# UNIPRO GROUP

# CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INDEPENDENT AUDITOR’S REPORT

31 DECEMBER 2018

**Contents**

# *Independent Auditor's Report*

To the Shareholders and Board of Directors of PJSC Unipro:

## *Our opinion*

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

### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include summary of significant accounting policies and other explanatory information.

## *Basis for opinion*

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

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

### Independence

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

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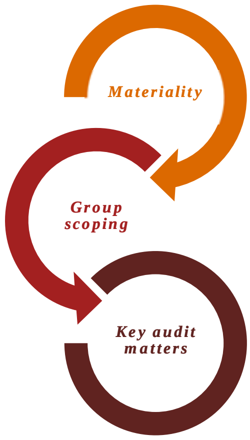
## *Our audit approach*

### Overview




Overall Group materiality: Russian Roubles (“RUB”) 1,022 million, which represents 5% of profit before tax.

- We conducted audit work at the Company in Russia, Moscow.
- Our audit scope addressed 99,9% of the Group’s revenues and 99,5% of the Group’s absolute value of underlying profit before tax.

- Impairment of Property, plant and equipment
- Recognition, measurement and disclosure of provisions and contingencies

As part of designing our audit, we determined materiality and assessed 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. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

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

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

| | |
|---|---|
| ***Overall Group materiality*** | RUB 1,022 million |
| ***How we determined it*** | 5% of profit before tax |
| ***Rationale for the materiality benchmark applied*** | We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector. |

**Key audit matters**

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment of property, plant and equipment* | |
| *Refer to Note 3 (Critical accounting estimates and assumptions) and Note 7 (Property, plant and equipment)*<br><br>The Group performed an impairment test of non-current assets.<br><br>The trigger for impairment testing of property, plant and equipment was a decrease of electricity sales volume forecast and revision of the capital expenditures long-term program.<br><br>Given the materiality of property, plant and equipment, an impairment could have a significant impact on the consolidated financial statements. We also focused on this area due to significant judgements involved in performing the impairment test.<br><br>Management determined Cash Generating Units (further CGUs) taking into account two factors: territorial and type of capacity supply conditions. The recoverable amount of each | We performed an evaluation and critical analysis of the future cash flow forecasts made by management. Internal audit experts in valuation were involved for complex analysis and gathering audit evidence in respect of assumptions used in the impairment test.<br><br>We ensured that the future cash flow forecasts preparation process was controlled by management and corresponded with approved budgets.<br><br>We performed the following audit procedures:<br>• assessed the reasonableness of the methodology used in forecasting future cash flows, and its compliance with IAS 36 ‘Impairment of assets’;<br>• compared key assumptions used in calculations (including future prices for gas and coal, macroeconomic measures, inflation rates) to available market data;<br>• tested the mathematical accuracy of the calculations;<br>• challenged the key assumptions for |

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| *Impairment of property, plant and equipment (continued)* | |
| CGU was calculated as value in use. The value in use is based on discontinued future cash flow forecast over which management make judgements on certain key inputs including, for example, future productions volumes, electricity and capacity prices growth rates, natural gas and coal prices, discounts rates and long-term growth rates. | long-term growth rates by comparing them to economic and industry forecasts;<br>• compared forecasted cash flows to approved budget and previous year financial model;<br>• assessed the reasonableness of the discount rate by comparing the cost of capital for the Group to comparable organisations and to our independent assessment.<br><br>We have not found significant exceptions in the assumptions used by management for the impairment test, their inconsistent application or significant deviations from independent sources that could result in additional impairment loss. In addition, we assessed the adequacy of the disclosures made in Note 7 to the consolidated financial statements, for completeness and compliance with the requirements of IAS 36 'Impairment of assets'.<br><br>Based on the work performed no material misstatements, affecting our opinion on the consolidated financial statements were identified. |
| *Recognition, measurement and disclosure of provisions and contingencies* | |
| *Refer to Note 25 (Contingencies)*<br><br>The Group faces a number of threatened and actual legal and regulatory proceedings.<br><br>Recognition, measurement and disclosure of contingencies concerning legal issues, regulatory bodies' actions and counterparties' claims involves a high degree of judgement resulting in provisions and contingent liabilities being considered as a key audit matter. | Our procedures included the following:<br>• analysis of court decisions and related correspondence;<br>• discussing open matters with the Group's legal department personnel and Group management;<br>• assessing and challenging management's conclusions through understanding precedents set in similar cases;<br>• analysis of the consequences of possible claims from counterparties and regulatory bodies; and<br>• circularising relevant third-party legal representatives and follow up discussions, where appropriate, on certain material cases. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Recognition, measurement and disclosure of provisions and contingencies (continued)* | On the basis of the work performed, whilst noting the inherent uncertainty with such legal and regulatory matters, we determined the relevant provisions as at 31 December 2018 to be appropriate.<br><br>We assessed the appropriateness of the related disclosures in Note 25 and considered these to be reasonable. |

**How we tailored our Group audit scope**

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

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

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

## Other information

Management is responsible for the other information. The other information comprises *Issuer's Report for the 1 Quarter 2019* (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

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

When we read *Issuer's Report for the 1 Quarter 2019*, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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 Albina Faritovna Kamalova.

12 March 2019

Moscow, Russian Federation

A.F. Kamalova, certified auditor (licence no. 01-001621), AO PricewaterhouseCoopers Audit

Audited entity: PJSC Unipro

Certificate of inclusion in the Unified State Register of Legal Entities issued on 04 March 2005 under registration № 1058602056985

23 Energostroiteley Street, Building 34, Surgut 628406, Khanty-Mansi Autonomous District – Yugra, Tyumen Region, 628406

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

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

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547

**Unipro Group**
**Consolidated Statement of Financial Position**
(RUB thousand)

| | Note | At 31 December 2018 | At 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | 113,931,935 | 106,213,511 |
| Intangible assets | 8 | 349,446 | 337,742 |
| Investments in joint ventures | 9 | 110,256 | 39,990 |
| Long-term financial assets | | 21,950 | 16,381 |
| Non-current assets | 10 | 704,862 | 854,656 |
| **Total non-current assets** | | **115,118,449** | **107,462,280** |
| **Current assets** | | | |
| Cash and cash equivalents | 26 | 4,788,075 | 3,058,326 |
| Accounts receivable and prepayments | 12,26 | 6,403,119 | 5,568,667 |
| Inventories | 11 | 3,423,869 | 2,506,880 |
| Current income tax prepayments | | 328,287 | 3,722,751 |
| Short-term financial assets | 13 | 963,700 | 3,700,836 |
| **Total current assets** | | **15,907,050** | **18,557,460** |
| **TOTAL ASSETS** | | **131,025,499** | **126,019,740** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 14 | 25,219,482 | 25,219,482 |
| Share premium | | 40,052,405 | 40,052,405 |
| Other reserves | 14 | 678,482 | 597,674 |
| Retained earnings | | 50,283,971 | 47,677,914 |
| **Total equity** | | **116,234,340** | **113,547,475** |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 18 | 5,331,646 | 5,373,629 |
| Pension liabilities | 15 | 594,086 | 723,627 |
| Long-term lease liabilities | 26 | 515,844 | - |
| Asset retirement obligations | 3 | 529,077 | - |
| **Total non-current liabilities** | | **6,970,653** | **6,097,256** |
| **Current liabilities** | | | |
| Current portion of long-term lease liabilities | 26 | 237,238 | - |
| Accounts payable and accruals | 16 | 5,668,344 | 5,182,682 |
| Taxes payable other than income tax | 17 | 1,914,924 | 1,192,327 |
| **Total current liabilities** | | **7,820,506** | **6,375,009** |
| **Total liabilities** | | **14,791,159** | **12,472,265** |
| **TOTAL EQUITY AND LIABILITIES** | | **131,025,499** | **126,019,740** |

| | |
|---|---|
| Approved and singed | 12 March 2019 |
| General Director | M.G. Shirokov |
| Financial Director | U. Backmeyer |

(RUB thousand)

| | Note | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| Revenues | 19 | 77,777,008 | 76,521,542 |
| Operating expenses | 20 | (58,289,925) | (56,721,177) |
| Other operating income | 21 | 458,970 | 21,386,296 |
| **Operating profit** | | **19,946,053** | **41,186,651** |
| Finance income | 22 | 716,841 | 1,106,234 |
| Finance expense | 22 | (288,733) | (168,783) |
| Share of results of joint venture | 9 | 70,265 | (1,158,363) |
| **Profit before income tax** | | **20,444,426** | **40,965,749** |
| **Income tax charge** | **18** | **(3,826,512)** | **(7,360,265)** |
| **Profit for the period** | | **16,617,914** | **33,605,484** |
| **Profit/(loss) for the period attributable to:** | | | |
| Shareholders of PJSC Unipro | | **16,617,914** | **33,608,870** |
| Non-controlling interest | | **-** | **(3,386)** |
| | | | |
| Other comprehensive income/ (loss) after income tax: | | | |
| Items that will not be reclassified to profit or loss | | | |
| Remeasurements of pension liabilities | | 128,371 | 36,784 |
| **Total items that will not be reclassified to profit or loss** | | **128,371** | **36,784** |
| Items that may be reclassified subsequently to profit or loss | | | |
| Loss from change in fair value of financial assets available-for sale | | - | (8,846) |
| Gain/ (loss) from cash flow hedge | 26 | 175,704 | (394,164) |
| Reclassification of cash flow hedge gain to profit and loss | 26 | (223,267) | (207,476) |
| **Total items that may be reclassified subsequently to profit or loss** | | **(47,563)** | **(610,486)** |
| **Total other comprehensive income/ (loss) for the period** | | **80,808** | **(573,702)** |
| **Total comprehensive income for the period** | | **16,698,722** | **33,031,782** |
| | | | |
| Total Comprehensive income / (loss) attributable to: | | | |
| Shareholders of PJSC Unipro | | **16,698,722** | **33,035,168** |
| Non-controlling interest | | **-** | **(3,386)** |
| **Earnings per ordinary share for profit attributable to the shareholders of PJSC Unipro – basic and diluted (in Russian roubles)** | **23** | **0.26** | **0.53** |

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

| | Attributable to shareholders of PJSC Unipro | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Other reserves | Retained earnings | Total | Non-controlling interest | Total equity |
| **At 1 January 2017** | **25,219,482** | **40,052,405** | **1,171,376** | **27,868,063** | **94,311,326** | **200,981** | **94,512,307** |
| Profit/ (loss) for the period | - | - | - | 33,608,870 | **33,608,870** | (3,386) | **33,605,484** |
| Other comprehensive income/ (loss): | | | | | | | |
| Loss from change in fair value of financial assets available-for sale | - | - | (8,846) | - | **(8,846)** | - | **(8,846)** |
| Remeasurements of pension liabilities | - | - | 36,784 | - | **36,784** | - | **36,784** |
| Loss from cash flow hedge | - | - | (394,164) | - | **(394,164)** | - | **(394,164)** |
| Reclassification of cash flow hedge gain to profit and loss | - | - | (207,476) | - | **(207,476)** | - | **(207,476)** |
| **Total comprehensive income/ (loss) for the period** | **-** | **-** | **(573,702)** | **33,608,870** | **33,035,168** | **(3,386)** | **33,031,782** |
| Subsidiary disposal | - | - | - | 200,981 | **200,981** | (197,595) | **3,386** |
| Dividends (Note 14) | - | - | - | (14,000,000) | **(14,000,000)** | - | **(14,000,000)** |
| **At 31 December 2017** | **25,219,482** | **40,052,405** | **597,674** | **47,677,914** | **113,547,475** | **-** | **113,547,475** |
| IFRS 9 (Note 4) | - | - | - | (11,857) | **(11,857)** | - | **(11,857)** |
| **At 1 January 2018** | **25,219,482** | **40,052,405** | **597,674** | **47,666,057** | **113,535,618** | **-** | **113,535,618** |
| Profit for the period | - | - | - | 16,617,914 | **16,617,914** | - | **16,617,914** |
| Other comprehensive income/ (loss): | | | | | | | |
| Remeasurements of pension liabilities | - | - | 128,371 | - | **128,371** | - | **128,371** |
| Gain from cash flow hedge | - | - | 175,704 | - | **175,704** | - | **175,704** |
| Reclassification of cash flow hedge gain to profit and loss | - | - | (223,267) | - | **(223,267)** | - | **(223,267)** |
| **Total comprehensive income for the period** | - | - | **80,808** | **16,617,914** | **16,698,722** | - | **16,698,722** |
| Dividends (Note 14) | - | - | **-** | (14,000,000) | **(14,000,000)** | - | **(14,000,000)** |
| **At 31 December 2018** | **25,219,482** | **40,052,405** | **678,482** | **50,283,971** | **116,234,340** | - | **116,234,340** |

(RUB thousand)

| | Note | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES:** | | | |
| **Profit before income tax** | | **20,444,426** | **40,965,749** |
| Adjustments for non-cash items**:** | | | |
| Depreciation and amortisation of PPE and intangible assets | 20 | 6,059,304 | 5,954,354 |
| Reclassification of hedge gain to profit or loss | | (121,141) | (190,166) |
| Loss on impairment of PPE and intangible assets | 20 | 1,297,652 | 325,211 |
| Credit loss allowance | 20 | 150,946 | 214,517 |
| Foreign exchange loss/ (income), net | 22 | 128,692 | (67,850) |
| Interest income | 22 | (716,841) | (1,038,384) |
| Interest expense and effect of discounting | 22 | 160,041 | 168,783 |
| Gain on disposal of property, plant and equipment | | (57,486) | (230,266) |
| Change in pension liabilities | | 121,616 | 27,573 |
| Share of results of joint ventures | 9 | (70,265) | 1,158,363 |
| Other non-cash items | | (29,459) | 331,449 |
| **Operating cash flows before working capital changes and income tax paid** | | **27,367,485** | **47,619,333** |
| Working capital changes: | | | |
| Increase in accounts receivable and prepayments | 12 | (2,001,979) | (1,726,890) |
| (Increase)/ decrease in VAT recoverable | 12 | (22,941) | 40,504 |
| Increase in inventories | 11 | (587,496) | (207,445) |
| Decrease/ (increase) in accounts payable and accruals | 16 | 522,664 | (1,446,011) |
| Increase in taxes payable other than income tax | 17 | 722,597 | 227,587 |
| Income tax paid | | (493,842) | (10,975,583) |
| **Net cash from operating activities** | | **25,506,488** | **33,531,495** |
| **CASH FLOW FROM INVESTING ACTIVITIES:** | | | |
| Purchases of property, plant and equipment and other non-current assets | | (13,926,652) | (14,708,097) |
| Proceeds from sale of property, plant and equipment and other non-current assets | | 57,486 | - |
| Proceeds from disposal of subsidiaries, net of disposed cash | 6 | - | 12,802 |
| Repayment of deposits and securities | | 831,122 | 1,093,773 |
| Loans issued | 5 | (6,077,160) | (12,075,405) |
| Loans repaid | 5 | 9,014,384 | 9,012,957 |
| Interest received | | 606,248 | 851,809 |
| **Net cash used in investing activities** | | **(9,494,572)** | **(15,812,161)** |
| **CASH FLOW FROM FINANCING ACTIVITIES:** | | | |
| Dividends paid to shareholders of PJSC Unipro | 14 | (14,000,000) | (14,000,000) |
| Loan repaid | 5 | - | (2,300,000) |
| Interests repaid | | (51,877) | (73,374) |
| Payments of lease liabilities | 2 | (237,238) | - |
| **Net cash used in financing activities** | | **(14,289,115)** | **(16,373,374)** |
| Effect of exchange rate changes on cash and cash equivalents | | 6,948 | (12,522) |
| **Increase in cash and cash equivalents** | | **1,729,749** | **1,333,438** |
| Cash and cash equivalents at the beginning of the year | | 3,058,326 | 1,724,888 |
| Cash and cash equivalents at the end of the year | 26 | 4,788,075 | 3,058,326 |



The notes № 1-28 are an integral part of these Consolidated Financial Statements.

(RUB thousand)

## Note 1. The Group and its operations

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

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

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

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

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

| | | Ownership, % | |
|---|---|---|---|
| | **Principal activity** | **At 31 December 2018** | **At 31 December 2017** |
| **Subsidiaries and joint venture of PJSC Unipro** | | | |
| OOO Unipro Engineering | Engineering activities | 100 | 100 |
| OOO Agro-industrial Park «Siberia» | Wholesale of electricity and heat and management of uninhabited fund | 100 | 100 |
| OOO E.ON Connecting Energies | Provision of distributed energy solu tions to all types of customers | 50 | 50 |

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

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

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

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

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

### *Uniper Group*

Uniper SE owns 83.73% of shares of the Company (until June 2018 - Uniper Russia Holding GmbH – wholly-owned subsidiary of the international energy company Uniper SE).

Uniper SE, the major shareholder of PJSC Unipro, is a leader in the traditional power generation sector in Europe. The Company operates in European countries, Russia and several other countries of the world.

Uniper's assets include hydroelectric power plants, gas-fired power plants and coal power plants with the total capacity of 36 GW. Due to these key assets and the use of different types of fuel, Uniper is a major and reliable supplier of electricity a large portion of which is produced using environmentally friendly technologies, such as gas-fired power plants and hydroelectric power plants.

On 7 November 2017, Fortum Deutschland SE, a subsidiary of the Finnish energy company Fortum Oyi, published a voluntary public takeover bid to purchase all shares of Uniper SE. Overall, shareholders of Uniper SE with a stake totalling 47.12% in Uniper SE accepted Fortum Deutschland SE's offer to acquire the shares of Uniper SE. In particular, E.ON SE tendered its 46.65% stake in Uniper SE – indirectly held via E.ON Beteiligungen GmbH – for sale to Fortum Deutschland as part of the takeover offer. Fortum Deutschland SE's takeover bid was completed effective 26 June 2018. E.ON is thus no longer a shareholder in Uniper SE. Fortum Deutschland SE is now the company's new major shareholder.

According to Fortum Oyj's public announcement of 1 February 2019 (publication of Fortum Oyj's 2018 financial statements and operating and financial review), the share of voting rights in Uniper SE attributable to Fortum Oyj amounted to 49.99% as of 31 December 2018.

***Operating environment***

**Russian Federation.** The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 25). The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. The 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.

For the purpose of measurement of expected credit losses ("ECL") the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 26 provides more information of how the Group incorporated forward-looking information in the ECL models.

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

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

**Regulatory risk.** In early 2017, the expert energy community entered into a debate concerning the feasibility of making changes to the Rules of Wholesale Market and the terms of Capacity Supply Agreements (CSA). The changes provide for the collection of fines in the amount of 25% of the capacity payment and the possibility of unilateral termination of CSA in the event that generating equipment remains under unscheduled repair for an extended period.

In January 2019, the Government of the Russian Federation held discussions on the modalities of CSA termination and the possibility of introducing grounds for such termination at the regulatory level. At the moment, the generating companies under the aegis of the industry association of power producers are putting together their views and proposals on this matter.

***Changes in Industry***

In 2017-2018, the following events took place in the sectoral regulation:

- Indexation of the competitive power selection prices for 2018 from 1 January 2018 by 3.3% in comparison with 2017 in accordance with the Power Price Index Regulation Rules approved by RF Government Decree No. 238 of 13 April 2010. The final increase in the competitive power selection prices in 2018 in comparison with 2017, taking into account this indexation and changes in power supply and demand, was 1.3% in the European price zone and 5.6% in the Siberian price zone;
- Indexation of gas prices since 1 July 2017 by 3.9% on the orders of the Federal Antimonopoly Service No. 776/17 of 13 June 2017;
- Indexation of gas prices since 21 August 2018 by 3.4% on the orders of the Federal Antimonopoly Service No. 1088/18 of 3 August 2018;
- Change in the procedure for calculating the prices for capacity supplied under CSA in connection with the release of Order No. 107 of the Ministry of Energy of Russia of 17 February 2017 “On approval of the methodology for calculating the share of compensated costs reflecting the projected profit from the sale of electricity for Suppliers of electrical energy (power)”.This Methodology determines the procedure for calculating the $C_{DAM}$ – coefficient (Day-ahead-market), which is one of the parameters involved in the calculation of the price of the CSA objects and excluding from the price for capacity that part of the profit that the CSA objects receive in the electricity market. In the first three years of the operation of the CSA, the reference values of the $C_{DAM}$ are applied, which are established by Government Decision No. 238 of April 13, 2010. After the expiry of three and six years from the beginning of the supply of power, the $C_{DAM}$ is specified in accordance with the above Methodology.

***The accident at the branch Berezovskaya GRES***

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

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

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

As a result of dismantling after the accident at Power Unit 3 of Berezovskaya GRES materials in the amount of RUB 824,114 thousand were recognized for 2018 (for 2017: RUB 847,440 thousand) (Note 7). They were classified as construction in progress due to intention to use them in the future in capital construction.

As of 31 December 2018 about RUB 28 billion were spent on refurbishment. The amount of future expenses on refurbishment will amount about RUB 16 billion. The Power Unit might be commissioned later than planned, resulting in later receipt of income. The delay in commissioning is one of the material individual risks of the Group.

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

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

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

Each enterprise within the Group individually maintains its own accounting records and prepares statutory financial statements in accordance with Russian accounting and reporting rules. The accompanying consolidated financial statements are based on the statutory records and adjusted and reclassified for fair presentation to meet IFRS requirements. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9, IFRS 15 and IFRS 16 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated.

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

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

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

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

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

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

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

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

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

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

***Joint arrangements***. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

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

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

(RUB thousand)

At 31 December 2018, the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 69.4706 (at 31 December 2017: USD 1 = RUB 57.6002), and EUR 1=RUB 79.4605 (at 31 December 2017: EUR 1 = RUB 68.8668).

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

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

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

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

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

At each reporting date, management assesses whether there is any indication of impairment of PPE; this assessment is performed at the level of the cash generating unit (CGU). If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use.

The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

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

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

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

| Type of facility | Useful life |
|---|---|

| | |
|---|---|
| Electricity and heat generation | 6-50 |
| Electricity distribution | 8-25 |
| Heating network | 12-20 |
| Other | 3-10 |

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

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

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

At each reporting date, management assesses whether there is any indication of impairment of intangible assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in profit or loss. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

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

***Impairment of non-financial assets.*** Property, plant and equipment and intangible assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units – CGU). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

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

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

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

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

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

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

*Amortised cost ("AC")* 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 allowance for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated 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. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

***Financial instruments – initial recognition***. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for 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. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

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

***Financial assets – classification and subsequent measurement – measurement categories.*** The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

***Financial assets – classification and subsequent measurement – business model.*** The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 26 for critical judgements applied by the Group in determining the business models for its financial assets.

***Financial assets – classification and subsequent measurement – cash flow characteristics.*** Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

***Financial assets – reclassification***. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current and comparative period and did not make any reclassifications.

***Financial assets impairment – credit loss allowance for ECL***

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime

ECL”). Refer to Note 26 for a description of how the Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group’s definition of credit impaired assets and definition of default is explained in Note 26. For financial assets that are purchased or originated credit-impaired (“POCI Assets”), the ECL is always measured as a Lifetime ECL. Note 26 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

***Financial assets – write-off.*** Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

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

***Financial assets - derecognition.*** 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.

***Financial assets – modification.*** The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

***Financial liabilities – measurement categories.*** Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

***Financial liabilities – derecognition.*** Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

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

***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 AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

***Trade and other receivables.*** Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

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

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

***Leases.*** A contract is (or contains) a lease if there is an identified asset and the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Right-of-use assets are initially measured at cost and depreciated by the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The cost of right-of-use assets comprises of initial measurement of the lease liability, any lease payments made before or at the commencement date and initial direct costs. After the commencement date, the right-of-use assets are carried at cost less accumulated depreciation and impairment losses in accordance with IAS 16, Property, plant and equipment. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and subsequently measured at amortized cost with the interest expense recognized within finance income (expense) in the consolidated statement of comprehensive income. In accordance with IFRS 16, the Group elected not to apply accounting requirements under this standard to short-term leases (less than 12 months).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Asset retirement obligations.*** An asset retirement obligation is recognized when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment whose construction is substantially completed. The obligation is recognized when incurred at the present value of the estimated costs of dismantling the assets, including abandonment and site restoration costs. Costs for this obligation are added to the cost of property, plant and equipment.

Changes in the asset retirement obligation relating to a change in the expected pattern of settlement of the obligation, or in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the current period. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability. Changes in the obligation resulting from the passage of time are recognized in the consolidated statement of comprehensive income as interest expense within finance expense.

The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation where the Group's respective operating assets are located, and is subject to change because of modifications, revisions and changes in laws and regulations and their interpretation thereof. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

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

***Interest income.*** Interest income is recognised for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income, all fee received between the parties to the contract that are an integral part of the effective interest rate, all other premiums or discounts. Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within 'finance income' line in profit or loss.

Fees integral to the effective interest rate include origination fees received or paid by the Group relating to the creation or acquisition of a financial asset, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

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

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

Defined benefit plans, except for old-age and disability pensions, are unfunded and paid on a pay-as-you-go basis, i.e. cost is met directly by the Group when due. With regard to old-age and disability pensions the Group has an agreement with a non-state pension fund.

The defined benefit plan defines the pension allowance that an employee will receive upon retiring. The allowance generally depends on several factors such as age, length of employment and salary. Pension obligation is settled by the Group via a non-state pension fund when the employee retires.

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

The liability recognised in the consolidated statement of financial position is the present value of the obligation less plan assets. Actuarial gains and losses arising from experience adjustments and changes in actuarial estimates of post-employment activities are reflected in full in other comprehensive income. Past-service costs are recognised immediately in profit or loss.

***Share based payments.*** The Group share-based compensation plans are classified as cash-settled share-based payments. A provision in the amount of the prorated fair value of the payment obligation is recognized as of the balance sheet date. Changes in the fair value are recognized in income. The fair value is determined using accepted financial-industry methods.

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

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

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

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

## Note 3. Critical accounting estimates and assumptions

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

***ECL measurement.*** Measurement of ECLs is a significant estimate that involves determination methodology, models and data inputs. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD") (Note 26).

***Tax contingencies.*** Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group's management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued in these consolidated financial statements (see Note 25).

***Useful lives of property, plant and equipment.*** The estimation of the useful lives of an item of property, plant and equipment is a matter of management judgement based on experience with similar assets. In determining the useful life of an asset, management considers existing industry practices, the expected usage, estimated technical obsolescence, physical wear and tear, and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

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

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

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

(RUB thousand)

Information about the use of estimates and assumptions and impairment result recognised is presented in Note 7.

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

***Asset retirement obligations.*** The Group has decided to evaluate its asset retirement obligations. The Group's activities involve the use of natural assets such as of land, wells, and quarries.

Movements in the asset retirement obligations are as follows:

| | |
|---|---|
| **Carrying amount at 1 January 2018** | **-** |
| Additions to property, plant and equipment | 509,529 |
| Unwinding of the present value discount | 19,547 |
| **Carrying amount at 31 December 2018** | **529,077** |

At 31 December 2018, the Group recognised asset retirement obligations in the amount of RUB 529,077 thousand in the consolidated statement of financial position, with no effect on opening retained earnings. Asset retirement obligations did not recognise before due to not material level for Group perspective.

## Note 4. Application of new and revised standards and clarifications

The following new standards and interpretations became effective from 1 January 2018, but did not have a material impact on the Group:

- IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014);
- Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on 12 April 2016);
- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016);
- Amendments to IFRS 4 – "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (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);
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016);
- Amendments to IAS 40 – "Transfers of Investment Property" (issued on 8 December 2016).

***IFRS 9 "Financial instruments" (with amendments issued in July 2014).*** For the periods starting 1 January 2018, the Group changed its accounting policy relating to classification and measurement of financial assets and liabilities in accordance with the core principles of the standard. Details of the new accounting policy are disclosed in Note 2. The adoption of IFRS 9 did not significantly impact the balance sheet classification of financial assets and liabilities in the consolidated financial statements of the Group. The amount of expected credit losses as at 1 January 2018 does not materially differ from the amount of recognised provisions and allowances in the consolidated financial statements as at 31 December 2017.

(RUB thousand)

The following table provides a reconciliation of the classes of financial assets from IAS 39 to IFRS 9:

| Classification according to IAS 39 | IAS 39 carrying amount as of 31 December 2017 | Expected credit losses | IFRS 9 carrying amount as of 1 January 2018 | Classification according to IFRS 9 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Loans and receivables** | | | | |
| **Accounts receivable (Note 12)** | **5,257,350** | **(7,838)** | **5,249,512** | |
| Trade receivables | 5,000,856 | (7,838) | 4,993,018 | Amortized cost |
| Other financial receivables | 256,494 | - | 256,494 | Amortized cost |
| **Short-term financial assets (Note 13)** | **3,700,836** | **(2,050)** | **3,698,786** | |
| Loans issued | 3,000,000 | - | 3,000,000 | Amortized cost |
| Promissory notes | 700,836 | (2,050) | 698,786 | Amortized cost |
| **Non-current assets (Note 10)** | **854,656** | **(1,969)** | **852,687** | |
| Promissory notes | 674,774 | (1,969) | 672,805 | Amortized cost |
| Loans issued to employees | 179,882 | - | 179,882 | Amortized cost |
| **Cash and cash equivalents** | **3,058,326** | **-** | **3,058,326** | Amortized cost |
| **Total loans and receivables** | **12,871,168** | **(11,857)** | **12,859,311** | |
| **AFS** | 16,381 | - | - | Fair value through other comprehensive income |
| **Equity instruments at FVOCI** | | | 16,381 | Fair value through other comprehensive income |
| **Total financial assets** | **12,887,549** | **(11,857)** | **12,875,692** | |

The effects arising from the initial application of the IFRS 9 impairment model are shown in the following table:

### Reconciliation of IAS 39 Impairment Allowances to IFRS 9 Loss Allowances

| Classification according to IAS 39 | IAS 39 impairment allowances | Expected credit losses | IFRS 9 loss allowances as of 1 January 2018 | Classification according to IFRS 9 |
|---|---|---|---|---|
| Other financial assets | - | (4,019) | (4,019) | Amortized cost |
| Trade receivables | (3,987,182) | (7,838) | (3,995,020) | Amortized cost |
| **Total** | **(3,987,182)** | **(11,857)** | **(3,999,039)** | |

As of 1 January 2018 the Group early adopted ***IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).***

The standard requires lessees to recognize right-of-use assets and lease liabilities for most leases.

In accordance with the transition rules in IFRS 16, the Group chose to apply the new rules retrospectively with the cumulative effect of initially applying the standard recognized at 1 January 2018. The Group used permitted practical simplifications and elected not to apply accounting requirements under this standard to short-term leases.

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

(RUB thousand)

The incremental borrowing rate for lease liabilities initially recognized as of 1 January 2018 was in the range of 4.37 – 7.66%.

| | At 1 January 2018 |
|---|---|
| **Minimum lease payments under operating leases as of 31 December 2017** | **2,172,699** |
| Recognition exemption | (91) |
| *for short-term leases* | (91) |
| Effect from discounting at the incremental borrowing rate as of 1 January 2018 | (1,203,906) |
| **Liabilities additionally recognized based on the initial application of IFRS 16 as of 1 January 2018** | **968,702** |
| Liabilities from finance leases as of 31 December 2017 | - |
| **Liabilities from leases as of 1 January 2018** | **968,702** |

In the consolidated statement of comprehensive income for 12 months 2018, the Group has recorded RUB 185,708 thousand and RUB 51,807 thousand in depreciation and interest expense, respectively, in relation to leases accounted for under IFRS 16.

### Summarized Presentation of Changes in Opening Balances as of 1 January 2018

The major changes arising from the initial application of IFRS 9 and IFRS 16 are shown in the following table. It contains only those balance sheet items affected by the initial application, and therefore cannot be fully reconciled with the balance sheet.

| | At 31 December 2017 | Adjustment basis | | | At 1 January 2018 |
|---|---|---|---|---|---|
| | | IFRS 9 | IFRS 16 | Total | |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 106,213,511 | - | 968,702 | 968,702 | 107,182,213 |
| Non-current assets | 854,656 | (1,969) | | (1,969) | 852,687 |
| **Total non-current assets** | **107,462,280** | **(1,969)** | **968,702** | **966,733** | **108,429,013** |
| **Current assets** | | | | | |
| Accounts receivable and prepayments | 5,568,667 | (7,838) | - | (7,838) | 5,560,829 |
| Short-term financial assets | 3,700,836 | (2,050) | - | (2,050) | 3,698,786 |
| **Total current assets** | **18,557,460** | **(9,888)** | | **(9,888)** | **18,547,572** |
| **TOTAL ASSETS** | **126,019,740** | **(11,857)** | **968,702** | **956,845** | **126,976,585** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| Retained earnings | **47,677,914** | (11,857) | - | (11,857) | **47,666,057** |
| **Total equity** | **113,547,475** | **(11,857)** | **-** | **(11,857)** | **113,535,618** |
| **Non-current liabilities** | | | | | |
| Long-term lease liabilities | - | - | 746,755 | 746,755 | 746,755 |
| **Total non-current liabilities** | **6,097,256** | **-** | **746,755** | **746,755** | **6,844,011** |
| **Current liabilities** | | | | | |
| Current portion of long-term lease liabilities | - | - | 221,947 | 221,947 | 221,947 |
| **Total current liabilities** | **6,375,009** | **-** | **221,947** | **221,947** | **6,596,956** |
| **Total liabilities** | **12,472,265** | **-** | **968,702** | **968,702** | **13,440,967** |
| **TOTAL EQUITY AND LIABILITIES** | **126,019,740** | **(11,857)** | **968,702** | **956,845** | **126,976,585** |

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

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early 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).*** These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

***IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).*** IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

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

***Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).*** The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification.

***Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).***The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares.

***Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).*** The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete.

***Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).*** The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

***Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).*** The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in consolidated financial reporting.

***Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).*** The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Group will apply them and assess their impact from 1 January 2020.

***Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).*** The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose consolidated financial statements make on the basis of those consolidated financial statements, which provide financial information about a specific reporting entity.

The new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

(RUB thousand)

**Note 5. Related Parties**

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

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

Until 28 May 2018 the Group's immediate parent was Uniper Russia Holding GmbH. On 28 May 2018 Uniper SE became the owner of 83.73% of the Group, and thus starting this date Uniper SE became the Group's immediate parent and ultimate controlling party. The change of shareholder occurred due to organizational changes within the Uniper SE.

Due to the fact that Fortum Deutschland SE is the largest shareholder of Uniper SE since June 2018 (Note 1), Fortum Group companies are also related parties.

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

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Accounts receivable | 637 | 8,202 |
| Accounts payable and accruals | 288,335 | 219,670 |
| Loan issued | - | 3,000,000 |

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Revenues (less VAT) | 13,405 | 16,100 |
| Services provided and works performed (less VAT) | 11,005 | 60,669 |
| Positive currency difference | 26,246 | 10,672 |
| Negative currency difference | 53,807 | 11,732 |
| Interest income (loan issued) | 44,927 | 252,921 |
| Interest expenses (loan received) | - | 62,049 |

In 2018, the revenue include the income from lease of offices and cars in the amount of RUB 11,227 thousand (2017: RUB 16,100 thousand).

Services provided and works performed in 2017 and 2018 include the Uniper & Technology GmbH's consulting services regarding of assessment and expert analysis for the financial, technical and administrative issues in the 3rd Unit at Berezovskaya GRES project in the amount of RUB 505 thousand (2017: RUB 72,401 thousand including negative currency difference RUB 11,732 thousand).

Accounts payable and accruals at 31 December 2018 include the Uniper & Technology GmbH's accrual of these consulting services and purchase of equipment in the amount of RUB 282,194 thousand (31 December 2017: RUB 217,943 thousand).

***Loans issued***

On 24 May 2017 the Group provided a loan to Uniper SE in the amount of RUB 12,000,000 thousand due on 11 July 2017. On 11 July 2017 the loan was partially repaid in the amount of RUB 9,000,000 thousand. Balance amount of the loan in the amount RUB 3,000,000 thousand was prolonged until 9 January 2018. On 9 January 2018 the loan was fully repaid in the amount of RUB 3,000,000 thousand.

(RUB thousand)

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

| Loan | Provided date | Repaid date | Interest rate | Interest accrued for the previuos period | Interest accrued for the period | Repayment of the loan |
|---|---|---|---|---|---|---|
| 12,000,000 | 24.05.2017 | 11.07.2017 | 8.52 | 136,320 | - | (9,000,000) |
| | 11.07.2017 | 10.10.2017 | 8.30 | 62,942 | - | - |
| | 10.10.2017 | 20.12.2017 | 7.81 | 46,209 | - | - |
| | 20.12.2017 | 09.01.2018 | 7.45 | 7,450 | 4,967 | (3,000,000) |
| **Total** | | | | **252,921** | **4,967** | **(12,000,000)** |

On 28 June 2018, the Group provided a loan to Uniper SE in the amount of RUB 6,000,000 thousand due on 3 August 2018. On 3 August 2018 the loan was fully repaid in the amount of RUB 6,000,000 thousand.

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

| Loan | Provided date | Repaid date | Interest rate | Interest accrued for the period | Repayment of the loan |
|---|---|---|---|---|---|
| 6,000,000 | 28.06.2018 | 03.08.2018 | 6.66 | 39,960 | (6,000,000) |
| **Total** | | | | **39,960** | **(6,000,000)** |

In 2018, the Group paid dividends in the amount of RUB 14,000,000 thousand, including to the parent Uniper SE in the amount of RUB 11,722,480 thousand (in 2017: RUB 14,000,000 thousand, including to the parent Uniper Russia Holding GmbH in the amount of RUB 11,722,480 thousand) (Note 14).

***Loans received***

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

***Directors' and Management Board's compensation***

Members of the Company’s Management Board receive compensation for their services in full-time management positions. Compensation is made up of a contractual salary, non-cash benefits and a performance bonus depending on results of Uniper SE (long-term incentive plan (LTI) and Unipro for the period.

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

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

(RUB thousand)

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Salary and bonuses, other benefits | 268,258 | 244,226 |
| Social insurance | 111,144 | 37,754 |
| Cash-settled share-based compensation | 452,332 | - |
| **Total** | **831,734** | **281,980** |

As of 31 December 2018 the Group has payables to the Board of Directors and Management Board in the amount of RUB 32,245 thousand (31 December 2017: RUB 4,502 thousand).

## Note 6. Acquisitions and disposals

### *Disposal of 51% share in OAO Shaturskaya Management Company*

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

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

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

| | Carrying values |
|---|---|
| Accounts receivables and prepayments | 221,095 |
| Deferred income tax assets | 14,725 |
| Other current assets | 16,469 |
| Cash and cash equivalents | 3,198 |
| Other non-current liabilities | (1,426) |
| Accounts payable and accruals | (225,073) |
| Other current liabilities | (32,374) |
| **Total net assets** | **(3,386)** |
| Non-controlling interest (49%) | (197,595) |
| **Total identifiable net assets of the subsidiary** | **(200,981)** |
| **Total cash proceeds from disposal** | **16,000** |
| Less: cash and cash equivalents of subsidiary disposed | (3,198) |
| **Cash inflow and cash equivalents on sale** | **12,802** |

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

(RUB thousand)

## Note 7. Property, plant and equipment

| | Land | Electricity and heat generation | Electricity distribution | Heating network | Construction in progress | Other | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **Balance at 31 December 2017** | **69,893** | **133,461,678** | **9,787,631** | **1,207,491** | **26,671,782** | **16,777,103** | **187,975,578** |
| IFRS 16 (Note 4) | 423,692 | 523,945 | - | - | - | 21,065 | **968,702** |
| **Opening balance as at 1 January 2018** | **493,585** | **133,985,623** | **9,787,631** | **1,207,491** | **26,671,782** | **16,798,168** | **188,944,280** |
| Additions | - | - | - | - | 13,890,268 | - | **13,890,268** |
| Recognition of asset retirement obligations (Note 3) | - | 509,529 | - | - | - | - | **509,529** |
| Transfers | - | 4,349,789 | 255,789 | 76,594 | (5,661,902) | 979,730 | **-** |
| Disposals | (10) | (7,349,405) | (304) | - | (327,922) | (66,204) | **(7,743,845)** |
| Removing undamaged parts (Note 1) | - | (824,114) | - | - | 824,114 | - | **-** |
| **Balance at 31 December 2018** | **493,575** | **130,671,422** | **10,043,116** | **1,284,085** | **35,396,340** | **17,711,694** | **195,600,232** |
| **Accumulated depreciation (including impairment)** | | | | | | | |
| **Balance at 31 December 2017** | **15,222** | **64,346,072** | **5,690,266** | **927,684** | **512,387** | **10,270,436** | **81,762,067** |
| Charge for the period | - | 4,743,307 | 422,819 | 26,620 | - | 657,068 | **5,849,814** |
| Charge for the period IFRS 16 (Note 4) | 8,757 | 174,770 | - | - | - | 2,111 | 185,638 |
| Disposals | (10) | (7,348,868) | (297) | - | - | (41,235) | **(7,390,410)** |
| Impairment loss | 104,621 | 534,120 | 76,248 | 62,667 | 222,747 | 260,785 | **1,261,188** |
| Reclassification of impairment | - | 150,099 | 223 | 1 | (395,852) | 245,529 | **-** |
| **Balance at 31 December 2018** | **128,590** | **62,599,500** | **6,189,259** | **1,016,972** | **339,282** | **11,394,694** | **81,668,297** |
| **Net book value at 31 December 2017** | **54,671** | **69,115,606** | **4,097,365** | **279,807** | **26,159,395** | **6,506,667** | **106,213,511** |
| **Net book value at 31 December 2018** | **364,985** | **68,071,922** | **3,853,857** | **267,113** | **35,057,058** | **6,317,000** | **113,931,935** |

(RUB thousand)

## Note 7. Property, plant and equipment (continued)

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

## Note 7. Property, plant and equipment (continued)

Additions of assets in construction in progress for 2018 include objects for restoration unit 3 at Berezovskaya GRES (Note 1) RUB 10,004,608 thousand (for 2017: RUB 14,400,000 thousand).

At 31 December 2018, the carrying amount of property, plant and equipment reflects impairment and obsolescence loss of RUB 7,062,476 thousand (31 December 2017: RUB 6,638,767 thousand).

Disposals of assets in Construction in Progress include inventories related to current activities – RUB 327,922 thousand (2017: RUB 91,655 thousand).

At 31 March 2018, the Group performed write-off of capitalised repairs with 100% depreciation in the amount of RUB 7,345,005 thousand.

Some cash-generating units (CGUs) had a negative net present value at the end of 2018. Investments that the Group has invested in non-current assets related to CGUs with a negative value have been impaired.

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

Future cash flows for 2019-2021 years are based on the budget of the Group. Cash flows in subsequent periods are projected on the basis of the main drivers: gas and electricity, expected volumes and generating inflation.

DCF model take into account several key assumptions: nominal average cost of capital after tax and Terminal growth rate. For the purposes of determining the recoverable amount of the assets as at 31 December 2018 forecasted cash flows were discounted using the post-tax nominal weighted average cost of capital of 10.61% and terminal growth rate of 4%.

List of CGU's:

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

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

- The gas price forecast is based on the approach developed by IHS Markit (the approach is described in the report prepared in February 2019). According to the IHS Markit approach, gas prices for the domestic market should be in the interval between the maximum price that consumers are willing to pay without impairing their financial performance, and the minimum price required to launch new projects by gas producing companies.

  If the estimated future prices decrease by 5% on the long-term plan period then, assuming that electricity prices decrease by the same percentage and the other parameters remain unchanged, the value in use of the above CGUs would have decreased nevertheless the respective impairment loss would not have increased due to the sufficient size of the excess of the value in use of the CGUs over the carrying value.

(RUB thousand)

- The volume of electricity generation. The future generation forecast is based on the relationship between GDP growth and consumption. The distribution of electricity demand by region is similar to the Scheme and Development Program of the Unified Energy System for the period 2018-24 (SPD), published by the Ministries of Energy of the Russian Federation in February 2018. The key change compared with the forecast prepared in 2017 is the decrease in generation volumes due to the actual deterioration in the Group's generation volumes.

  If the estimated electricity generation volumes decrease by 10% on the long-term plan period then assuming that the other parameters remain unchanged, the value in use of the CGUs would have decreased and the respective impairment loss would not have increased due to the sufficient size of the excess of the value in use of the CGUs over the carrying value.

- Discount rate was assumed to be 10.61%.

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

- Terminal growth rate 4%.

  If Terminal growth rate was decreased by 1pp (to 3%), then, assuming that the other parameters remain unchanged, the value in use of the above stations would have decreased and the respective impairment loss would not have increased due to the sufficient size of the excess of the value in use of the CGUs over the carrying value.

As a result, in 2018 year impairment loss was recognized in amount of RUB 1,261,188 thousand including impairment of Shaturskaya GRES (RUB 648,041 thousand),Yaivinskaya GRES (RUB 309,024 thousand), Smolenskaya GRES (RUB 304,123 thousand).

At 31 December 2018 the Group recognize in the consolidated statement of financial position right-of-use assets and lease liabilities in the amount of RUB 997,945 thousand (Land: RUB 423 692 thousand, Electricity and heat generation: RUB 553,188 thousand, Other: RUB 21,065 thousand).

At 31 December 2017 PJSC Unipro leased a number of land plots owned by local governments, and offices under operating leases. Land lease payments were determined in accordance with existing agreements based on cadastral value of land plots and are subject to revision on a regular basis.

Operating lease charges determined based on lease payment rates effective as of 31 December 2017 were payable as follows:

| | **At 31 December 2017** |
|---|---|
| Less than one year | 223,129 |
| Between one and five years | 171,506 |
| More than five years | 1,406,313 |
| **Total** | **1,800,949** |

Other items of fixed assets include auxiliary production equipment, vehicles, computer equipment, office equipment and so on.

(RUB thousand)

## Note 8. Intangible assets

| | Computer software | Licenses | Grid connection | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance at 31 December 2017** | **609,614** | **2,368** | **199,485** | **811,467** |
| Additions | 244,018 | 743 | - | 244,761 |
| Disposals | (119,859) | (151) | - | (120,010) |
| **Balance at 31 December 2018** | **733,773** | **2,960** | **199,485** | **936,218** |
| **Accumulated depreciation (including impairment)** | | | | |
| **Balance at 31 December 2017** | **328,899** | **2,062** | **142,764** | **473,725** |
| Charge for the period | 176,325 | 313 | 19,955 | 196,593 |
| Disposals | (119,859) | (151) | - | (120,010) |
| Impairment | 36,464 | - | - | 36,464 |
| **Balance at 31 December 2018** | **421,829** | **2,224** | **162,719** | **586,772** |
| **Net book value at 31 December 2017** | **280,715** | **306** | **56,721** | **337,742** |
| **Net book value at 31 December 2018** | **311,944** | **736** | **36,766** | **349,446** |

| | Computer software | Licenses | Grid connection | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance at 01 January 2017** | **592,587** | **2,832** | **199,485** | **794,904** |
| Additions | 220,466 | - | - | 220,466 |
| Disposals | (203,439) | (464) | - | (203,903) |
| **Balance at 31 December 2017** | **609,614** | **2,368** | **199,485** | **811,467** |
| **Accumulated depreciation (including impairment)** | | | | |
| **Balance at 01 January 2017** | **335,962** | **2,248** | **122,816** | **461,026** |
| Charge for the period | 160,537 | 278 | 19,948 | 180,763 |
| Disposals | (203,439) | (464) | - | (203,903) |
| Impairment | 35,839 | - | - | 35,839 |
| **Balance at 31 December 2017** | **328,899** | **2,062** | **142,764** | **473,725** |
| **Net book value at 31 December 2016** | **256,625** | **584** | **76,669** | **333,878** |
| **Net book value at 31 December 2017** | **280,715** | **306** | **56,721** | **337,742** |

In 2018, the Group impaired intangible assets of the Shaturskaya GRES, Yaivinskaya GRES and Smolenskaya GRES in the total amount of RUB 36,464 thousand (2017: intangible assets of the Head office, Yaivinskaya GRES and Smolenskaya GRES in the total amount of RUB 35,839 thousand).

## Note 9. Investments in joint ventures

### *Group E.ON Connecting Energies*

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

The carrying values of the investments joint ventures as of 31 December 2018 and 31 December 2017 are summarised below:

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| OOO E.ON Connecting Energies | 110,256 | 39,990 |
| **Total investments** | **110,256** | **39,990** |

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

(RUB thousand)

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Carrying amount as of 1 January** | **39,990** | **1,198,353** |
| Contribution to the joint ventures | - | - |
| Share of results of joint venture | 70,265 | (1,158,363) |
| **Carrying amount as of 31 December** | **110,255** | **39,990** |

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

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

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

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Non-current assets | 42,716 | 44,190 |
| Current assets (including cash and cash equivalents – 31 December 2018: RUB 679,127 thousand, 31 December 2017: RUB 531,605 thousand) | 965,923 | 877,515 |
| Non-current liabilities | (216,250) | (173,213) |
| Current liabilities | (245,093) | (456,550) |
| **Net assets** | **547,296** | **291,942** |

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Revenue | 750,942 | 949,587 |
| Operating expenses | (428,748) | (4,139,035) |
| Interest income | 24,496 | 102,574 |
| Interest expense | (24,550) | (19,341) |
| (Income tax)/tax recovery | (66,785) | 246,035 |
| Profit/ (loss) from continuing operations | 255,355 | (2,860,181) |
| **Total comprehensive income** | **255,355** | **(2,860,181)** |
| Profit/ (loss) attributable to Non-controlling interest | 114,824 | (543,455) |
| **Total comprehensive loss without non-controlling interest** | **140,531** | **(2,316,726)** |
| Proportion of the Group's ownership 50.00% | **50%** | **50%** |
| **Share of total comprehensive profit/ (loss)** | **70,265** | **(1,158,363)** |

Operating expenses for FY 2018 include the loss from impairment of non-current assets in the amount of RUB 6,022 thousand (for FY 2017 – RUB 3,398,536 thousand).

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

- Decrease by the regional regulator (Price and Tariffs Committee of the Moscow Region) of tariffs for electricity and heat for 2017-18. AO NATEK Invest-Energo compared with 2016 and clarification of the position of the Federal Antimonopoly Service on the revision of this decision of the regional regulator;
- Revision of the forecasts for the growth rate of electricity and heat supply of AO NATEK Invest-Energo;
- Revision of the forecasts for the growth rate of electricity and heat supply OOO Noginsky Heating

(RUB thousand)

Center;

- AO NATEK Invest-Energo does not make the technical connection to heating networks and technological connection to electric networks of BC «Two Captains».

## Note 10. Other non-current assets

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Promissory notes | 509,065 | 674,774 |
| Loans issued to employees | 195,797 | 179,882 |
| **Total** | **704,862** | **854,656** |

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

## Note 11. Inventories

Breakdown of inventories:

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Fuel production supplies | 1,348,620 | 1,212,505 |
| Materials and supplies | 2,087,401 | 1,301,485 |
| Other inventory | 4,602 | 16,794 |
| Write-down of inventory | (16,754) | (23,904) |
| **Total** | **3,423,869** | **2,506,880** |

## Note 12. Accounts receivable and prepayments

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Trade and other receivables | 9,669,189 | 8,988,038 |
| Other financial receivables | 390,559 | 256,494 |
| Less credit loss allowance | (4,079,151) | (3,987,182) |
| **Total financial assets within trade and other receivables** | **5,980,597** | **5,257,530** |
| Prepayments to suppliers | 273,592 | 174,829 |
| VAT recoverable | 133,869 | 110,928 |
| Due from budget (excluding VAT) | 15,061 | 25,560 |
| **Total accounts receivable and prepayments** | **6,403,119** | **5,568,667** |

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

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables (Note 26).

The total amount of undiscounted ECLs at initial recognition for POCI financial assets recognised during the period was RUB 150,946 thousand.

The following table explains the changes in the credit loss allowance for trade and other receivables under simplified ECL model between the beginning and the end of the annual period:

(RUB thousand)

| | Credit loss allowance |
|---|---|
| **Trade receivables** | |
| **Balance at 31 December 2017** | **3,987,182** |
| **IFRS 9** | 7,838 |
| **Balance at 1 January 2018** | **3,995,020** |
| New originated or purchased | **494,018** |
| Changes in estimates and assumptions | (343,072) |
| **Total credit loss allowance charge in profit or loss for the period** | **150,946** |
| Amounts written off during the year as uncollectible | (66,815) |
| **Balance at 31 December 2018** | **4,079,151** |

Movements in the impairment provision for trade and other receivables during 2017 are as follows:

| | 2017 |
|---|---|
| **Trade receivables** | |
| **Provision for impairment at 1 January 2017** | **3,899,085** |
| Provision for impairment during the year | 214 517 |
| Amounts written off during the year as uncollectible | (126,420) |
| **Provision for impairment at 31 December 2017** | **3,987,182** |

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

| | At 31 December 2017 | |
|---|---|---|
| | **Trade receivables** | **Other financial receivables** |
| **Neither past due nor impaired:** | **5,000,856** | **256,494** |
| Corporations with a controlling share of ownership of the Russian Federation | 1,714,561 | - |
| Large Russian corporations | 452,460 | - |
| Medium-sized enterprises | 678,143 | 256,494 |
| Small-sized enterprises | 2,155,692 | - |

### Note 13. Short-term financial assets

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Loan receivable | - | 3,000,000 |
| Promissory notes | 963,700 | 700,836 |
| **Total** | **963 ,700** | **3,700,836** |

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

### Note 14. Equity

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

The actuarial gains and losses, cash flow hedges and fair value losses on equity instruments at FVOCI are recorded in other reserves. Cash flow hedge was applied by the Group starting from 1 January 2009 (Note 2 and Note 26).

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

(RUB thousand)

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Pre-tax amount** | **Income tax expense** | **Post-tax amount** | **Pre-tax amount** | **Income tax expense** | **Post-tax amount** |
| Equity instruments at FVOCI / AFS | 10,226 | - | 10,226 | 10,226 | - | 10,226 |
| Actuarial gain/(loss) | 795,428 | (159,086) | 636,342 | 634,964 | (126,993) | 507,971 |
| Cash flow hedges | 39,892 | (7,978) | 31,914 | 99,346 | (19,869) | 79,477 |
| **Total** | 845,546 | **(167,064)** | **678,482** | **744,536** | **(146,862)** | **597,674** |

***Share capital.*** The share capital consists of 63,048,706,145 ordinary shares with nominal value of RUB 0.40 totalling RUB 25,219,482 thousand. There were no changes in the share capital in 2018 and 2017.

***Dividends.*** In accordance with the Russian legislation, the Group distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. These financial statements are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations dealing with the profits distribution rights are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

The Annual General Shareholder's Meeting of PJSC Unipro decided on 14 June 2018 to pay dividends on the Group's common stock based on the financial results for 2017 in the amount of RUB 7,000,000 thousand in the amount of RUB 0.111 per 1 ordinary share.

An Extraordinary general Shareholder`s Meeting of PJSC Unipro, held on 7 December 2018, made the decision to pay dividends in the amount of RUB 7,000,000 thousand on the Group's common stock based on the financial results of the nine months of 2018 in the amount of RUB 0.111 per 1 ordinary share. At the date of approval of these consolidated financial statements by the Group's management, funds for payment of these dividends have been paid to the depositary for further distribution to shareholders or have been directly paid to shareholders.

The Annual General Shareholder`s Meeting of PJSC Unipro, held on 23 June 2017, made the decision to pay dividends on the Group`s common stock based on the financial results for 2016 in the amount of RUB 5,906,169 thousand, or RUB 0.0936 per 1 ordinary share, and for the 1 quarter 2017 in the amount of RUB 1,093,831 thousand, or RUB 0.0173 per 1 ordinary share. These dividends were paid.

An Extraordinary general Shareholder`s Meeting of PJSC Unipro, held on 7 December 2017, made the decision to pay dividends in the amount of RUB 7,000,000 thousand on the Group`s common stock based on the financial results of the nine months of 2017 and also from the undistributed profits of the previous years in the amount of RUB 0.111 per 1 ordinary share. These dividends were paid.

## Note 15. Pension liabilities

The tables below provide information on defined benefit obligations, pension expenses, plan assets and actuarial assumptions at 31 December 2018 and 2017.

Amounts recognised in the consolidated statement of financial position are:

| | **At 31 December 2018** | **At 31 December 2017** |
|---|---|---|
| Present value of funded obligations | 343,667 | 485,153 |
| Fair value of plan assets | (38,395) | (43,798) |
| **Total deficit of funded plans** | **305,272** | **441,355** |
| Present value of unfunded obligations | 288,814 | 282,272 |
| **Net liability in the consolidated statement of financial position** | **594,086** | **723,627** |

(RUB thousand)

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

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Interest cost | 57,666 | 63,669 |
| Current service cost | 24,325 | 21,382 |
| Actuarial (gains)/losses, recognised in the current period | (12,692) | 11,333 |
| Past-service cost | 3,228 | 642 |
| Interest income on plan assets | (3,152) | (3,788) |
| **Net expense/(gain) recognised in profit and loss** | **69,375** | **93,238** |

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

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Net liability at the beginning of the year | 723,627 | 710,109 |
| Net expense recognised in profit and loss | 69,375 | 93,237 |
| Employer contributions (payments made directly by the Company) | (17,152) | (13,833) |
| Employer contributions (to plan assets) | (21,300) | (19,907) |
| Actuarial (gains)/losses recognised in other comprehensive income | (160,464) | (45,980) |
| **Net liability at the end of the period** | **594,086** | **723,627** |

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

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Present value of pension obligations at the beginning of the year | 767,423 | 750,612 |
| Interest cost | 57,666 | 63,669 |
| Actuarial (gain)/losses, arising from changes in financial assumptions | (164,456) | 34,353 |
| Current service cost | 24,325 | 21,382 |
| Past-service cost | 3,228 | 642 |
| Benefits paid (payments made directly by the Company) | (28,574) | (13,833) |
| Actuarial gains, arising of experience adjustments on plan liabilities | (9,979) | (16,112) |
| Benefits paid from plan assets | (17,152) | (32,059) |
| Actuarial gains, arising of experience from changes in demographic assumptions | - | (41,231) |
| **Present value of defined benefit obligations (DBO) at the end of the year** | **632,481** | **767,423** |

The duration of liabilities is on average 9 years (in 2017 – 5 years). Change in the duration is due to the pension reform in RF.

(RUB thousand)

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

| | At 31 December 2018 | At 31 December 2017 | At 31 December 2016 | At 31 December 2015 | At 31 December 2014 |
|---|---|---|---|---|---|
| Present value of defined benefit obligations (DBO) | 632,481 | 767,423 | 750,612 | 881,273 | 729,887 |
| Fair value of plan assets | (38,395) | (43,798) | (40,503) | (79,951) | (69,271) |
| Net liability in the consolidated statement of financial position | 594,086 | 723,627 | 710,109 | 801,322 | 660,616 |
| Losses/(gains) arising from experience adjustments for plan liabilities | 9,979 | 16,112 | 67,598 | (1,225) | 146,261 |
| (Gains)/losses arising from experience adjustments for plan assets | (1,281) | 11,659 | (3,311) | 5,976 | (2,076) |

The principal actuarial assumptions are as follows:

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Nominal discount rate | 8,5% | 7.5% |
| Inflation | 4,0% | 4.5% |
| Future salary increase | 6,08% | 8.16% |
| Future financial support increases | 4,0% | 4.5% |
| Staff turnover | 2,5% | 2.5% |
| Mortality | Russian population table for 1998 | Russian population table for 1998 |

The Group assumes that the retirement age for women will increase from 55 years in 2018 to 60 years in 2028 and for men from 60 years in 2018 to 65 years in 2028 (59 years for men and 55 years for women at 31 December 2017).

The movements in the plan assets are as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Fair value of plan assets at 1 January** | **43,798** | **40,503** |
| Interest income on plan assets | 3,152 | 3,788 |
| Actual actuarial (gains)/losses excluding interest income on plan assets | (1,281) | 11,659 |
| Employer contributions | 21,300 | 19,907 |
| Benefits paid | (28,574) | (32,059) |
| Curtailment (gain)/ loss | - | - |
| **Fair value of plan assets at 31 December** | **38,395** | **43,798** |

Contributions expected to be paid to the plan during the annual period starting from the reporting date are RUB 69,000 thousand. Furthermore, the Group plans to make about RUB 16,000 thousand in payments to beneficiaries directly.

Plan asset structure:

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| State- and municipal bonds | 43% | 0% |
| Corporate bonds | 28% | 40% |
| Accounts receivable | 12% | 0% |
| Shares | 10% | 24% |
| Shares in mutual funds | 6% | 8% |
| Cash | 2% | 13% |
| Real estate | 0% | 15% |

(RUB thousand)

Sensitivity analysis of DBO as at 31 December 2018 is as follows:

| Assumptions | Changes in assumptions | DBO changes, % | |
|---|---|---|---|
| Discount rate 7.5% per annum | Increase by 1% | Increase | 8,9% |
| Future wage increases | Increase by 2.5% | Increase | 2,9% |
| Inflation | Decrease by 0.5% | Increase | 4,5% |
| Staff turnover | Increase by 5% for staff aged below 50 | Decrease | 3,5% |
| Disability | Decrease by 10% | Decrease | 0,3% |
| Mortality | Decrease by 10% | Increase | 2,2% |

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

## Note 16. Accounts payable and accruals

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| **Financial liabilities** | **4,540,993** | **4,075,522** |
| Trade payables | 2,205,165 | 1,846,865 |
| Accounts payable to capital construction contractors | 2,009,518 | 1,878,423 |
| Dividends payable | 260,132 | 350,234 |
| Other payables | 66,178 | - |
| **Non-financial liabilities** | **1,127,351** | **1,107,160** |
| Payables to employees | 1,086,756 | 1,096,755 |
| Advances from customers | 40,595 | 10,405 |
| **Total** | **5,668,344** | **5,182,682** |

## Note 17. Taxes payable other than income tax

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| VAT | 1,482,453 | 739,356 |
| Property tax | 332,942 | 226,529 |
| Social taxes | 82,050 | 120,541 |
| Other | 17,479 | 105,901 |
| **Total** | **1,914,924** | **1,192,327** |

Increase of VAT liability as of 31 December 2018 due to decline of input VAT.

## Note 18. Income tax

### Income tax charge

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Current income tax charge | (3,888,697) | (7,199,735) |
| Deferred income tax charge/(credit) | 62,185 | (160,530) |
| **Total** | **(3,826,512)** | **(7,360,265)** |

During the year ended 31 December 2018, the Group branches were subject to income tax on taxable profits at the following rates:

- 20% for such branches as Smolenskaya GRES, Shaturskaya GRES, Berezovskaya GRES and PJSC Unipro Russia's Moscow head office (20% in 2017);

(RUB thousand)

- 18% for Surgutskaya GRES Branch (according to Article 2.5 of Khanty-Mansi Autonomous Area-Yugra Law No. 87-OZ of 30 September 2011 on corporate income tax rates payable to the Khanty-Mansi Autonomous Area-Yugra budget), in 2017 – 18%;
- 18.2% for Yayvinskaya GRES Branch (according to Article 15, Perm Region Tax Law No. 1685-296 of 30 August 2001), in 2017 – 17.2%.

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

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Profit before income tax** | **20,444,426** | **40,965,749** |
| Theoretical tax charge at the statutory tax rate (20% for the year ended 31 December 2018 and 2017) | (4,088,885) | (8,193,150) |
| Non-deductible (expenses) | (50,507) | (197,771) |
| Effect of reduced tax rate | 192,117 | 432,210 |
| Other income tax income, net | 120,763 | 598,446 |
| **Total income tax charge** | **(3,826,512)** | **(7,360,265)** |

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

Effective tax rate for years 2018 and 2017 are 18.7% and 18% accordingly.

***Deferred income tax.*** Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets and liabilities are measured at the actual local statutory tax rate, which is 20% as of 31 December 2018 and 31 December 2017. The Group is taxed at lower tax rates in some regions of its operations, but because the Group has insufficient evidence that these declined tax rates will sustain in future, the Group has applied statutory tax rate of 20% to record its deferred tax assets and liabilities. Deferred tax assets and liabilities calculated on the temporary differences for balance sheet items are as follows:

| | At 31 December 2018 | Movement for 2018 recognised in the income / loss | Movement for 2018 recognised in comprehensive income | Disposal | At 31 December 2017 |
|---|---|---|---|---|---|
| **Deferred tax liabilities** | | | | | |
| Property, plant and equipment | (6,276,134) | (301,786) | - | - | (5,974,348) |
| Intangible assets | (37,518) | (15,804) | - | - | (21,714) |
| Short-term financial assets | 21,359 | 37,121 | 11,891 | - | (27,653) |
| | **(6,292 293)** | **(280,469)** | **11,891** | **-** | **(6,023,715)** |
| **Deferred tax assets** | | | | | |
| Inventories | 432,820 | 344,316 | - | - | 88,504 |
| Accounts payable and accruals | 293,613 | 196,627 | - | - | 96,986 |
| Pension liabilities | 118,817 | 6,185 | (32,093) | - | 144,725 |
| Accounts receivables | 99,725 | (130,054) | - | - | 229,779 |
| Other non-current assets | 15,672 | (74,420) | - | - | 90,092 |
| | **960,647** | **342,654** | **(32 093)** | **-** | **650,086** |
| **Total deferred tax liability at the end of the year** | **(5,331,646)** | **62,185** | **(20,202)** | **-** | **(5,373,629)** |

(RUB thousand)

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

Long-term deferred tax liabilities and assets as of 31 December 2018 and 31 December 2017 are RUB 6,179,163 thousand and RUB 5,761,245 thousand, accordingly.

### Note 19. Revenue

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Electricity and capacity | 75,782,322 | 74,133,824 |
| Heat | 1,402,918 | 1,294,886 |
| Other | 591,768 | 1,092,832 |
| **Total** | **77,777,008** | **76,521,542** |

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

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

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

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

(RUB thousand)

The Group derives revenue at a point in time in the following geographical regions:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Khanty-Mansi Autonomous Area-Yugra | 42,883,221 | 38,499,903 |
| Moscow Region | 12,790,982 | 11,110,485 |
| Perm Region | 10,930,124 | 9,609,657 |
| Krasnoyarsk Territory | 7,876,510 | 7,785,400 |
| Smolensk Region | 3,220,202 | 2,675,793 |
| Moscow | 75,969 | 6,840,304 |
| **Total** | **77,777,008** | **76,521,542** |

## Note 20. Operating expenses

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Fuel | 34,533,681 | 33,622,599 |
| Staff costs | 7,124,223 | 6,398,784 |
| Depreciation and amortisation of PPE and intangible assets (net of hedge results) | 6,059,304 | 5,954,354 |
| Repairs and maintenance | 1,914,075 | 3,378,277 |
| Taxes other than income tax | 1,671,528 | 1,188,616 |
| Purchase of electricity and heat | 1,548,774 | 1,245,277 |
| Operational dispatch management | 1,299,198 | 1,273,705 |
| Impairment of property, plant and equipment and intangible assets (Notes 7, 8) | 1,297,652 | 325,211 |
| Raw materials and supplies | 608,547 | 583,995 |
| Security | 473,770 | 487,633 |
| Insurance cost | 331,979 | 360,699 |
| Water usage expenses | 198,545 | 185,830 |
| Transportation expenses | 179,824 | 173,778 |
| Credit loss allowance | 150,946 | 214,517 |
| Rent expenses | - | 131,243 |
| Other expenses | 897,879 | 1,196,659 |
| **Total** | **58,289,925** | **56,721,177** |

Repairs and maintenance expenses in 2018 include the costs of repair and liquidation of damaged fixed assets after the accident unit 3 at Berezovskaya GRES the 800 MW in the amount of RUB 6 864 thousand (in 2017 - RUB 1,338,547 thousand).

### Staff costs include:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Salaries and wages, including payroll taxes | 6,019,448 | 5,319,406 |
| Pension costs – defined contribution plans (including state pension fund) | 1,067,953 | 1,011,171 |
| Termination benefits | 21,919 | 42,955 |
| Pension costs – defined benefit plans | 14,903 | 25,252 |
| **Total staff costs** | **7,124,223** | **6,398,784** |

Remuneration of the key management personnel that comprises payments to members of the Management Board and the Board of Directors of the Parent Company, is recorded within staff costs and includes annual compensation and performance bonus depending on results of Uniper SE (long-term incentive plan (LTI) and Unipro for the reporting year and a provision for the long-term incentive plan for achievement of the Group’s strategic targets (Note 5).

(RUB thousand)

## Note 21. Other operating income

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Income from accounts payable write-off | 99,790 | 145,766 |
| Release of provision for bonuses and insurance provision | 86,633 | 18,721 |
| Gain on sale and disposal of inventories | 79,590 | 31,390 |
| Gain on sale and disposal of property, plant and equipment | 57,486 | 230,266 |
| Penalties from other market participants | 46,900 | 156,603 |
| Income from inventory count | 23,902 | 6,883 |
| Prior periods' gains | 11,238 | 39,332 |
| Insurance compensation (Note 1) | - | 20,448,715 |
| Income from VAT refund | - | 192,017 |
| Other income | 53,431 | 116,603 |
| **Total** | **458,970** | **21,386,296** |

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

## Note 22. Finance income and expense

### Finance income

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Interest income (loan issued, deposits and cash) | 585,642 | 861,635 |
| Other interest income | 131,199 | 176,749 |
| Foreign exchange gains | - | 67,850 |
| **Total** | **716,841** | **1,106,234** |

### Finance expense

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Foreign exchange losses | 128,692 | - |
| Interest expenses | 74,854 | 66,398 |
| Interest of the pensions liabilities | 51,089 | 62,463 |
| Other expenses | 34,098 | 39,922 |
| **Total** | **288,733** | **168,783** |

Interest expenses includes interest expense in relation to leases accounted for under IFRS 16 RUB 51,807 thousand and asset retirement obligations RUB 19,548 thousand.

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

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

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Weighted average number of ordinary shares, outstanding during the year, net (shares) | 63,048,706,145 | 63,048,706,145 |
| Profit attributable to the shareholders of PJSC Unipro (RUB thousand) | 16,617,914 | 33,608,870 |
| Basic and diluted earnings per share attributable to shareholders of PJSC Unipro (in RUB) | 0.26 | 0.53 |

Diluted earnings per share are equal to basic earnings as there were no contracts with a potential dilutive effect for 2018 and 2017 years.

## Note 24. Commitments

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

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

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

The principal natural gas suppliers are PAO NOVATEK, PAO NK Rosneft, OOO NOVATEK-Perm, PAO Surgutneftegaz, OOO LUKOIL-Rezervnefteproduct. Contracts with these suppliers have been concluded mid-term and long-term.

The main coal supplier is AO Sibirskaya ugolnaya energeticheskaya kompaniya. The Contract with it have been concluded for the term more than 5 years up to 2025.

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

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

Cost of purchasing gas and coal in 2018 is RUB 32,109,512 thousand (in 2017 is RUB 31,049,358 thousand) and RUB 2,230,779 thousand (in 2017 is RUB 2,422,298 thousand), respectively (without VAT).

Purchase of fuel oil for the needs of power plants of the Group is performed periodically, as the need arises. Contracts for the purchase of fuel oil are concluded following appropriate procurement procedures. Cost of purchasing oil for 2018 is RUB 355,536 thousand (in 2017 is RUB 157,034 thousand).

All fuel purchase contracts of the Group were concluded for the purpose of fuel receipt in accordance with the Group’s expected own usage requirements and are out of scope of IFRS 9 “Financial Instruments”.

***Capital commitments.*** As of 31 December 2018, the Group had contractual capital expenditure commitments with respect to property, plant and equipment totalling RUB 15,995,836 thousand (as of 31 December 2017: RUB 18,487,651 thousand).

The commitments with respect to property, plant and equipment include commitments of realization of the project "Construction of the 3rd power unit PSU-800 on the basis of branch Berezovskaya GRES" RUB 508,110 thousand (2017: RUB 1,070,951 thousand) and restoration commitments of unit 3 at Berezovskaya GRES the 800 MW after the accident in February 2016 (Note 1) amounted RUB 12,952,061 thousand (as of 31 December 2017: RUB 14,955,571 thousand).

## Note 25. Contingencies

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

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

***Sustainable Development.***The Group is dedicated to sustainable development principles and undertakes the responsibility to create favorable living conditions for the population of the regions where it operates, to provide jobs and minimize damage to the environment.

In terms of corporate social responsibility, the Group is actively involved in funding social and charitable programs that deal with support to disadvantaged groups of the population, primarily children with special needs and elderly people. The Group is also involved in developing educational, cultural and sports programs.

In the focus of attention are projects to restore the cultural heritage. Thus, in 2018 the Group provided significant assistance to Krasnoyarsk Territory in the organisation of the International University Games. In particular, the Group funded the restoration of Pokrovsky Park – a historical site on the map of Krasnoyarsk, and the focal cultural event of the Universiad – an exhibition of works of the great Russian painter V.I. Surikov. In addition, the Group carried on the unique initiative to restore the heritage of Russian composers. The fifth stage of the project saw the restoration of works by early 20$^{th}$ century Russian composer Leonid Polovinkin.

The Group spent RUB 154,322 thousand on charitable aid in 2018 (in 2017: RUB 40,267 thousand).

***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 and the formal documentation supporting the tax positions may be challenged tax authorities. 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.

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

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

The Group exercised its right to litigate the Decision of tax authority dated 9 January 2017 № 03-1-28/1/1 and filed an appeal to the Arbitration Court of Moscow with the demand:

- to oblige the tax authority to reflect real tax liabilities as a result of the audit which should be affected by the recalculation of depreciation expenses related to revised approach to recognize mobilization, environmental and costs for bringing new technologies as well calculation of increased property tax liability for the corporate tax purposes;
- to decrease total corporate tax liability by RUB 247,099 thousand.

The hearing was held on 15 February 2018 and was resolved in favor of the Group.

The Court of Appeal in its Decision dated 12 July 2018 left the Decision of the first instance unchanged. Based on this positive Decision of the Court of Appeal the decrease in corporate tax liability was booked for RUB 247,099 thousand as income tax charge.

The Cassation Court in its Decision dated 18 October 2018 left previous court Decisions unchanged. The tax authority did not file the appeal to the Supreme Court.

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

Russian transfer pricing (TP) legislation is generally aligned with the international TP principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. The TP legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The Management has implemented internal controls to comply with current TP legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of TP rules, that such 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 Group's operations.

Management believes that as of 31 December 2018 its interpretation of the relevant law is appropriate and that the Group's position is sustainable as it relates to application of tax, currency and customs legislation.

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

However, according to the Group , wholesale electricity market regulations the capacity payments shall be made in reduced amount (about 7 %) from the date of accident and, respectively, from the stop of unit operation.

SO UPS shall send the capacity testing notification right after the 6 months starting from the date of accident. If the test is not performed within 3 months after notification, SO UPS shall fix the capacity volume at zero level, and the payments should not anymore be charged.

On 26 January 2018 (full text issued on 8 February 2018), FAS took the decision in which it found Group and SO UPS guilty in abuse of dominance expressed in refusal to initiate the testing of the equipment of the Unit

3 of Berezovskaya GRES right after the accident. The case was closed in the part of anti-competitive agreement charge due to lack of evidences.

On 28 March 2018 the Group and SO UPS challenged the decision of the FAS in the Moscow Arbitration Court (each plaintiff appealed against the decision in the relevant part).

On 11 July 2018 the Moscow Arbitration Court dismissed the plaintiffs' claims in full. On 18 July 2018 the the Moscow Arbitration Court has produced a full judgment.

On 25 May 2018 the officers of the FAS drew up an administrative offence report against the Group.

On 03 August 2018 FAS issued a decision in respect of Group on the imposition of a fine in the case of an administrative offence in the amount of RUB 650 thousand. This decision was challenged by Group in the Moscow Arbitration Court.

On 18 December 2018 the Group, SO UPS and FAS signed a settlement agreement, which on 19 December 2018 was approved by 9 Arbitration court of Appeal (hereinafter – the Court of Appeal). At the same time as the settlement agreement was approved, the Court of Appeal overturned the decision of Moscow Arbitration Court.

In the settlement agreement, FAS recognized that (1) the Group had the right to receive payment for power within 9 months from the date of the accident, (2) there are no grounds for the conclusion about the actual absence or loss of the main power equipment of unit 3 of the Berezovskaya GRES, (3) the decision of the FAS does not affect the CSA.

Group in turn in the settlement agreement (1) recognized that in the course of 2016 held a dominant position on the market of electric energy and capacity in the area of the free flow of Siberia and has abused its dominant position, and (2) refused to challenge previously imposed by the FAS of a fine on the Group.

In full, the decision of the Court of Appeal on the approval of the settlement agreement was published on December 26, 2018 and from that date is considered to have entered into force. This decision can be appealed within 2 months to the court of cassation.

On December 24, 2018, the arbitration case on challenging the fine imposed by the FAS amounted RUB 650 thousand was terminated by Moscow Arbitration Court in connection with the refusal of the Group from the claims. The Group paid this fine to the budget of the Russian Federation.

Based on the above as of 31 December 2018 no provision was accrued.

***Termination of the CSA.*** December 20, 2018 PJSC RUSAL Bratsk filed a lawsuit to the Moscow Commercial Court against PJSC Unipro, System Operator of the United Power System (hereinafter – SO UPS), JSC Administrator of the Trading System (hereinafter – ATS) and non-commercial partnership association Market Council (hereinafter – NP Market Council) on termination of the CSA concluded in respect of the Berezovskaya GRES Power Unit No. 3, as well as demanding the return of unjust enrichment. On January 22 and 23, 2019, three more organizations from the RUSAL group of companies (RUSAL Sayanogorsk, RUSAL Novokuznetsk, and RUSAL Energo) filed to the Moscow Commercial Court their lawsuits against PJSC Unipro. The total amount of claims is RUB 386 million.

These lawsuits were accepted by the Moscow Commercial Court for proceedings, and preliminary hearings in order to prepare court cases for the consideration on the merits are already scheduled.

On the date of the signing of this reporting, the defendants (PJSC Unipro, SO UPS, ATS, NP Market Council) as well as the third parties who do not declare independent claims regarding the subject of the dispute (the Ministry of Energy of Russia, Association Council of Energy Producers, the Federal Service for Environmental, Technological and Nuclear Oversight of Russia (hereinafter - Rostekhnadzor)) have not provided their official statements of defense with arguments against the lawsuits of the companies from the RUSAL group as well as reasoning facts have not been revealed.

At present, it is impossible to assess the risks of satisfying the stated claims for the termination of the CSA and the return of unjust enrichment because currently the position of the defendants and third parties, as well as arguments and reasoning facts, remain unclear.

Based on the foregoing, December 31, 2018 the reserve was not accrued.

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

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

## Note 26. Financial instruments and financial risk factors

### *Offsetting financial assets and financial liabilities*

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

The main objectives of the risk management system are identification and assessment of risks, timely development of preventive measures, monitoring and reporting on risks. The Risk and Finance Committee includes managers and representatives of key functional areas who are responsible for operational, legal and financial activities. The Committee ensures the implementation of the strategy of credit and market (including currency) risk management, prepares recommendations for the Executive bodies on risk management, reviews and approves reports on risks and chances.

Among the risks associated with financial instruments and the financial condition of the Group, currency risk, credit risk, liquidity risk and interest rate risk should be noted. Currency and credit risks are managed by creating a system of limits and maintaining exposure to risks within the established limits.

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

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

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

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

The fair values of the designated hedging instruments in cash flow hedges at 31 December 2018 totalled RUB 22,136 thousand (31 December 2017: RUB 21,017 thousand).

As of 31 December 2018, the hedged transactions could effect to the consolidated statement of comprehensive income with maturities of up to 32 years (2017: up to 33 years).

Cash flow hedging proved effective, and correspondingly no inefficiency was recognized in profit or loss during the FY 2018 and 2017.

As of 31 December 2018 and 2017, the following effects will accompany the reclassifications from accumulated other comprehensive income to the consolidated statement of comprehensive income in subsequent periods.

(RUB thousand)

Timing of Reclassifications from other reserves in equity to the profit or loss at 31 December 2018:

| | Carrying amount | Expected gains 2019 | 2020 | 2021-2023 | >2023 |
|---|---|---|---|---|---|
| Currency cash flow hedges | 31,914 | 10,638 | 10,638 | 10,638 | - |

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

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

An income of RUB 175,704 thousand (2017: a loss of RUB 394,164 thousand), net of income tax, was posted to other comprehensive income in 2018. In the same period, an income of RUB 223,267 thousand (2017: an income of RUB 207,476 thousand), net of income tax, was reclassified from other reserves in equity to the profit or loss.

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

| | At 31 December 2018 | | | At 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **Monetary financial assets** | **Monetary financial liabilities** | **Net balance sheet position** | **Monetary financial assets** | **Monetary financial liabilities** | **Net balance sheet position** |
| Russian rouble | 12,433,121 | (5,290,763) | 7,142,358 | 12,708,896 | (3,495,141) | 9,213,755 |
| US Dollar | 3,180 | (2,076) | 1,104 | 113,474 | - | 113,474 |
| Euro | 22,883 | (1,236) | 21,647 | 48,799 | (580,381) | (531,582) |
| **Total** | **12,459,184** | **(5,294,075)** | **7,165,109** | **12,871,169** | **(4,075,522)** | **8,795,647** |

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

| | At 31 December 2018 | | At 31 December 2017 | |
|---|---|---|---|---|
| | **Impact on profit or loss** | **Impact on other comprehensive income** | **Impact on profit or loss** | **Impact on other comprehensive income** |
| Incremental (loss) / profit from US Dollar strengthening by 10% | 110 | - | - | 11,347 |
| Incremental profit / (loss) from US Dollar weakening by 10% | (110) | - | - | (11,347) |
| Incremental (loss) / profit from Euro strengthening by 10% | (49) | 2,214 | (58,038) | 4,880 |
| Incremental profit / (loss) from Euro weakening by 10% | 49 | (2,214) | 58,038 | (4,880) |

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

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

(RUB thousand)

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Cash | 4,788,075 | 3,058,326 |
| Trade receivables | 5,590,038 | 5,000,856 |
| Loan receivable | - | 3,000,000 |
| Promissory notes | 1,472,765 | 1,375,610 |
| Other receivables | 390,559 | 256,494 |
| Loans issued to employees | 195,797 | 179,882 |
| Equity instruments at FVOCI) | 21,950 | - |
| AFS | - | 16,381 |
| **Total** | **12,459,184** | **12,887,549** |

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

The following is an analysis of the credit quality of loan receivable, promissory notes and equity instruments at FVOCI:

| | At 31 December 2018 | | | At 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Promissory notes | Loan receivable | Equity instruments at FVOCI | Promissory notes | Loan receivable | AFS |
| Neither past due nor impaired: | 1,472,764 | - | 21,950 | 1,375,610 | 3,000,000 | 16,381 |
| rating below A- | 1,472,764 | - | 21,950 | 1,375,610 | 3,000,000 | 16,381 |

Rating was determined based on S&P and Moody's credit ratings.

***Expected credit loss (ECL) measurement.*** IFRS 9 introduced a new impairment model for the following financial assets: financial assets that are debt instruments measured at amortized cost (AC) or at FVOCI.

Trade receivables and other financial assets belong to debt instruments measured at amortized cost but a simplified impairment approach is applied.

According to the impairment model, expected credit losses are measured at either 12-month expected credit losses or lifetime expected credit losses. A credit loss is the difference between all contractual cash flows that are due to the Group and the cash flows that the Group expects to receive (i.e. all cash shortfalls) discounted at the original effective interest rate.

- Stage 1: If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the Group shall recognize a loss allowance equal to 12-month expected credit losses.
- Stage 2: If, at the reporting date, the credit risk on a financial asset has increased significantly since initial recognition, the Group shall recognize a loss allowance equal to lifetime expected credit losses.
- Stage 3: If there is objective evidence, that the asset is impaired, the Group shall recognize a loss allowance equal to lifetime expected credit losses. In this case the effective interest rate shall be applied to the net carrying amount of the financial asset.

The Group allocates the financial assets in scope to stage 1, 2 or 3 and calculates expected credit losses accordingly.

The Group assess whether the credit risk of an asset has increased significantly since initial recognition. The Group use the following guidelines:

- Credit risk of an asset has not increased significantly, if the financial instrument is determined to have a low credit risk at the reporting date.

- A financial asset that has a rating of “investment grade” or similar is considered to have low credit risk.
- If an asset loses its investment grade rating, the credit risk has increased significantly since initial recognition.
- There is a rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. The Group can rebut this presumption when it has reasonable information that credit risk has not increased significantly.
- If a financial instrument in scope of the impairment model has a non-investment grade rating at initial recognition, a downgrade of two rating-classes indicates a significant increase of credit.

Stage 3 covers financial assets for which the Group has objective evidence of impairment at the reporting date. Those assets shall be impaired. The following indicators are used to assess whether a financial asset is impaired:

- significant financial difficulty of the counterparty;
- a breach of contract (default or past due event);
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganization;
- disappearance of an active market for the asset or purchase / origination at a deep discount;
- rebuttable presumption: payments are more than 180 days past due.

For trade receivables always a loss allowance equal to the lifetime expected credit losses is calculated. The Group applies this simplified approach also to trade receivables.

*Calculation of expected credit losses*

The Group uses a probability of default approach like outlined in IFRS 9. The calculation uses the following factors:

- Exposure at default (EAD): exposure of a financial asset upon default of an obligor. The EAD of a financial asset which is it recognized at amortized cost is usually the carrying amount at the reporting date.
- Probability of default (PD): Likelihood that a borrower will be unable to meet its obligations.

Also ratings of peer groups are taken if no other information is available without undue cost or effort. It is also used the ratings of parent companies, if no particular rating for subsidiary is available. For public companies country-ratings are used.

- Loss given default (LGD): Share of an asset that is lost if a borrower defaults.

EAD is usually the present value of all contractual cash flows that are due to the Group under the contract.

As the effective interest method is mandatory for the amortised cost measurement, the carrying amount of a financial asset measured at amortised cost should always equal the EAD at a reporting date.

The Group uses a constant LGD of 45%.

For all trade and other receivables that have no individual PD the internal rating allocation should be used, when the trade receivables go into default when a payment is at least 180 day overdue.

*Cash and cash equivalents*

(RUB thousand)

The Group regularly reviews and approves the list of banks and credit limits for placing deposits. The Group continuously assesses these banks' financial position and reviews ratings assigned by independent agencies, past practice and other factors.

The Group placed cash and cash equivalents in the following banks (ratings are given as of 31 December 2018):

| Name | Rating | Rating agency | At 31 December 2018 | At 31 December 2017 |
|---|---|---|---|---|
| Bank GPB (JSC) | Ba2 | Moody's | 1,824,305 | 2,537,307 |
| VTB Bank (public joint-stock company) | Ba2 | Moody's | 550,003 | 300,028 |
| AO UniCredit Bank | BBB- | Fitch | 1,400,053 | 109,961 |
| Sberbank of Russia | Ba2 | Moody's | 5,610 | 87,452 |
| Bank "ROSSIYA" | - | - | 7,806 | 23,416 |
| Central Counterparty National Clearing Centre | BBB- | Fitch | 1,000,000 | - |
| Other banks and cash in hand | - | - | 298 | 162 |
| **Total cash** | | | **4,788,075** | **3,058,326** |

***Liquidity risk.*** Reasonable liquidity risk management includes having sufficient funds to support the Group's continued operations. The part of the Group's accounts payable are of a short-term nature (less than one month) and stem from the Group's agreements with fuel suppliers and production-related service providers.

The Group has significant commitments as part of its investment programme and is planning to meet the associated expenditure from funds placed on deposit and cash flows from operating activity.

Also the Group has non-current financial liabilities of lease liabilities.

The table below shows an allocation of lease liabilities at 31 December 2018 by their remaining contractual maturity.

The amounts disclosed in the maturity table are the contractual undiscounted cash flows.

| | To 12 months | From 12 months to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Lease liabilities | 237,237 | 337,691 | 1,406,313 | **1,981,242** |
| **Total future payments, including future principal and interest payments** | **237,237** | **337,691** | **1,406,313** | **1,981,242** |

Management controls its liquidity risk by preparing detailed cash flow forecasts.

***Presentation of Financial Instruments by Measurement Category***

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently. In addition, finance lease receivables form a separate category.

For the purposes of measurement at 31 December 2017, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL").

Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables represent a separate category.

(RUB thousand)

All of the Group's financial assets at 31 December 2017 fell in the category loans and receivables except for financial derivatives. All of the Group's financial liabilities except for derivatives were carried at AC. Derivatives belonged to the FVTPL measurement category and were held for trading.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

| | FVTPL (mandatory) | Equity instruments at FVOCI | AC | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| ***Cash and cash equivalents*** | - | - | ***4,788,075*** | ***4,788,075*** |
| ***Investments in debt securities*** | | - | ***1,472,765*** | ***1,472,765*** |
| - Promissory notes | | - | 1,472,765 | 1,472,765 |
| ***Investments in equity securities*** | - | ***21,950*** | - | ***21,950*** |
| - Corporate shares | - | 21,950 | - | 21,950 |
| ***Other financial assets:*** | ***22,136*** | - | ***6,154,258*** | ***6,176,394*** |
| - Trade receivables | - | - | 5,590,038 | 5,590,038 |
| - Foreign exchange forward contracts | 22,136 | - | - | 22,136 |
| - *Other* | - | - | 564,220 | 564,220 |
| **TOTAL FINANCIAL ASSETS** | **1,494,901** | **21,950** | **10,942,333** | **12,459,184** |

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2017:

| | At 31 December 2017 |
|---|---|
| **ASSETS** | |
| **Loans and receivables** | |
| **Accounts receivable and prepayments (Note 12)** | **5,257,350** |
| Trade receivables | 5,000,856 |
| Other financial receivables | 256,494 |
| **Short-term financial assets (Note 13)** | **3,700,836** |
| Loans receivable | 3,000,000 |
| Promissory notes | 700,836 |
| **Non-current assets (Note 10)** | **854,656** |
| Promissory notes | 674,774 |
| Loans issued to employees | 179,882 |
| **Cash and cash equivalents** | **3,058,326** |
| **Total loans and receivables** | **12,871,168** |
| **Available-for-sale financial assets** | |
| Long-term financial assets | 16,381 |
| **Total available-for-sale financial assets** | **16,381** |
| **Total financial assets** | **12,887,549** |

As of 31 December 2018 and 31 December 2017, all of the Group's financial liabilities were carried at AC.

During 2018 the Group received non-interest bearing banking promissory notes VTB Bank (public joint-stock company) (Moody's credit rating Ba2) as a settlement of customer debt for electricity and capacity sold at the amount RUB 875,170 thousand (2017: RUB 708,632 thousand).

These promissory notes initially are recognized at their fair value as at the date of receipt. The fair values of these promissory notes were determined based on repayment dates and discount rates (using the average rate received on RUB deposits opened during 2018).

(RUB thousand)

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

| | Liabilities from financing activities | | |
|---|---|---|---|
| | **Loan** | **Other liabilities from financing activities** | **Total** |
| **Net debt as at 1 January 2017** | **2,307,756** | **442,591** | **2,750,347** |
| Cash flows, net | (2,373,374) | (13,390,222) | (15,763,596) |
| Other non-cash movements | 65,618 | 13,297,865 | 13,363,483 |
| **Net debt as at 31 December 2017** | - | **350,234** | **350,234** |
| Cash flows, net | - | (13,288,600) | (13,288,600) |
| Other non-cash movements | - | 13,198,498 | 13,198,498 |
| **Net debt as at 31 December 2018** | - | **260,132** | **260,132** |

Other liabilities from financing activities are represented by dividends payable. Movements were presented net of tax on dividends (RUB 711,400 thousand and RUB 609,778 thousand paid in 2018 and 2017 respectively).

***Interest rate risk.*** The Group is not significantly exposed to fair value interest rate risk, as the Group does not have significant financial assets and liabilities with fixed interest rates. However, the Group has interest-bearing assets which are exposed to cash flow interest rate risk. The Group's significant interest-bearing assets are disclosed in Notes 10 and 13 (loan issued and promissory notes).

## Note 27. Risks associated with capital (capital management)

When managing capital, the Group's objectives are to safeguard the Group's ability to continue as a going concern and provide returns to shareholders, and to maintain an optimal capital structure to reduce capital costs.

Russian law details the following capital requirements:

- Share capital in a public company must be at least 100,000 RUB;
- If the net asset value of the company at the end of the second reporting year or each following reporting year is less than its authorised capital, the board of directors of the company shall be obliged to include a section dedicated to the state of its net assets in the annual report in the course of preparation for the annual general meeting of shareholders.
- If the net asset value of the company remains less than its authorised capital at the end of the reporting year following the second reporting year or any following reporting year, at the end of which the value of the net assets of the company is lower than its authorised capital, the company shall be obliged to take one of the decisions to decrease the company's authorised capital to a level that does not exceed the net asset value or to liquidate the company.

As of 31 December 2018 and 2017, PJSC Unipro's capital complied with these requirements.

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

To support or adjust the capital structure, the Group can regulate the amount of dividends that have been paid out, return capital to shareholders, issue new shares or sell assets to repay debts.

The Group uses the debt factor to manage capital structure.

The debt factor is calculated as net debt divided by EBITDA, determined as earnings before interest, tax, depreciation, amortization and impairment of PPE and intangible assets. The value of net debt is determined as the sum of total financial and pension liabilities in the consolidated statement of financial position less total financial assets.

(RUB thousand)

The Group's strategy in 2018 was to maintain the debt factor at a level not exceeding 3.

The debt factor is presented below:

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Trade and other receivables (Note 12) | 5,980,597 | 5,257,350 |
| Short-term financial assets | 963,700 | 3,700,836 |
| Cash and cash equivalents | 4,788,075 | 3,058,326 |
| Non-current assets (Note 10) | 704,862 | 854,656 |
| Long-term financial assets | 21,950 | 16,381 |
| **Total financial assets** | **12,459,184** | **12,887,549** |
| Accounts payable and accruals (Note 16) | (4,540,993) | (4,075,522) |
| Current portion of long-term lease liabilities | (237,238) | - |
| Long-term lease liabilities | (515,844) | - |
| **Total financial liabilities** | **(5,294,075)** | **(4,075,522)** |
| **Pension liabilities** | **(594,086)** | **(723,627)** |
| Excess of financial assets over financial and pension liabilities | 6,571,023 | 8,088,400 |
| Debt factor | 0.42 | 0.32 |

The debt factor demonstrates low dependence on external financing at the reporting date (for both – FY2018 and FY 2017).

**Note 28. Segment information**

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

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

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

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Earnings before interest, tax, depreciation and amortization (EBITDA) before non-operating effects for: | | |
| 5 power plants | 29,693,577 | 49,201,942 |
| Other segments | (1,932,138) | (1,673,494) |
| **Total earnings before interest, tax, depreciation and amortization (EBITDA) before non-operating effects** | **27,761,439** | **47,528,448** |
| Depreciation and amortization | (6,794,800) | (6,275,737) |
| **Total earnings before interest and tax (EBIT) before non-operating effects** | **20,966,639** | **41,252,711** |

(RUB thousand)

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

| | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| **Earnings before interest and tax (EBIT) before non-operating effects** | **20,966,639** | **41,252,711** |
| Adjustment of non-operating expenses | (1,744,133) | **-** |
| *Impairment of joint venture investments* | - | *(1,011,009)* |
| *Impairment non-current assets* | *(1,187,726)* | **-** |
| *Expenses (LTI)* | *(556,407)* | **-** |
| Adjustment of positive currency difference in EBIT | **19,222,506** | **40,241,702** |
| Finance income | 128,692 | (58,545) |
| Finance expense | 716,841 | 1,106,234 |
| Extraordinary effects | (288,733) | (168,783) |
| Share of results of joint venture | 70,265 | (147,352) |
| Other adjustments | 594,855 | (7,507) |
| **Profit before income tax** | **20,444,426** | **40,965,749** |

Impairment of non-current assets in 2018 is reflected in the statement as non-operating expenses according to the Uniper Group's Accounting Manual.

Other adjustments are mainly related to the following items:

| | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| Difference on disposal of property, plant and equipment | 33,994 | - |
| Difference in depreciation and impairment of property, plant and equipment and capitalised repair costs | 614,666 | (3,828) |
| Other | (53,806) | (3,679) |
| **Differences in amounts for the purposes of Uniper SE consolidated financial statements** | **594,854** | **(7,507)** |

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

| | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| External revenue of 5 power plants | 77,612,764 | 75,701,176 |
| Other segments | 985,457 | 1,640,342 |
| Intersegment revenue (eliminations) | (821,213) | (819,976) |
| **Total revenues according to the Group`s financial statements** | **77,777,008** | **76,521,542** |

The Group's revenues are analysed by products and services in Note 19.

Revenues from customers representing 10% or more of the total revenues are as follows:

| | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| AO CFS | 35,404,889 | 36,542,688 |
| PAO Mosenergosbyt | 9,872,528 | 7,817,205 |
| Others (mainly distribution companies, under 10% each) | 32,499,591 | 32,161,649 |
| **Total** | **77,777,008** | **76,521,542** |

The Group operates and owns assets only in the Russian Federation.