,034)**
Property, plant and equipment	(43,303)	(2,977)	239	-	(46,041)
Accounts receivable	(122)	63	-	-	(59)
Loans and borrowings	(115)	(263)	-	-	(378)
Other	(416)	62	114	-	(240)
Deferred tax offset	*8,065*	*1,619*	-	-	*9,684*

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

(in millions of Russian Rubles unless noted otherwise)

Note 17. Pension benefit obligations

The tables below provide information about the benefit obligations and actuarial assumptions used for the years ended 31 December 2016 and 31 December 2015.

Amounts recognised in the Group's Consolidated Statement of Financial Position among other non-current liabilities (Note 19):

	31 December 2016	31 December 2015
Fair value of plan assets	(1,090)	(1,084)
Present value of defined benefit obligations	9,894	9,470
Net liability	**8,804**	**8,386**

The movements in the defined benefit liability for the years ended 31 December 2016 and 31 December 2015 are presented in the tables below:

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

(in millions of Russian Rubles unless noted otherwise)

	Present value of defined benefit obligations	Fair value of plan assets	Total
At 1 January 2015	**7,874**	**(986)**	**6,888**
Current service cost	338	-	338
Interest expense / (income)	968	(128)	840
Past service cost	(58)	-	(58)
Curtailment in pension payment	(717)	-	(717)
Decrease in liabilities as a result of curtailments	(83)	-	(83)
Remeasurement effects (for other long-term benefits):			
Actuarial loss - changes in actuarial assumptions	86	-	86
Actuarial gain - experience adjustment	(1)	-	(1)
Recognised in profit or loss for the year ended 31 December 2015	**533**	**(128)**	**405**
Remeasurements (for post-employment benefits):			
Actuarial loss - change in demographic assumptions	112	-	112
Actuarial loss - change in financial assumptions	1,435	-	1,435
Actuarial loss - experience adjustments	249	72	321
Recognised other comprehensive income for the year ended 31 December 2015 before income tax charge of RR 374 million	**1,796**	**72**	**1,868**
Employer contributions for funded pension plan	-	(297)	(297)
Benefit payments (Funding NSPF pensions)	(438)	255	(183)
Benefit payments (Non-funded pension plan)	(295)	-	(295)
At 31 December 2015	**9,470**	**(1,084)**	**8,386**

In December 2015 JSC DGK decided to partially reduce payments to the unemployed pensioners. Also in accordance with the new collective agreement some conditions and the amount of benefits to employees have changed. As a result the Group recognized RR 717 million gain for the year ended 31 December 2015 (Note 25).

Principal actuarial assumptions for the Group are as follows:

	31 December 2016	31 December 2015
Nominal discount rate	8.20%	9.80%
Inflation rate	5.00%	6.00%
Wage growth rate	6.50%	7.50%
Staff turnover	Staff turnover depending on age based on statistics for three years	
Mortality table	Russia-2014*	Russia-2013*

* *Taking into account the pull down adjustment calculated based on statistical data of mortality for employees of the Group of age till 60 years old for years 2012–2016 (31 December 2015: 2012–2015)*

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

	Change in assumption	Effect on net liability	Effect on net liability, %
Nominal discount rate	+ 1%	(821)	-8%
	- 1%	930	9%
Inflation rate	+ 1%	613	6%
	- 1%	(556)	-6%
Wage growth rate	+ 1%	325	3%
	- 1%	(319)	-3%
Staff turnover	+ 3%	(1,035)	-10%
	- 3%	1,483	15%
Mortality Rates	+ 10%	(169)	-2%
	- 10%	142	1%

The Group expects to contribute RR 642 million to the defined benefit plans in 2017.

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

(in millions of Russian Rubles unless noted otherwise)

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

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

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

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

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

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

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

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

Note 18. Current and non-current debt

Non-current debt

	Effective interest rate	Due date	31 December 2016	31 December 2015
PJSC Sberbank	7.99–13.20% / MosPrime 3M+2.10%	2017–2028	56,491	47,865
PJSC Bank VTB	8.39–11.50%	2017–2027	29,516	4,522
Russian bonds (PJSC RusHydro) issued in February 2013	8.50%	2018*	20,645	20,635
Russian bonds (PJSC RusHydro) issued in July 2015	11.85%	2018	15,857	15,840
Russian bonds (PJSC RusHydro) issued in April 2016	10.35%	2019	15,347	-
Russian bonds (PJSC RusHydro) issued in April 2015	12.75%	2017*	10,222	10,214
PJSC ROSBANK	9.72–10.36%	2017–2018	8,136	4,909
Bank GPB (JSC)	9.75–11.09%	2017–2023	6,171	469
UniCredit Bank Austria AG	3.35%**	2017–2026	5,242	6,585
Crédit Agricole Corporate and Investment Bank Deutschland	Euribor 6M+0.625%	2018–2029	4,920	6,252
EBRD	MosPrime 3M+1.50–3.45% / LIBOR 6M+3.45%	2017–2027	4,791	20,280
Municipal authority of Kamchatka region	8.57%	2017–2034	1,561	1,535
ASIAN Development bank	LIBOR 6M+3.45%	2017–2026	1,474	1,787
Russian bonds (PJSC RusHydro) issued in April 2011	9.50%	2021***	250	15,240
Bayerische Landesbank	-	-	-	1,212
Other long-term debt	-	-	1,776	1,404
Finance lease liabilities	-	-	1,973	2,262
Total			**184,372**	**161,011**
Less current portion of non-current			(25,758)	(25,159)
Less current portion of finance lease liabilities			(568)	(673)
Total non-current debt			**158,046**	**135,179**

** The bonds mature in 10 years with a put option to redeem them in 2018, 2016 and 2017 respectively.*

*** Fixed interest rate applied to 90 percent of the credit facility, to the rest 10 percent of the facility the quarterly variable export finance rate published by OeKB (Oesterreichische Kontrollbank AG) less 0.25 percent is applied.*

**** In April 2016 holders of the bonds issued in April 2011 partly redeemed the bonds under the put option. The rest of the bonds with nominal amount of RR 250 million will mature in 2021 year.*

(in millions of Russian Rubles unless noted otherwise)

Bonds issue. In April 2016 the Group placed non-convertible interest bearing market bonds of series BO-P04 with a nominal amount of RR 15,000 million. The term of the offer is 3 years, coupon rate is 10.35 percent per annum.

Current debt

	Effective interest rate	31 December 2016	31 December 2015
PJSC Sberbank	10.44–12.00%	5,854	19,668
PJSC ROSBANK	9.90–12.39%	4,755	6,776
Bank GPB (JSC)	9.75–11.50%	3,031	7,038
LLC AlstomRusHydroEnergy	-*	750	750
Bank «RRDB» (JSC)	11.63%	150	966
JSC Alfa-Bank	-	-	501
Current portion of non-current debt	-	25,758	25,159
Current portion of finance lease liabilities	-	568	673
Other current debt	-	891	683
Total current debt and current portion of non-current debt		**41,757**	**62,214**
Reference:			
Interest payable		3,044	2,942

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

Compliance with covenants. The Group is subject to certain covenants related primarily to its debt. As at 31 December 2016 and 31 December 2015 and during the reporting period the Group met all required covenant clauses of the credit agreements.

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

	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments as at 31 December 2016	**601**	**855**	**4,287**	**5,743**
Less future finance charges	(33)	(373)	(3,364)	(3,770)
Present value of minimum lease payments as at 31 December 2016	**568**	**482**	**923**	**1,973**
Minimum lease payments as at 31 December 2015	**706**	**1,116**	**4,546**	**6,368**
Less future finance charges	(33)	(475)	(3,598)	(4,106)
Present value of minimum lease payments as at 31 December 2015	**673**	**641**	**948**	**2,262**

Note 19. Other non-current liabilities

	31 December 2016	31 December 2015
Pension benefit obligations (Note 17)	8,804	8,386
Other non-current liabilities	9,922	6,165
Total other non-current liabilities	**18,726**	**14,551**

Note 20. Accounts payable and accruals

	31 December 2016	31 December 2015
Trade payables	31,451	33,475
Advances received	9,712	9,849
Settlements with personnel	8,245	8,410
Accounts payable under factoring agreements	2,957	4,071
Dividends payable	136	86
Obligation to PJSC RAO ES East shares purchase (Note 15)	3	2,108
Other accounts payable	6,280	2,308
Total accounts payable and accruals	**58,784**	**60,307**

All accounts payable and accruals are denominated in Russian Rubles.

(in millions of Russian Rubles unless noted otherwise)

Note 21. Other taxes payable

	31 December 2016	31 December 2015
VAT	9,833	8,085
Insurance contributions	2,925	2,864
Property tax	1,941	2,159
Other taxes	558	927
Total other taxes payable	**15,257**	**14,035**

Note 22. Revenue

	Year ended 31 December 2016	Year ended 31 December 2015
Sales of electricity	272,582	254,518
Sales of heat and hot water	38,849	35,381
Sales of capacity	37,068	33,038
Other revenue	25,573	24,575
Total revenue	**374,072**	**347,512**

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

Note 23. Government grants

In accordance with legislation of the Russian Federation several companies of the Group are entitled to government subsidies for compensation of the difference between approved economically viable electricity and heat tariffs and actual reduced tariffs and for compensation of losses on purchased fuel. During the year ended 31 December 2016 the Group received government subsidies in the amount of RR 17,250 million (for the year ended 31 December 2015: RR 14,314 million) in the following subsidised territories: Kamchatsky territory, the Sakha Republic (Yakutia), Magadan Region and other Far East regions.

Note 24. Other operating income

	Year ended 31 December 2016	Year ended 31 December 2015
Gain on sales of other non-current assets (Note 10) and non-current assets classified as held for sale	7,443	743
Gain on sales of subsidiaries (Notes 4, 15)	3,048	709
Insurance indemnity	1,931	6,778
Total other operating income	**12,422**	**8,230**

Gain on sales of other non-current assets and non-current assets classified as held for sale includes the gain on the sale of the dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs in the amount of RR 7,202 million (Note 10).

(in millions of Russian Rubles unless noted otherwise)

Note 25. Operating expenses (excluding impairment losses)

	Year ended 31 December 2016	Year ended 31 December 2015
Employee benefit expenses (including payroll taxes and pension benefit expenses)	71,768	72,871
Purchased electricity and capacity	57,610	60,805
Fuel expenses	54,561	54,087
Electricity distribution expenses	46,722	42,663
Depreciation of property, plant and equipment and amortisation of intangible assets	24,130	22,477
Taxes other than on income	10,233	9,792
Other materials	9,115	9,202
Third parties services, including:		
Repairs and maintenance	4,507	5,055
Provision of functioning of electricity and capacity market	3,642	3,737
Purchase and transportation of heat power	3,442	3,102
Security expenses	3,369	3,279
Services of subcontracting companies	2,465	4,249
Rent	2,155	2,111
Insurance cost	1,983	1,572
Consulting, legal and information expenses	1,911	2,340
Transportation expenses	1,213	1,108
Other third parties services	8,052	6,376
Water usage expenses	3,202	2,844
Social charges	1,319	1,445
Purchase of oil products for sale	1,065	673
Travel expenses	804	1,798
Loss on disposal of property, plant and equipment, net	555	3,366
Curtailment in pension payment and pension plan	-	(717)
Other expenses	1,882	868
Total operating expenses (excluding impairment losses)	**315,705**	**315,103**

Note 26. Finance income, costs

	Year ended 31 December 2016	Year ended 31 December 2015
Finance income		
Interest income	6,779	9,620
Foreign exchange gain	2,782	2,316
Income on discounting	118	132
Other income	264	245
Total finance income	**9,943**	**12,313**
Finance costs		
Interest expense	(6,813)	(5,762)
Foreign exchange loss	(454)	(1,744)
Expense on discounting	(407)	(885)
Finance lease expense	(295)	(241)
Other costs	(1,072)	(1,112)
Total finance costs	**(9,041)**	**(9,744)**

(in millions of Russian Rubles unless noted otherwise)

Note 27. Earnings per share

	Year ended 31 December 2016	Year ended 31 December 2015
Weighted average number of ordinary shares issued (thousands of shares)	367,138,482	364,468,853
Profit for the period attributable to the shareholders of PJSC RusHydro	40,205	31,539
Earnings per share attributable to the shareholders of PJSC RusHydro – basic and diluted (in Russian Rubles per share)	**0.1095**	**0.0865**

Note 28. Capital commitments

In accordance with investment programme of the Company and separate investment programmes of the subsidiaries, the Group has to invest RR 243,975 million for the period 2017-2019 for reconstruction of the existing and construction of new power plants (31 December 2015: RR 327,128 million for the period 2016-2018).

Capital commitments of the Group as at 31 December 2016 are as follows: 2017 – RR 115,791 million, 2018 – RR 77,133 million, 2019 – RR 51,051 million.

Future capital expenditures are mainly related to reconstruction of equipment of power plants: Zhigulevskaya HPP in the amount of RR 8,902 million, Votkinskaya HPP in the amount of RR 8,629 million, Volzhskaya HPP in the amount of RR 8,373 million; and to construction of power plants: Zaramagskie HPP in the amount of RR 23,298 million, Sakhalin GRES-2 in the amount of RR 20,882 million, Nizhne-Bureiskaya HPP in the amount of RR 13,328 million, Ust'-Srednekanskaya HPP in the amount of RR 10,367 million.

Note 29. Contingencies

Social commitments. The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates. In the opinion of management there are no significant liabilities that should have been recognised at the reporting date.

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

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

Tax contingencies. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management may be challenged by tax authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

During 2016 the Group's subsidiaries had controlled transactions and transactions which highly probably will be considered by tax authorities to be controlled based on the results of the year 2016. Management implemented internal controls to be in compliance with the new transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

(in millions of Russian Rubles unless noted otherwise)

Management believes that as at 31 December 2016 its interpretation of the relevant legislation was appropriate and the Group's tax position would be sustained.

New provisions aimed at deoffshorisation of Russian economy have been added to the Russian tax legislation and are effective from 1 January 2015. Specifically, they introduce new rules for controlled foreign companies, a concept of beneficiary owner of income for the purposes of application of preferential provisions of taxation treaties of the Russian Federation, a concept of tax residency for foreign persons and taxation of indirect sale of Russian real estate assets.

The Group is currently assessing the effects of new tax rules on the Group's operations and takes necessary steps to comply with the new requirements of the Russian tax legislation. However, in view of the recent introduction of the above provisions and insufficient related administrative and court practice, at present the probability of claims from Russian tax authorities and probability of favourable outcome of tax disputes (if they arise) cannot be reliably estimated. Tax disputes (if any) may have an impact on the Group's financial position and results.

Environmental matters. The Group's subsidiaries and their predecessor entities have operated in the utilities industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group's subsidiaries periodically evaluate their obligations under environmental regulations. Group accrued assets retirement obligation for ash damps used by the Group which is included in other non-current liabilities and other accounts payable and comprised RR 1 048 million as at 31 December 2016 (31 December 2015: RR 683 million).

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Guarantees. The Group has issued guarantees for CJSC Boguchansky Aluminium Plant in favour of its suppliers for future equipment deliveries and for PJSC Boguchanskaya HPP in favour of the State Corporation Vnesheconombank for the loan facility:

Counterparty	**31 December 2016**	**31 December 2015**
for PJSC Boguchanskaya HPP:		
State Corporation Vnesheconombank	26,749	27,398
for CJSC Boguchansky Aluminium Plant:		
ALSTOM Grid SAS	31	77
Total guarantees issued	**26,780**	**27,475**

Based on the information available to the Group, PJSC Boguchanskaya HPP currently meets and will be able to meet its obligations under the loan facility with the State Corporation Vnesheconombank in the foreseeable future. The probability that the Group becomes liable in respect of these guarantees is low.

Note 30. Financial risk management

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

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

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

(in millions of Russian Rubles unless noted otherwise)

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the Note 33.

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

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

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

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

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

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

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

The Group's maximum exposure to credit risk for financial guarantees was RR 26,780 million as at 31 December 2016 (31 December 2015: RR 27,475 million) (Note 29).

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

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

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

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

	31 December 2016			31 December 2015		
	Monetary financial assets	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
USD	840	(3,088)	(2,248)	6,409	(3,735)	2,674
EUR	67	(10,477)	(10,410)	61	(14,335)	(14,274)
Other	31	-	31	102	-	102
Total	**938**	**(13,565)**	**(12,627)**	**6,572**	**(18,070)**	**(11,498)**

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

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

(in millions of Russian Rubles unless noted otherwise)

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

The Group obtains debt financing with floating rates, which are established on the basis of the MOSPRIME, Euribor, Libor rates.

As at 31 December 2016, had interest rates at that date been 2 percent higher (31 December 2015: 3 percent higher), with all other variables held constant, profit for the year ended 31 December 2016 and the amount of capital that the Group managed as at 31 December 2016 would have been RR 327 million (31 December 2015: RR 1,161 million) lower, mainly as a result of higher interest expense.

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

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

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

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

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

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

The table below shows liabilities as at 31 December 2016 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges). Such undiscounted cash flows differ from the amount included in the Consolidated Statement of Financial Position because this amount is based on the discounted cash flows.

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

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

(in millions of Russian Rubles unless noted otherwise)

The maturity analysis of financial liabilities as at 31 December 2015 is as follows:

	2016 year	2017 year	2018 year	2019 year	2020 year	Starting from year 2021
Liabilities						
Current and non-current debt	74,633	33,577	65,664	8,313	28,242	38,978
Trade payables (Note 20)	33,475	-	-	-	-	-
Accounts payable under factoring agreements (Note 20)	4,071	-	-	-	-	-
Obligation to PJSC RAO ES East shares purchase (Note 20)	2,108	-	-	-	-	-
Financial guarantees (Note 29)	712	771	1,008	1,269	1,537	22,178
Dividends payable (Note 20)	86	-	-	-	-	-
Finance lease liabilities (Note 18)	706	442	267	203	204	4,546
Net settled derivatives	32	26	17	10	4	-
Total future payments, including principal and interest payments	**115,823**	**34,816**	**66,956**	**9,795**	**29,987**	**65,702**

Note 31. Management of capital

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

As at 31 December 2016 and 31 December 2015 the Company was in compliance with the share capital requirements as established under legislation.

The Group's objectives in respect of capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The amount of capital that the Group managed as at 31 December 2016 was RR 650,932 million (31 December 2015: RR 613,919 million).

Consistent with others in the energy industry, the Group monitors the gearing ratio, that is calculated as the total debt divided by the total capital. Debt is calculated as a sum of non-current and current debt, as shown in the Consolidated Statement of Financial Position. Total capital is equal to the total equity, as shown in the Consolidated Statement of Financial Position. The gearing ratio was 0.31 as at 31 December 2016 (31 December 2015: 0.32).

Note 32. Fair value of assets and liabilities

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

a) Recurring fair value measurements

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

(in millions of Russian Rubles unless noted otherwise)

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

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Available-for-sale financial assets	20,619	-	562	**21,181**
Non-financial assets				
Property, plant and equipment (except for construction in progress, office buildings and land)	-	-	496,637	**496,637**
Total assets recurring fair value measurements	**20,619**	**-**	**497,199**	**517,818**
31 December 2015				
Financial assets				
Available-for-sale financial assets	6,057	-	37	**6,094**
Non-financial assets				
Property, plant and equipment (except for construction in progress, office buildings and land)	-	-	480,692	**480,692**
Total assets recurring fair value measurements	**6,057**	**-**	**480,729**	**486,786**

As at 31 December 2016 and 31 December 2015 the Group's liabilities measured at fair value are not significant.

The valuation technique, inputs used in the fair value measurement for significant Level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2016:

	Fair value	**Valuation technique**	**Significant unobservable inputs**	**Reasonable change**	**Sensitivity of fair value measurement**
Non-financial assets					
Property, plant and equipment (except for construction in progress, office buildings and land)	496,637	Discounted cash flows	Electricity and capacity prices	-10%	(16,725)
			Discount rate	+1%	(7,366)
			Capital expenditures	+10%	(1,582)
Total recurring fair value measurements at Level 3	**496,637**				**(25,673)**

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

There were no changes in valuation technique for Level 3 recurring fair value measurements during the years ended 31 December 2016 and 31 December 2015.

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

Financial assets carried at amortised cost. The Group considers that the fair value of cash, short term deposits (Level 1 of the fair value hierarchy) and accounts receivable (Level 3 of the fair value hierarchy) approximates their carrying value. The fair value of long term accounts receivable, other non-current and current financial assets is estimated based on future cash flows expected to be received including expected losses (Level 3 of the fair value hierarchy), the fair value of these assets approximates their carrying value.

Liabilities carried at amortised cost. The fair value of floating rate liabilities approximates their carrying value. The fair value of bonds is based on quoted market prices (Level 1 of the fair value hierarchy). Fair value of the fixed rate liabilities is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity (Level 3 of the fair value hierarchy).

The fair value of current liabilities carried at amortised cost approximates their carrying value.

As at 31 December 2016 fair value of bonds exceeded their carrying value by RR 92 million. As at 31 December 2015 the carrying value of bonds exceeded their fair value by RR 763 million.

As at 31 December 2016 the carrying value of non-current fixed rate debt exceeded their fair value by RR 4,705 million. As at 31 December 2015 the carrying value of non-current fixed rate debt exceeded their fair value by RR 7,121 million.

(in millions of Russian Rubles unless noted otherwise)

Note 33. Presentation of financial instruments by measurement category

The following table provides a reconciliation of classes of financial assets with the measurement categories of IAS 39, Financial Instruments: Recognition and Measurement as at 31 December 2016:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 10)	**8,838**	**-**	**8,838**
Promissory notes	8,491	-	8,491
Long-term loans issued	332	-	332
Net settled derivatives	15	-	15
Available-for-sale financial assets (Note 9)	**-**	**21,181**	**21,181**
Trade and other receivables (Note 12)	**37,376**	**-**	**37,376**
Trade receivables	33,036	-	33,036
Promissory notes receivable	4,340	-	4,340
Other current assets (Note 14)	**8,118**	**-**	**8,118**
Special funds	3,507	-	3,507
Deposits and promissory notes	4,292	-	4,292
Short-term loans issued	310	-	310
Net settled derivatives	9	-	9
Cash and cash equivalents (Note 11)	**67,354**	**-**	**67,354**
Total financial assets	**121,686**	**21,181**	**142,867**
Non-financial assets			**840,579**
Total assets			**983,446**

The following table provides a reconciliation of financial assets with the measurement categories as at 31 December 2015:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 10)	**7,896**	**-**	**7,896**
Promissory notes	7,218	-	7,218
Long-term loans issued	633	-	633
Net settled derivatives	45	-	45
Available-for-sale financial assets (Note 9)	**-**	**6,094**	**6,094**
Trade and other receivables (Note 12)	**38,383**	**-**	**38,383**
Trade receivables	34,917	-	34,917
Promissory notes receivable	9	-	9
Other financial receivables	3,457	-	3,457
Other current assets (Note 14)	**22,291**	**-**	**22,291**
Deposits and promissory notes	19,532	-	19,532
Short-term loans issued	2,728	-	2,728
Net settled derivatives	31	-	31
Cash and cash equivalents (Note 11)	**48,025**	**-**	**48,025**
Total financial assets	**116,595**	**6,094**	**122,689**
Non-financial assets			**814,660**
Non-current assets and assets of disposal group classified as held for sale			**788**
Total assets			**938,137**

All of the Group's financial liabilities are carried at amortised cost. Financial liabilities are represented mainly by the current and non-current debt (Note 18), trade payables and other accounts payable (Note 20).

Note 34. Subsequent events

Additional issue of new shares. In January 2017 the Company resumed the results of execution of pre-emptive right by eligible shareholders to acquire Company's shares of additional issue, registered by Bank of Russia on 7 December 2016. During the pre-emptive right period the Company placed 33,348,661 additional shares priced at RR 1,00 per share, or 0.08 percent of the total volume of additional issue (Note 15).

In March 2017, the Company and PJSC Bank VTB signed agreements related to a purchase of 55 billion ordinary shares of the Company (40 billion shares of the new issue and 15 billion shares of quasy-treasury stock) and conclusion of a 5-year non-deliverable forward contract in respect of these shares. The cash in the amount of RR 55 billion received by the Company through the sale of shares is intended to repay the debts of RAO ES East subgroup. In accordance with the forward contract, the Company has no obligation to buy back its own shares; for the purposes of final settlement under the forward contact it is envisaged that bank sells the Company's shares. Any difference between bank's income from the sale of the above shares at the end of the forward contract and the forward price is due to be settled in cash between the Company and the bank. The forward price is defined as the purchase cost of the shares increased by the total amount of interests charged less total dividends paid during the contract period.

At the moment of these consolidated financial statements approval, the estimate of the forward price and the related effect of the contract on the carrying amount of assets and liabilities, and financial result within the next financial year is not completed by the Group's management.