PJSC Inter RAO

Interim condensed consolidated financial statements

For the three and six months ended 30 June 2016 (unaudited)

Contents

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улучшаем мир

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Report on review of interim condensed consolidated financial statements

To the shareholders and Board of Directors of
PJSC Inter RAO

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of PJSC Inter RAO and its subsidiaries (the "Group"), which comprise the interim consolidated statement of financial position as at 30 June 2016 and the related interim consolidated statements of comprehensive income for the three-month and six-month periods then ended, interim consolidated statements of changes in equity and cash flows for the six-month period then ended and explanatory notes. Management of PJSC Inter RAO is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Ernst & Young LLC

29 August 2016

Moscow, Russia

Interim consolidated statement of financial position

(in millions of RUR)

	Note	30 June 2016	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment	6	282,700	277,565
Intangible assets		10,804	12,868
Investments in associates and joint ventures	7	33,229	31,125
Deferred tax assets		4,180	4,412
Available-for-sale financial assets	8	5,857	5,865
Other non-current assets	9	18,720	8,721
Total non-current assets		**355,490**	**340,556**
Current assets			
Inventories		15,745	15,898
Accounts receivable and prepayments	10	91,210	81,841
Income tax prepaid		4,425	1,925
Cash and cash equivalents	11	101,126	65,840
Other current assets	13	25,573	19,131
		238,079	**184,635**
Assets classified as held-for-sale	12	–	38,048
Total current assets		**238,079**	**222,683**
Total assets		**593,569**	**563,239**
Equity and liabilities			
Equity			
Share capital	14	293,340	293,340
Treasury shares	14	(58,787)	(56,184)
Share premium		69,312	69,312
Hedge reserve		(12)	(12)
Actuarial reserve		(386)	(91)
Fair value reserve		922	865
Foreign currency translation reserve		4,113	7,041
Retained earnings		109,646	48,392
Total equity attributable to shareholders of the Company		**418,148**	**362,663**
Non-controlling interest		2,212	2,705
Total equity		**420,360**	**365,368**
Non-current liabilities			
Loans and borrowings	15	10,123	42,617
Deferred tax liabilities		14,962	12,911
Other non-current liabilities	17	7,257	6,032
Total non-current liabilities		**32,342**	**61,560**
Current liabilities			
Loans and borrowings		52,348	33,712
Accounts payable and accrued liabilities	16	83,290	95,143
Other taxes payable		5,024	6,586
Income tax payable		205	870
Total current liabilities		**140,867**	**136,311**
Total liabilities		**173,209**	**197,871**
Total equity and liabilities		**593,569**	**563,239**

Chairman of the Management Board Kovalchuk B.Yu.

Member of the Management Board, Chief Financial Officer Palunin D.N.

29 August 2016

The interim consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out in Notes 1-27.

Interim consolidated statement of comprehensive income

(in millions of RUR)

	Note	For the three months ended 30 June 2016	For the three months ended 30 June 2015	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Revenue	18	182,711	175,171	407,093	391,633
Other operating income	19	34,400	2,389	35,818	5,573
Operating expenses, net	20	(170,664)	(172,652)	(375,170)	(374,920)
Operating income		**46,447**	**4,908**	**67,741**	**22,286**
Finance income	21	2,513	3,539	4,475	5,955
Finance expenses	21	(3,064)	(3,472)	(6,256)	(6,086)
Share of profit of associates and joint ventures, net	7	1,719	424	3,343	1,313
Income before income tax		**47,615**	**5,399**	**69,303**	**23,468**
Income tax expense	22	(2,630)	(1,751)	(7,334)	(3,778)
Income for the period		**44,985**	**3,648**	**61,969**	**19,690**
Other comprehensive (loss)/income					
Other comprehensive (loss)/income that will be reclassified subsequently to profit or loss when specific conditions are met					
Actuarial (loss)/gain, net of tax		(300)	181	(300)	181
(Loss)/gain on available-for-sale financial assets and assets classified as held-for-sale, net of tax	8, 12	(170)	105	57	(318)
Net gain/(loss) on hedge instruments, net of tax		20	(42)	–	(42)
Exchange loss on translation to presentation currency		(1,532)	(1,097)	(3,107)	(1,609)
Other comprehensive loss, net of tax		**(1,982)**	**(853)**	**(3,350)**	**(1,788)**
Total comprehensive income for the period		**43,003**	**2,795**	**58,619**	**17,902**
Income attributable to:					
Shareholders of the Company		44,475	3,440	61,622	18,783
Non-controlling interest		510	208	347	907
		44,985	**3,648**	**61,969**	**19,690**
Total comprehensive income attributable to:					
Shareholders of the Company		42,563	2,634	58,456	17,217
Non-controlling interest		440	161	163	685
		43,003	**2,795**	**58,619**	**17,902**
Basic and diluted income per ordinary share for income attributable to the shareholders of the Company		**RUR** **0.532**	**RUR** **0.041**	**RUR** **0.735**	**RUR** **0.223**

Chairman of the Management Board — Kovalchuk B.Yu.

Member of the Management Board, Chief Financial Officer — Palunin D.N.

29 August 2016

The interim consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out in Notes 1-27.

Interim consolidated statement of cash flows

(in millions of RUR)

	Note	For the six months ended 30 June 2016	2015
Operating activities			
Income before income tax		69,303	23,468
Adjustments to reconcile income before tax to net cash flows from operating activities:			
Depreciation and amortisation	20	11,100	11,445
Provision for impairment of accounts receivable	20	5,690	2,471
Other provisions charge	20	709	189
Impairment of available-for-sale financial assets	8, 20	–	18
Release of impairment of property, plant and equipment	20	(4,417)	(7)
Share of profit of associates and joint ventures	7	(3,343)	(1,313)
(Gain)/loss from electricity derivatives, net	19, 20	(43)	140
Foreign exchange loss, net	21	2,263	160
Interest income	21	(3,950)	(4,055)
Other finance income	21	(237)	(783)
Interest expense	21	3,837	5,788
Other finance expenses	21	156	138
Dividend income	21	(288)	(1,117)
Income from sale of available-for-sale financial assets and assets classified as held-for-sale	8, 12, 19	(31,870)	(819)
Gain from disposal of controlling interest	5, 19	(116)	(17)
Other non-cash operations/items		390	399
Operating cash flows before working capital adjustments and income tax paid		**49,184**	**36,105**
Increase in inventories		(482)	(1,090)
(Increase)/decrease in accounts receivable and prepayments		(2,423)	697
Decrease in value added tax recoverable		1,584	1,101
Increase in other current assets		(275)	(186)
Decrease in accounts payable and accrued liabilities		(13,457)	(14,026)
Decrease in taxes other than income tax prepaid/payable, net		(1,456)	(2,238)
Other working capital adjustments		134	202
		32,809	**20,565**
Income tax paid		(8,184)	(5,486)
Net cash flows from operating activities		**24,625**	**15,079**

The interim consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out in Notes 1-27.

Interim consolidated statement of cash flows (continued)

(in millions of RUR)

	Note	For the six months ended 30 June 2016	2015
Investing activities			
Proceeds from disposal of property, plant and equipment		40	91
Purchase of property, plant and equipment and intangible assets		(13,479)	(9,260)
Purchase of controlling interest, net of cash acquired	5	–	94
Proceeds from disposal of controlling interest, net of cash disposed	5	418	–
Proceeds from disposal of available-for-sale financial assets and assets classified as held-for-sale	8, 12	45,000	2,730
Proceeds from repayment of loans issued		426	17
Bank deposits placed		(13,951)	(15,394)
Bank deposits returned		7,838	4,953
Interest proceeds for bank deposits placed		3,133	3,090
Purchase of bonds		–	(10)
Dividends received		50	1,045
Cash flows (used for)/from other investing activities		(104)	596
Net cash flows from/(used for) investing activities		**29,371**	**(12,048)**
Financing activities			
Proceeds from loans and borrowings		18,366	36,803
Repayment of loans and borrowings		(28,833)	(56,273)
Repayment of finance leases		(282)	(454)
Interest paid		(5,737)	(5,849)
Dividends paid		(252)	(368)
Purchase of non-controlling interest in subsidiary	5	(76)	(2,710)
Acquisition of treasury shares	14	(1,667)	–
Proceeds from treasury shares sold	14	223	–
Net cash flows used for financing activities		**(18,258)**	**(28,851)**
Effect of exchange rate fluctuations on cash and cash equivalents		(452)	(400)
Net increase/(decrease) in cash and cash equivalents		**35,286**	**(26,220)**
Cash and cash equivalents at the beginning of the period		65,840	75,599
Cash and cash equivalents at the end of the period	11	**101,126**	**49,379**

Chairman of the Management Board — Kovalchuk B.Yu.

Member of the Management Board, Chief Financial Officer — Palunin D.N.

29 August 2016

The interim consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out in Notes 1-27.

Interim consolidated statement of changes in equity

(in millions of RUR)

	Note	*Attributable to shareholders of the Company*										
		Share capital	*Treasury shares*	*Share premium*	*Foreign currency translation reserve*	*Fair value reserve*	*Hedge reserve*	*Actuarial reserve*	*Retained earnings*	*Total*	*Non-controlling interest*	*Total equity*
Balance at 1 January 2015		**293,340**	**(56,229)**	**69,312**	**8,422**	**626**	**38**	**(34)**	**27,426**	**342,901**	**5,348**	**348,249**
Total comprehensive (loss)/income for the six months ended 30 June 2015		–	–	–	(1,387)	(318)	(47)	186	18,783	**17,217**	685	**17,902**
Dividends to shareholders		–	–	–	–	–	–	–	(91)	**(91)**	(429)	**(520)**
Acquisition of controlling interest in subsidiary	5	–	–	–	–	–	–	–	–	**–**	50	**50**
Acquisition of non-controlling interest in subsidiary	5	–	–	–	–	–	–	–	(701)	**(701)**	(2,009)	**(2,710)**
Disposal of non-controlling interest in subsidiary due to public offer	5	–	–	–	–	–	–	–	(897)	**(897)**	(1,939)	**(2,836)**
Sale of treasury shares		–	10	–	–	–	–	–	6	**16**	–	**16**
Balance at 30 June 2015		**293,340**	**(56,219)**	**69,312**	**7,035**	**308**	**(9)**	**152**	**44,526**	**358,445**	**1,706**	**360,151**
Balance at 1 January 2016		**293,340**	**(56,184)**	**69,312**	**7,041**	**865**	**(12)**	**(91)**	**48,392**	**362,663**	**2,705**	**365,368**
Total comprehensive (loss)/income for the six months ended 30 June 2016		–	–	–	(2,928)	57	–	(295)	61,622	**58,456**	163	**58,619**
Dividends to shareholders		–	–	–	–	–	–	–	(1,484)	**(1,484)**	(623)	**(2,107)**
Acquisition of non-controlling interest in subsidiary	5	–	–	–	–	–	–	–	(43)	**(43)**	(33)	**(76)**
Sale of treasury shares	5	–	330	–	–	–	–	–	(107)	**223**	–	**223**
Acquisition of treasury shares	5	–	(2,933)	–	–	–	–	–	1,266	**(1,667)**	–	**(1,667)**
Balance at 30 June 2016		**293,340**	**(58,787)**	**69,312**	**4,113**	**922**	**(12)**	**(386)**	**109,646**	**418,148**	**2,212**	**420,360**

Chairman of the Management Board — Kovalchuk B.Yu.

Member of the Management Board, Chief Financial Officer — Palunin D.N.

29 August 2016

The interim consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out in Notes 1-27.

(in millions of RUR)

1. The Group and its operations

Establishment of the Group

Public Joint Stock Company “Inter RAO UES” (the “Parent Company” or the “Company” or PJSC “Inter RAO”) is incorporated and domiciled in the Russian Federation and whose shares are publicly traded.

The Russian Federation is the ultimate controlling party of PJSC Inter RAO and has a controlling interest in the Company of over 50%.The main state shareholders of the Parent Company as at 30 June 2016 are JSC ROSNEFTEGAZ (26.37%) and PJSC FGC UES (14.07% share).

The Company has controlling interests in a number of subsidiaries operating in different regions of the Russian Federation and abroad (the Company and its subsidiaries collectively are designated as the “Group”).

The Group is engaged in the following business activities:

- Electricity production, supply and distribution;
- Export and import of electricity;
- Sales of electricity purchased abroad and on the domestic market;
- Engineering services;
- Energy effectiveness research and development.

The Group’s business environment

The governments of the countries where the Group entities operate directly affect the Group's operations through regulation with respect to energy generation, purchases and sales. Governmental economic, social and other policies in these countries could have a material effect on the operations of the Group.

The Russian Federation, Georgia, Armenia, Moldavia (including Transdniestria Republic), Kazakhstan, Turkey, Lithuania, Latvia and Estonia have been experiencing significant (albeit different) political and economic changes that have affected, and may continue to affect, the activities of the Group entities operating in this environment. Consequently, operations in these jurisdictions involve risks that typically do not exist in other mature markets. These risks include matters arising from the policies of the government, economic conditions, the imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights. In 2015, the economy of the Russian Federation, primary jurisdiction of the Group, was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian rouble, as well as series of unilateral restrictive political and economic measures imposed on the Russian Federation by several countries. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth in the Russian Federation, which could negatively affect the Group’s future financial position, results of operations and business prospects.

The accompanying interim condensed consolidated financial statements reflect management’s assessment of the impact of the business environment on the operating results and the financial position of the Group in the countries where the Group entities operate. Management is unable to predict all developments which could have an impact on the utilities sector and the wider economy in these countries and consequently, what effect, if any, they could have on the financial position of the Group. Therefore, future business environment may differ from management’s assessment.

2. Basis of preparation

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2015.

(b) Functional and presentation currency

The national currencies of the countries where the Group entities operate are usually the individual company’s functional currencies, because they generally reflect the economic substance of the underlying transactions and circumstances of those companies.

(in millions of RUR)

2. Basis of preparation (continued)

(b) Functional and presentation currency (continued)

The Group applies judgment in determination of the functional currencies of certain Group entities. The functional currency determination influences foreign exchange gain/losses recognised in profit and loss and translation differences recognised in other comprehensive income.

The interim condensed consolidated financial statements are presented in millions of the Russian roubles ("RUR").The main part of the Group is represented by entities operating in the Russian Federation having RUR as their functional currency. All values are rounded to the nearest million, except when otherwise indicated.

(c) Seasonality

Demand for electricity is to some extent influenced by the season of the year. Revenue is usually higher in the period from October to March than in other months of the year. This seasonality does not impact revenue or cost recognition policies of the Group.

(d) Changes in presentation

Reclassifications

Since preparation of annual financial statement for the year ended 31 December 2015, the management of Company decided to reclassify certain types of operating expenses. The reclassification of comparative information for the six months, ended 30 June 2015 between other materials for production purposes in the amount of RUR (754) million, repairs and maintenance in the amount of RUR 1,222 million and other operating expenses in the amount of RUR (468) million was revised correspondingly.

3. Summary of significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements for the three and six months ended 30 June 2016 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of new amendments of the following standards became effective as of 1 January 2016.

The nature and the impact of each new standard or amendment is described below:

- *Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests* require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. This amendment did not have any effect on the consolidated financial statements.

- *Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. This amendment did not have any effect on the consolidated financial statements.

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.* Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively. This amendment did not have any effect on the consolidated financial statements.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

- *IFRS 7 Financial Instruments: Disclosures*
  - *Servicing contracts.* The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.
  - *Applicability of the amendments to IFRS 7 to condensed interim financial statements.* The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

  This amendment did not have any effect on the consolidated financial statements.
- *IAS 19 Employee Benefits.* The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively. This amendment did not have any effect on the consolidated financial statements.
- *IAS 34 Interim Financial Reporting.* The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. This amendment did not have any effect on the consolidated financial statements.
- *Amendments to IAS 1 Disclosure Initiative.* The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:
  - the materiality requirements in IAS 1;
  - that specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
  - that entities have flexibility as to the order in which they present the notes to financial statements;
  - that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. This amendments did not have any effect on the consolidated financial statements.

The Group has not adopted earlier any other standard, interpretation and amendment that has been issued but is not yet effective.

4. Segment information

Operating segments are components of an enterprise about which separate financial information is available and is evaluated regularly by the Chief Operating Decision Maker ('CODM') in deciding how to allocate resources and in assessing performance. The Management Board of the Parent Company has been determined as the CODM; the operating segment has been defined as a legal entity or a particular business activity of a legal entity. The Management Board analyses the effectiveness of the operating segments based on IFRS financial reporting.

The Management Board considers the Group activities from both geographical (by countries of the Group entities' jurisdiction) and business perspective (generation, trading, supply, distribution, engineering and other) meaning that each operating segment represents a certain type of business activities or legal entities in a certain country.

(in millions of RUR)

4. Segment information (continued)

The following reporting segments have been identified based on the requirements of IFRS 8 *Operating Segments* (taking into consideration aggregation criteria as well as quantitative thresholds on revenue and EBITDA):

- **Supply in the Russian Federation** (represented by PJSC Mosenergosbyt (Group of entities), JSC PSK, PJSC Tambov Energy Retailing Company, PJSC Saratovenergo, JSC Altayenergosbyt, LLC INTER RAO Orlovskii Energosbyt, JSC Industrial Energetics, LLC RN-Energo, PJSC Tomskenergosbyt, LLC Omsk Energy Retailing Company, JSC EIRTS LO, LLC RT – Energy Trading (equity accounted investee).
- **Generation in the Russian Federation** represented by the following reporting sub-segments:
  - ***Electric Power Generation*** represented by:
    - *INTER RAO – Electricity Generation Group* (represented by Group Inter RAO – Electric Power Plants, including NVGRES Holding Limited and CJSC Nizhnevartovskaya GRES (equity accounted investees); and
  - ***Thermal Power Generation*** represented by:
    - *TGK-11* (represented by JSC TGC-11, JSC Tomsk generation, JSC TomskRTS and JSC OmskRTS);
    - *Bashkir Generation* (represented by Group Bashkir Generation Company).
- **Trading in the Russian Federation and Europe** (represented by the trading activities of the Parent Company, RAO Nordic Oy, AB INTER RAO Lietuva, SIA INTER RAO Latvia, INTER RAO Eesti OU, Inter Green Renewables and Trading AB, JSC Eastern Energy Company, LLC Payments implementation center and SOO IRL POLSKA).
- **Foreign assets** represented by the following reporting sub-segments:
  - ***Georgia*** (represented by JSC Telasi, LLC Mtkvari Energy (sold in June 2016 – Note 5), JSC Khramhesi I and JSC Khramhesi II);
  - ***Armenia*** (represented by CJSC Elektricheskiye seti Armenii, JSC RazTES (equity accounted investees from 30 October 2015);
  - ***Moldavia*** (represented by CJSC Moldavskaya GRES);
  - ***Kazakhstan*** (represented by JSC Stantsiya Ekibastuzskaya GRES-2 (equity accounted investee) and LLP INTER RAO Central Asia);
  - ***Turkey*** (represented by Group Trakya and Inter Rao Turkey Energy Holding A.S.).
- **Engineering in the Russian Federation** (represented by LLC INTER RAO Engineering, LLC Quartz Novie Tekhnologii (equity accounted investee), LLC Quartz Group, LLC Power Efficiency Centre INTER RAO UES (equity accounted investee), LLC INTER RAO – Export, Energy beyond borders Non-for-profit Fund and LLC TCC Energy beyond borders).
- Other.

The CODM evaluates performance of the operating segments based on EBITDA, which is calculated as profit/(loss) for the period before finance income and finance expenses; income tax expense; depreciation and amortisation of property, plant and equipment, investment property and intangible assets; impairment charge/(release) of property, plant and equipment and investment property; impairment of goodwill and other intangible assets; impairment of available-for-sale financial assets; provisions for doubtful debts and for inventory obsolescence; other provisions; share in profit/(loss) of associates and effects from acquisition and disposal of Group entities; income/(loss) from purchase and sale of available-for-sale financial assets and assets classified as held-for-sale; and charity expenses, income/(loss) from disposal of non-financial assets and some other included in Other item within the reconciliation between EBITDA of the reporting segments and net income/(loss) for the reporting period. The Group’s definition of EBITDA may differ from that of other companies. Information about depreciation and amortisation of property, plant and equipment and intangible assets, interest income and interest expenses is disclosed in segment information as it is regularly reviewed by the CODM.

Revenue of each segment is mainly represented by sales of electricity and capacity and heat-power allocated to the reporting segments.

The CODM analyses leverage of the Group’s subsidiaries, joint ventures (equity accounted investees) on a regular basis; loans and borrowings are allocated to the reporting segments excluding inter-segment balances.

Joint ventures (equity accounted investees) are reviewed by the CODM in terms of the Group’s share in their profit/(loss) and loan and borrowings.

“Unallocated and Eliminations” includes elimination of transactions among the reporting segments (“Eliminations”) and management expenses, interest income and interest expenses of the Parent Company as well as loans and borrowings, obtained by the Parent Company or other subsidiaries, which cannot be allocated to a specific reporting segment on a reasonable basis (“Unallocated”).

(in millions of RUR)

4. Segment information (continued)

Below is the performance of the operating segments for the three months ended 30 June 2016

	Supply	*Generation*			*Trading*	*Foreign assets*					*Engineering*			
		The Russian Federation												
		Electric Power Generation	*Thermal Power Generation*											
	The Russian Federation	*Inter RAO – Electricity Generation Group*	*TGK-11*	*Bashkir Generation*	*The Russian Federation and Europe*	*Armenia*	*Georgia*	*Moldavia*	*Kazakhstan*	*Turkey*	*The Russian Federation*	*Other*	*Unallocated and eliminations*	*Total*
Total revenue	**116,870**	**34,533**	**5,078**	**10,868**	**18,634**	**–**	**2,794**	**1,146**	**–**	**3,147**	**1,627**	**1,179**	**(13,165)**	**182,711**
Revenue from external customers	116,656	26,000	4,397	9,461	18,189	–	2,794	1,146	–	3,147	834	87	–	**182,711**
Inter-segment revenue	214	8,533	681	1,407	445	–	–	–	–	–	793	1,092	(13,165)	**–**
Operating expenses, including:														
Purchased electricity and capacity	(61,187)	(1,592)	(497)	(829)	(14,831)	–	(904)	–	–	–	–	(7)	11,235	**(68,612)**
Transmission fees	(48,614)	–	–	(2)	(1,309)	–	(256)	(3)	–	–	–	–	–	**(50,184)**
Fuel expenses	–	(15,934)	(2,415)	(5,635)	–	–	13	(10)	–	(2,240)	–	–	538	**(25,683)**
Share in profit/(loss) of joint ventures	4	690	–	–	–	706	–	–	461	–	(10)	17	–	**1,868**
EBITDA	**2,160**	**12,623**	**3**	**1,737**	**2,279**	**706**	**1,002**	**610**	**463**	**561**	**(190)**	**553**	**(1,452)**	**21,055**
Depreciation and amortisation	(379)	(2,838)	(525)	(852)	(16)	–	(156)	(127)	–	(403)	(46)	(187)	(80)	**(5,609)**
Interest income	975	271	–	105	64	–	11	–	1	11	31	27	567	**2,063**
Interest expenses	(329)	(1,099)	(179)	(32)	(57)	–	(37)	(60)	–	(121)	(26)	(1,174)	1,296	**(1,818)**

(in millions of RUR)

4. Segment information (continued)

Below is the performance of the operating segments for the three months ended 30 June 2015

	Supply	*Generation*			*Trading*	*Foreign assets*					*Engineering*			
		The Russian Federation												
		Electric Power Generation	*Thermal Power Generation*											
	The Russian Federation	***Inter RAO – Electricity Generation Group***	***TGK-11***	***Bashkir Generation***	***The Russian Federation and Europe***	***Armenia***	***Georgia***	***Moldavia***	***Kazakhstan***	***Turkey***	***The Russian Federation***	***Other***	***Unallocated and eliminations***	***Total***
Total revenue	**105,773**	**33,241**	**5,214**	**10,514**	**17,008**	**4,223**	**1,714**	**968**	**–**	**3,696**	**2,530**	**1,297**	**(11,007)**	**175,171**
Revenue from external customers	105,506	27,086	4,470	9,505	16,603	4,223	1,714	968	–	3,696	1,290	110	–	**175,171**
Inter-segment revenue	267	6,155	744	1,009	405	–	–	–	–	–	1,240	1,187	(11,007)	**–**
Operating expenses, including:														
Purchased electricity and capacity	(57,392)	(1,863)	(508)	(824)	(14,178)	(2,285)	(372)	–	–	–	–	(3)	8,562	**(68,863)**
Transmission fees	(42,449)	–	–	(3)	(1,115)	(166)	(157)	(3)	–	–	–	–	2	**(43,891)**
Fuel expenses	–	(17,723)	(2,583)	(5,983)	–	10	(42)	(7)	–	(3,038)	–	–	595	**(28,771)**
Share in profit/(loss) of joint ventures	43	389	–	–	–	–	–	–	56	–	(23)	10	–	**475**
EBITDA	**1,082**	**7,150**	**81**	**1,152**	**1,289**	**925**	**665**	**592**	**56**	**365**	**(181)**	**700**	**(1,576)**	**12,300**
Depreciation and amortisation	(400)	(2,964)	(427)	(831)	(15)	(183)	(119)	(81)	(1)	(321)	(48)	(177)	(126)	**(5,693)**
Interest income	744	476	1	95	64	8	7	–	1	7	59	174	394	**2,030**
Interest expenses	(196)	(1,435)	(232)	(55)	(73)	(165)	(30)	(63)	–	(115)	(19)	(1,609)	1,175	**(2,817)**

(in millions of RUR)

4. Segment information (continued)

Below is the performance of the operating segments for the six months ended 30 June 2016

	Supply	*Generation*			*Trading*	*Foreign assets*					*Engineering*			
		The Russian Federation												
		Electric Power Generation	*Thermal Power Generation*											
	The Russian Federation	*Inter RAO – Electricity Generation Group*	*TGK-11*	*Bashkir Generation*	*The Russian Federation and Europe*	*Armenia*	*Georgia*	*Moldavia*	*Kazakhstan*	*Turkey*	*The Russian Federation*	*Other*	*Unallocated and eliminations*	*Total*
Total revenue	**256,331**	**73,996**	**15,848**	**27,157**	**38,038**	**–**	**6,163**	**2,509**	**2**	**8,061**	**3,092**	**2,372**	**(26,476)**	**407,093**
Revenue from external customers	255,631	57,132	14,165	24,039	37,285	–	6,163	2,509	2	8,061	1,867	239	–	**407,093**
Inter-segment revenue	700	16,864	1,683	3,118	753	–	–	–	–	–	1,225	2,133	(26,476)	**–**
Operating expenses, including:														
Purchased electricity and capacity	(135,036)	(3,270)	(1,320)	(1,772)	(29,806)	–	(2,114)	–	(1)	–	–	(15)	23,040	**(150,294)**
Transmission fees	(105,133)	–	–	(5)	(2,771)	–	(568)	(7)	(1)	–	–	–	–	**(108,485)**
Fuel expenses	–	(33,614)	(6,707)	(14,056)	–	–	(954)	(45)	–	(5,815)	–	–	1,088	**(60,103)**
Share in profit/(loss) of joint ventures	16	1,447	–	–	–	1,531	–	–	658	–	(12)	37	–	**3,677**
EBITDA	**6,515**	**27,678**	**3,356**	**6,235**	**5,009**	**1,531**	**1,239**	**1,405**	**660**	**1,622**	**(630)**	**864**	**(2,585)**	**52,899**
Depreciation and amortisation	(744)	(5,707)	(849)	(1,679)	(31)	–	(315)	(260)	(1)	(858)	(99)	(371)	(186)	**(11,100)**
Interest income	1,903	564	–	190	134	–	24	–	1	30	69	45	990	**3,950**
Interest expenses	(631)	(2,300)	(449)	(94)	(117)	–	(76)	(132)	–	(257)	(47)	(2,358)	2,624	**(3,837)**

(in millions of RUR)

4. Segment information (continued)

Below is the performance of the operating segments for the six months ended 30 June 2015

	Supply	***Generation***			***Trading***	***Foreign assets***					***Engineering***			
		The Russian Federation												
		Electric Power Generation	***Thermal Power Generation***											
	The Russian Federation	***Inter RAO – Electricity Generation Group***	***TGK-11***	***Bashkir Generation***	***The Russian Federation and Europe***	***Armenia***	***Georgia***	***Moldavia***	***Kazakhstan***	***Turkey***	***The Russian Federation***	***Other***	***Unallocated and eliminations***	***Total***
Total revenue	**229,048**	**72,235**	**15,191**	**24,976**	**40,428**	**9,918**	**4,307**	**2,177**	**27**	**10,067**	**3,714**	**2,166**	**(22,621)**	**391,633**
Revenue from external customers	228,309	58,781	13,315	22,882	39,644	9,918	4,307	2,177	27	10,067	1,928	278	–	391,633
Inter-segment revenue	739	13,454	1,876	2,094	784	–	–	–	–	–	1,786	1,888	(22,621)	–
Operating expenses, including:														
Purchased electricity and capacity	(125,267)	(3,837)	(1,444)	(1,703)	(32,231)	(5,194)	(570)	–	(16)	–	–	(11)	18,893	(151,380)
Transmission fees	(90,469)	–	–	(7)	(2,803)	(439)	(390)	(7)	(10)	–	–	–	3	(94,122)
Fuel expenses	–	(38,075)	(7,014)	(14,033)	–	(815)	(1,449)	(37)	–	(8,353)	–	–	1,047	(68,729)
Share in profit/(loss) of joint ventures	78	1,222	–	–	–	–	–	–	177	–	(18)	10	–	1,469
EBITDA	**4,911**	**18,197**	**2,521**	**4,425**	**4,587**	**1,606**	**843**	**1,280**	**179**	**1,209**	**(604)**	**773**	**(2,635)**	**37,292**
Depreciation and amortisation	(791)	(5,860)	(870)	(1,676)	(30)	(395)	(270)	(189)	(2)	(700)	(96)	(364)	(202)	(11,445)
Interest income	1,504	739	1	165	143	23	24	–	1	16	150	368	921	4,055
Interest expenses	(256)	(3,753)	(761)	(110)	(152)	(394)	(69)	(142)	–	(252)	(29)	(3,047)	3,177	(5,788)

(in millions of RUR)

4. Segment information (continued)

As at 30 June 2016

	Supply	*Generation*			*Trading*	*Foreign assets*					*Engineering*			
		The Russian Federation												
		Electric Power Generation	*Thermal Power Generation*											
	The Russian Federation	*Inter RAO – Electricity Generation Group*	*TGK-11*	*Bashkir Generation*	*The Russian Federation and Europe*	*Armenia*	*Georgia*	*Moldavia*	*Kazakhstan*	*Turkey*	*The Russian Federation*	*Other*	*Unallocated and eliminations*	*Total*
Loans and borrowings, including:	**(2,082)**	**(38,096)**	**(7,197)**	**(1,532)**	**(1,335)**	**(4,469)**	**(1,233)**	**–**	**(9,072)**	**(7,800)**	**(286)**	**(1,308)**	**286**	**(74,124)**
Share in loans and borrowings of joint ventures	–	–	–	–	–	(4,469)	–	–	(9,072)	–	(153)	(161)	2,202	**(11,653)**

As at 31 December 2015

	Supply	*Generation*			*Trading*	*Foreign assets*					*Engineering*			
		The Russian Federation												
		Electric Power Generation	*Thermal Power Generation*											
	The Russian Federation	*Inter RAO – Electricity Generation Group*	*TGK-11*	*Bashkir Generation*	*The Russian Federation and Europe*	*Armenia*	*Georgia*	*Moldavia*	*Kazakhstan*	*Turkey*	*The Russian Federation*	*Other*	*Unallocated and eliminations*	*Total*
Loans and borrowings, including:	**(1,498)**	**(42,673)**	**(11,344)**	**(1,271)**	**(1,762)**	**(5,500)**	**(1,401)**	**–**	**(10,180)**	**(11,542)**	**(334)**	**(1,615)**	**(1,119)**	**(90,239)**
Share in loans and borrowings of joint ventures	(90)	–	–	–	–	(5,500)	–	–	(10,180)	–	(333)	(197)	2,390	**(13,910)**

(in millions of RUR)

4. Segment information (continued)

The reconciliation between EBITDA of the reporting segments and net profit for the reporting period in the interim consolidated statement of comprehensive income is presented below:

	For the three months ended 30 June		*For the six months ended 30 June*	
	2016	***2015***	***2016***	***2015***
EBITDA of the reportable segments	**21,055**	**12,300**	**52,899**	**37,292**
Depreciation and amortisation (Note 20)	(5,609)	(5,693)	(11,100)	(11,445)
Interest income (Note 21)	2,063	2,030	3,950	4,055
Interest expenses (Note 21)	(1,818)	(2,817)	(3,837)	(5,788)
Foreign currency exchange loss, net (Note 21)	(1,147)	(593)	(2,263)	(160)
Other finance income (Note 21)	351	1,447	369	1,762
Provisions release/(charge), including: (Note 20)	1,238	(1,026)	(1,982)	(2,671)
impairment of property, plant and equipment release/(charge)	*4,417*	*(1)*	*4,417*	*7*
impairment of available-for-sale financial assets	*–*	*(16)*	*–*	*(18)*
other provisions release/(charge)	*229*	*214*	*(709)*	*(189)*
impairment of account receivables	*(3,408)*	*(1,223)*	*(5,690)*	*(2,471)*
Gain from disposal of controlling interest (Note 19)	116	–	116	17
Income from sale of available-for-sale financial assets (Note 8)	–	–	–	819
Income from sale of assets classified as held-for-sale (Note 12)	31,870	–	31,870	–
Other operating expense, net (Note 2d)	(355)	(198)	(385)	(257)
Share of loss of associates (Note 7)	(149)	(51)	(334)	(156)
Income tax expense (Note 22)	(2,630)	(1,751)	(7,334)	(3,778)
Profit for the reporting period in the interim consolidated statement of comprehensive income	**44,985**	**3,648**	**61,969**	**19,690**

The reconciliation between loans and borrowings of the reportable segments and loans and borrowings for the reporting period in the interim consolidated statement of financial position is presented below:

	As at 30 June 2016	***As at 31 December 2015***
Loans and borrowings of the reportable segments	**(74,124)**	**(90,239)**
Less:		
Share in loans and borrowings of joint ventures	11,653	13,910
Loans and borrowings in the interim consolidated statement of financial position	**(62,471)**	**(76,329)**

(in millions of RUR)

4. Segment information (continued)

Information about geographical areas

The Management Board also considers revenue of the Group entities generated in their countries of jurisdiction and abroad as well as non-current assets (property, plant and equipment, investment property, investments in associates and jointly controlled entities and intangible assets, including goodwill) based on location of assets.

	For the three months ended 30 June 2016			*For the three months ended 30 June 2015*		
	Revenue in the Group entity's jurisdiction[1]	*Revenue in countries other than Group entity's jurisdiction*	*Total revenue based on location of customers*	*Revenue in the Group entity's jurisdiction*	*Revenue in countries other than Group entity's jurisdiction*	*Total revenue based on location of customers*
Russian Federation	163,720	–	**163,720**	154,235	35	**154,270**
Belarus	–	3,361	**3,361**	–	2,904	**2,904**
Turkey	3,147	–	**3,147**	3,696	–	**3,696**
Georgia	2,794	155	**2,949**	1,714	29	**1,743**
Finland	2,282	44	**2,326**	431	141	**572**
China	–	2,183	**2,183**	–	2,421	**2,421**
Lithuania	1,722	–	**1,722**	1,585	–	**1,585**
Kazakhstan	–	563	**563**	–	1,188	**1,188**
Moldavia (incl. Transdniestria Republic)	1,136	9	**1,145**	958	10	**968**
Estonia	203	256	**459**	86	65	**151**
Mongolia	–	327	**327**	–	247	**247**
Latvia	134	–	**134**	179	–	**179**
Ukraine	–	100	**100**	–	740	**740**
Armenia	–	–	**–**	4,185	–	**4,185**
Other	353	222	**575**	162	160	**322**
Total	**175,491**	**7,220**	**182,711**	**167,231**	**7,940**	**175,171**

	For the six months ended 30 June 2016			*For the six months ended 30 June 2015*		
	Revenue in the Group entity's jurisdiction[1]	*Revenue in countries other than Group entity's jurisdiction*	*Total revenue based on location of customers*	*Revenue in the Group entity's jurisdiction*	*Revenue in countries other than Group entity's jurisdiction*	*Total revenue based on location of customers*
Russian Federation	366,313	–	**366,313**	339,936	107	**340,043**
Turkey	8,061	–	**8,061**	10,067	–	**10,067**
Georgia	6,163	1,150	**7,313**	4,308	1,007	**5,315**
Finland	6,006	135	**6,141**	4,553	207	**4,760**
Lithuania	4,537	–	**4,537**	4,314	–	**4,314**
China	–	3,873	**3,873**	–	4,327	**4,327**
Belarus	–	3,682	**3,682**	–	3,265	**3,265**
Moldavia (incl. Transdniestria Republic)	2,426	82	**2,508**	2,108	69	**2,177**
Kazakhstan	2	1,319	**1,321**	27	2,261	**2,288**
Estonia	507	580	**1,087**	212	193	**405**
Mongolia	–	603	**603**	–	466	**466**
Latvia	274	–	**274**	460	–	**460**
Ukraine	–	144	**144**	–	3,304	**3,304**
Armenia	–	–	**–**	9,733	–	**9,733**
Other	585	651	**1,236**	321	388	**709**
Total	**394,874**	**12,219**	**407,093**	**376,039**	**15,594**	**391,633**

1 Revenues are attributable to countries on the basis of the customer's location.

(in millions of RUR)

4. Segment information (continued)

Information about geographical areas (continued)

	Total non-current assets based on location of assets[1]	
	As at 30 June 2016	***As at 31 December 2015***
Russian Federation	306,557	298,393
Georgia	8,507	9,710
Turkey	4,714	6,236
Moldavia (incl. Transdniestria Republic)	3,636	4,012
Lithuania	1,416	1,664
Other	1,903	1,543
Total	**326,733**	**321,558**

5. Acquisitions and disposals

Acquisition of non-controlling interest in PJSC Tomskenergosbyt

As at 31 December 2015 the Group's share in PJSC Tomskenergosbyt was 89.42%. On 12 January 2016 the Group announced a mandatory offer to acquire 6.68% of ordinary and 36.44% of preference shares of PJSC Tomskenergosbyt held by non-controlling shareholders. The offer price was set at RUB 0.4157 per one ordinary and preference share. The offer term was expired on 25 April 2016. As a result of mandatory offer the Group acquired 2.37% of ordinary and 16.06% of preference shares of PJSC Tomskenergosbyt for total cash consideration of RUR 76 million and increased Group's share to 93.58%. The effect of acquisition of non-controlling interest in the amount of RUR 33 million was recognised in the consolidated interim statement of changes in equity.

Disposal of controlling interest in Mtkvari Energy LLC

In June 2016 the Group has sold its 100% share in the subsidiary Mtkvari Energy LLC for the total consideration of USD 13.6 million (RUR 899 million) including cash consideration of USD 9.6 million (RUR 635 million) and deferred cash consideration of USD 4 million (RUR 264 million) which has to be paid till the end of December 2016.

Carrying value of the net assets of Mtkvari Energy LLC at the date of disposal amounted to RUR 1,242 million. The carrying values of disposed assets and liabilities were as follows:

	Carrying values
Property, plant and equipment	322
Intangible assets	2
Deferred tax assets	159
Accounts receivable	467
Inventory	176
Cash and cash equivalents	217
Accounts payable and accrued charges	(28)
Taxes payable	(73)
Carrying value of net assets disposed	**1,242**
Foreign currency translation reserve disposed	459
Gain from disposal of Group entity	116
Cash consideration received	635
Deferred cash consideration	264
Total cash and cash equivalents disposed	(217)
Total cash proceeds from disposal	**418**

The gain from the sale of RUR 116 million was recognised in the interim consolidated statement of comprehensive income.

[1] Total non-current assets based on location of assets excludes deferred tax assets, available-for-sale financial assets and other non-current assets.

(in millions of RUR)

5. Acquisitions and disposals (continued)

Acquisition of non-controlling interest in PJSC Mosenergosbyt

In April 2015, the Group increased its ownership in PJSC Mosenergosbyt by acquisition of 23.98% of ordinary shares from third parties for total cash consideration of RUR 2,710 million. As a result the Group increased its share from 50.92% to 74.90%. The effect from acquisition of non-controlling share was recognised in the consolidated interim statement of changes in equity.

On 23 June 2015 the Group announced a public offer to acquire 25.10% of ordinary shares of PJSC Mosenergosbyt held by non-controlling shareholders. Accordingly, as at 30 June 2015 the Group derecognized non-controlling interest in the amount of RUR 1,939 million and changes in retained earnings in the amount of RUR 897 million. The offer term was expired on 1 September 2015. As a result of public offer the Group acquired 19.09% of ordinary shares of PJSC Mosenergosbyt and increased its share from 74.90% to 93.99%.

Other acquisitions and disposals

During the six months ended 30 June 2015 the Group purchased additional 2% of the ordinary shares of the associate, JSC EIRTS LO, for the cash consideration of RUR 2 million. As a result the Group increased its share in the entity's share capital from 49% to 51% and obtained the control over the entity. The fair value of net assets acquired was RUR 102 million, including cash and cash equivalents of RUR 94 million. As a result of this acquisition the non-controlling interest in the amount of RUR 50 million was recognised in the consolidated interim statement of changes in equity.

During the six months ended 30 June 2015 the Group liquidated a number of individually insignificant subsidiaries. The gain from the liquidation of RUR 17 million was recognised in the interim consolidated statement of comprehensive income.

In October 2015 and December 2015 the Group has sold the 50% share of its investments in the subsidiaries located in Republic of Armenia: CJSC Elektricheskiye seti Armenii and JSC RazTES, so the Group's share in these entities decreased from 100% to 50%. As a result the Group has accounted these entities as the joint ventures (Note 7).

6. Property, plant and equipment

	Land and buildings	*Infra-structure assets*	*Plant and equipment*	*Other*	*Const-ruction in progress*	*Total*
Cost						
Balance at 31 December 2015	**106,262**	**82,737**	**242,030**	**8,576**	**49,165**	**488,770**
Reclassification	(3)	225	(206)	(16)	–	**–**
Additions	2	214	2	13	12,229	**12,460**
Disposals	(16)	(42)	(84)	(79)	(52)	**(273)**
Transfers	419	645	2,228	310	(3,602)	**–**
Transfer (to)/from other accounts	(40)	4	–	21	(16)	**(31)**
Disposal of controlling interest	(1,852)	–	(1,186)	(82)	–	**(3,120)**
Translation difference	(1,276)	(1,423)	(2,132)	(180)	(146)	**(5,157)**
Balance at 30 June 2016	**103,496**	**82,360**	**240,652**	**8,563**	**57,578**	**492,649**
Including finance leases	*546*	*–*	*208*	*1,110*	*–*	***1,864***
Depreciation and impairment						
Balance at 31 December 2015	**(37,153)**	**(33,741)**	**(121,760)**	**(4,473)**	**(14,078)**	**(211,205)**
Reclassification	1	(84)	77	6	–	**–**
Depreciation charge	(1,332)	(1,787)	(6,202)	(399)	–	**(9,720)**
Impairment loss reversal	–	–	–	–	4,417	**4,417**
Disposals	5	20	75	58	–	**158**
Transfers	(26)	–	(110)	–	136	**–**
Transfer from other accounts	38	–	–	–	–	**38**
Disposal of controlling interest	1,763	–	983	52	–	**2,798**
Translation difference	1,050	769	1,572	126	48	**3,565**
Balance at 30 June 2016	**(35,654)**	**(34,823)**	**(125,365)**	**(4,630)**	**(9,477)**	**(209,949)**
Including finance leases	*(26)*	*–*	*(207)*	*(358)*	*–*	***(591)***
Net book value						
Balance at 31 December 2015	**69,109**	**48,996**	**120,270**	**4,103**	**35,087**	**277,565**
Balance at 30 June 2016	**67,842**	**47,537**	**115,287**	**3,933**	**48,101**	**282,700**

(in millions of RUR)

6. Property, plant and equipment (continued)

Construction in progress is represented by property, plant and equipment that is not yet ready for operation and advances to suppliers of property, plant and equipment. Such advances amounted to RUR 4,799 million as at 30 June 2016 (31 December 2015: RUR 3,334 million).

Interest capitalised (capitalisation rate is 14.36% during the six months ended 30 June 2016) amounted to RUR 562 million (the six months ended 30 June 2015: RUR 596 million).

Derecognition of impairment previously accrued

The Group performed the impairment tests of property, plant and equipment by the cash generating units and the material reversals included in the Consolidated statement of comprehensive income in the line “Operating expenses” are discussed below:

Verkhnetagilskaya GRES (separate power plant included into the operating segment – “Generation in the Russian Federation”)

The impairment for the six months ended 30 June 2016 in the amount of RUR 4,417 million was recovered after the impairment test as at 30 June 2016 due to change in estimates of capacity tariffs on the basis of the draft agreement of the contract for capacity supply (CCS) for Block № 12 (Note 20). The recoverable amount was measured as value in use using the discount rate of 12.4% as at 30 June 2016.

Various other minor charges and reversals in the net amount of RUR 7 million gain were recognized during the six months ended 30 June 2015.

7. Investments in associates and joint ventures

	Joint ventures				*Associates*		
	NVGRES Holding Limited	***JSC Stantsiya Ekibastuzskaya GRES-2***	***CJSC Elektricheskiye seti Armenii and JSC RazTES***	***Other joint ventures***	***RUS Gas Turbines Holding B.V.***	***Other associates***	***Total***
Carrying value at 31 December 2015	**19,651**	**6,348**	**1,380**	**1,155**	**1,878**	**713**	**31,125**
Recognised actuarial loss	(16)	–	–	–	–	–	**(16)**
Disposals	–	–	–	(1)	–	–	**(1)**
Unrealised gain	–	–	–	1	–	–	**1**
Share of profit/(loss) after tax	1,447	342	1,531	41	(298)	(36)	**3,027**
Dividends received	–	–	–	(35)	–	–	**(35)**
Dividends cancelled through profit and loss	–	316	–	–	–	–	**316**
Translation difference	–	(811)	(377)	–	–	–	**(1,188)**
Carrying value at 30 June 2016	**21,082**	**6,195**	**2,534**	**1,161**	**1,580**	**677**	**33,229**

8. Available-for-sale financial assets

As at 30 June 2016 available-for-sale financial assets in the total amount of RUR 5,857 million (31 December 2015: RUR 5,865 million) included investments in quoted shares in the total amount of RUR 4,150 million (31 December 2015: RUR 4,159 million) and investment in unquoted shares in the total amount of RUR 1,707 million (31 December 2015: RUR 1,706 million).

For the six months ended 30 June 2016 there was no impairment loss on available-for-sale financial assets recognised through profit and loss in the interim consolidated statement of comprehensive income (for the the six months ended 30 June 2015: RUR 18 million) (Note 20).

For the six months ended 30 June 2016 the amount of RUR 156 million, net of tax RUR 39 million was recognised as a gain from revaluation of available-for-sale financial assets through other comprehensive income in the interim consolidated statement of comprehensive income (for the six months ended 30 June 2015: RUR 371 million, net of tax RUR 10 million).

As at 31 March 2016 the Group reclassified 0.29% of shares of PJSC Irkutskenergo with carrying value of RUR 204 million to assets classified as held-for-sale due to the commitment of management to sell this investment (Note 12).

(in millions of RUR)

8. Available-for-sale financial assets (continued)

During the six months ended 30 June 2015 the Group has sold the shares: 2.34% in Plug Power Inc., 1.97% in PJSC TGK-1, 1.38% in JSC TGK-2, 0.60% in PJSC TGK-14, 4.17% in PJSC OGK-2, 4.97% in PJSC Mosenergo, 0.07% in PJSC IDGC of Centre and 0.003% in PJSC IDGC of Volga. The fair value of the available-for-sale financial assets sold was RUR 2,705 million, the cash consideration received was RUR 2,730 million. As a result of the available-for-sale financial assets disposal the corresponding fair value reserve was derecognized in the interim consolidated statement of changes in equity in the amount of RUR 689 million, net of tax RUR 105 million and the income from sale of available-for-sale financial assets in the amount of RUR 819 million was recognized in the interim consolidated statement of comprehensive income.

9. Other non-current assets

		30 June 2016	*31 December 2015*
Financial non-current assets		***17,673***	***7,644***
Non-current trade receivables		*1,995*	2,016
	Less impairment provision	*(410)*	*(486)*
Non-current trade receivables – net		**1,585**	**1,530**
Other non-current receivables		14,289	2,008
	Less impairment provision	*(2,095)*	*(128)*
Other non-current receivables – net		**12,194**	**1,880**
Non-current loans issued (including interest)		4,392	4,791
	Less impairment provision	(569)	*(638)*
Non-current loans issued (including interest) – net		**3,823**	**4,153**
Long-term derivative financial instruments – assets		–	1
Long-term bank deposits		71	80
		3,894	**4,234**
Non-financial non-current assets		***1,047***	***1,077***
Non-current advances to suppliers and prepayments		82	83
	Less impairment provision	*(7)*	*(7)*
Non-current advances to suppliers and prepayments – net		**75**	**76**
VAT recoverable		97	123
Other		875	878
		18,720	**8,721**

As at 30 June 2016 other non-current receivables included accounts receivable from LLC Telmamskaya HEP in the amount of RUR 10,514 million, net of discount effect recognised within the line “Provision for impairment of accounts receivable, net” of RUR 1,986 million under the terms of sale-purchase agreement of PJSC Irkutskenergo shares (Note 12).

(in millions of RUR)

10. Accounts receivable and prepayments

		30 June 2016	*31 December 2015*
Financial assets		***75,523***	***65,528***
Trade receivables		85,295	85,140
	Less impairment provision	*(28,961)*	*(27,151)*
Trade receivables – net		**56,334**	**57,989**
Other receivables		21,449	8,555
	Less impairment provision	*(3,970)*	*(3,282)*
Other receivables – net		**17,479**	**5,273**
Short-term loans issued (including interest)		250	707
	Less impairment provision	*(250)*	*(283)*
Short-term loans issued (including interest)		**–**	**424**
Short-term outstanding interest on bank deposits		565	415
	Less impairment provision	*(10)*	*(10)*
Short-term outstanding interest on bank deposits – net		**555**	**405**
Short-term receivables on construction contracts		867	1,422
Dividends receivable		288	15
Non-financial assets		***15,687***	***16,313***
Advances to suppliers and prepayments		9,361	9,861
	Less impairment provision	*(598)*	*(604)*
Advances to suppliers and prepayments – net		**8,763**	**9,257**
Short-term VAT recoverable		3,742	4,023
Taxes prepaid		3,182	3,033
		91,210	**81,841**

As at 30 June 2016 other receivables included accounts receivable from LLC Telmamskaya HEP in the amount of RUR 11,765 million, net of discount effect recognised within the line "Provision for impairment of accounts receivable, net" of RUR 735 million under the terms of sale-purchase agreement of PJSC Irkutskenergo shares (Note 12).

The Group does not hold any collateral as a security for accounts receivable.

11. Cash and cash equivalents

	30 June 2016	*31 December 2015*
Cash at bank and in hand, national currency	23,842	20,962
Cash at bank and in hand, foreign currency	12,091	2,716
Bank deposits with maturity of three months or less	65,193	42,162
Total	**101,126**	**65,840**

12. Assets classified as held-for-sale

	31 December 2015	*Revaluation*	*Impairment*	*Disposal of fair value reserve*	*Disposal*	*Reclassi-fication*	*30 June 2016*
PJSC Irkutskenergo	38,048	–	–	–	(38,252)	204	–
Total	**38,048**	**–**	**–**	**–**	**(38,252)**	**–**	**–**

In the 1st half 2011, PJSC Inter RAO acquired 40.00% of ordinary shares of PJSC Irkutskenergo. On the date of acquisition the Group classified the investment as assets held-for-sale in the amount of RUR 38,048 million being the cost of consideration given. As at 31 March 2016 the Group reclassified 0.29% of shares of PJSC Irkutskenergo with carrying value of RUR 204 million from available-for-sale financial assets (Note 8).

(in millions of RUR)

12. Assets classified as held-for-sale (continued)

In June 2016, the Group has sold 40.29% of ordinary shares of PJSC Irkutskenergo to LLC Telmamskaya HEP, a subsidiary of JSC EuroSibEnergo for cash consideration of RUR 45,000 million paid in June 2016 and cash consideration of RUR 25,000 million to be paid on quarterly basis till the end of May 2018 (Note 9,10).

As a result of the disposal the corresponding fair value reserve was derecognized in the interim consolidated statement of changes in equity in the amount of RUR 99 million, net of tax RUR 23 million and the income from sale of assets classified as held-for-sale in the amount of RUR 31,870 million was recognized in the interim consolidated statement of comprehensive income.

13. Other current assets

	30 June 2016	*31 December 2015*
Restricted cash	649	627
Bank deposits with maturity of 3-12 months	23,897	17,784
Short-term derivative financial instruments	26	34
Other	1,001	686
Total	**25,573**	**19,131**

14. Equity

Share capital

	30 June 2016	*31 December 2015*
Number of ordinary shares issued and fully paid (in units)	104,400,000,000	104,400,000,000
Par value (in RUR)	2.809767	2.809767
Share capital (in million RUR)	293,340	293,340

Movements in outstanding and treasury shares

	Issued shares		*Treasury shares*		*Total*	
	thousand units	*million RUR*	*thousand units*	*million RUR*	*thousand units*	*million RUR*
At 31 December 2015	**104,400,000**	**293,340**	**(19,995,788)**	**(56,184)**	**84,404,212**	**237,156**
Acquisition of treasury shares	–	–	(1,044,000)	(2,933)	**(1,044,000)**	**(2,933)**
Sale of treasury shares	–	–	117,471	330	**117,471**	**330**
At 30 June 2016	**104,400,000**	**293,340**	**(20,922,317)**	**(58,787)**	**83,477,683**	**234,553**

In March 2016 the Group has acquired 1,044,000 thousand shares of the Parent company (1% of its share capital) from the third parties for the price of RUR 1.5965 per share. The cash consideration in the amount of RUR 1,667 million was recognised in the interim consolidated statement of changes in equity and the interim consolidated statement of cash flows.

In May 2016 the Group sold 117,471 thousand shares of the Parent company (0.1% of its share capital) to the third parties for the price of RUR 1.8950 per share. The cash consideration in the amount of RUR 223 million was recognised in the interim consolidated statement of changes in equity and the interim consolidated statement of cash flows.

(in millions of RUR)

15. Loans and borrowings

This note provides information about the Group's loans and borrowings. Certain loan agreements include financial and non-financial covenants.

Loans and borrowings	***Currency***	***30 June 2016***	***31 December 2015***
Total in RUR	RUR	42,530	48,397
Total in USD	USD	9,302	14,355
Total in EUR	EUR	2,461	3,002
Total in JPY	JPY	561	563
Total in GEL	GEL	96	111
Finance leases			
Financial lease	USD	958	1,337
Financial lease	RUR	256	327
Financial lease	EUR	53	60
Total long-term loans and borrowings		**56,217**	**68,152**
Less: current portion of long-term loans and borrowings and long-term finance leases		(46,094)	(25,535)
		10,123	**42,617**

As at 30 June 2016 fair value of loans and borrowings amounts to RUR 56,439 million (31 December 2015: RUR 68,196 million), and is estimated by discounting of contractual future cash flows at the prevailing current market interest rates available to the Group for similar financial instruments.

Changes in interest rates impact loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Parent Company has a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. At the time of raising new loans or borrowings management applies the policy to determine whether a fixed or variable rate would be more favorable to the Company over the expected period until maturity. As for other entities of the Group, following the corporate regulative documents, the decisions on raising new loans and borrowings on the subsidiaries level are subject for approval by the Parent Company. Management applies the same policy in making decisions in respect of the conditions of raising loans and borrowings on the subsidiary level.

16. Accounts payable and accrued liabilities

	30 June 2016	***31 December 2015***
Financial liabilities		
Trade payables	42,452	48,105
Short-term derivative financial instruments	65	216
Dividends payable	1,502	13
Other payables and accrued expenses	4,338	5,015
Total	**48,357**	**53,349**
Non-financial liabilities		
Advances received	23,735	28,816
Staff payables	6,208	8,531
Provisions, short-term	4,990	4,447
Total	**34,933**	**41,794**
	83,290	**95,143**

As at 30 June 2016 advances received included RUR 11,589 million of payments for electricity sales from customers of PJSC Mosenergosbyt (Group of companies), JSC PSK, LLC RN-Energo and Group Bashkir Generation Company (31 December 2015: RUR 15,810 million), RUR 4,041 million of advances received by LLC Inter RAO Export for construction of power station in Ecuador (31 December 2015: RUR 4,494 million) and RUR 2,950 million of advances received by the Parent Company from buyers of equipment in Ecuador and Venezuela (31 December 2015: RUR 2,640 million).

(in millions of RUR)

17. Other non-current liabilities

	30 June 2016	*31 December 2015*
Financial liabilities		
Long-term derivative financial instruments	53	40
Other long-term liabilities	448	445
Total financial liabilities	**501**	**485**
Non-financial liabilities		
Pensions liabilities	4,416	3,996
Advances received	99	100
Restoration provision	1,417	1,159
Government grants	57	71
Other long-term liabilities	767	221
Total non-financial liabilities	**6,756**	**5,547**
Total	**7,257**	**6,032**

18. Revenue

	For the three months ended 30 June		*For the six months ended 30 June*	
	2016	*2015*	*2016*	*2015*
Electricity and capacity	169,668	162,006	370,693	357,449
Thermal energy sales	6,711	6,376	22,401	20,323
Other revenue	6,332	6,789	13,999	13,861
	182,711	**175,171**	**407,093**	**391,633**

19. Other operating income

	For the three months ended 30 June		*For the six months ended 30 June*	
	2016	*2015*	*2016*	*2015*
Penalties and fines received	1,789	416	2,692	887
Income from sale of available-for-sale financial assets (Note 8)	–	–	–	819
Income from sale of assets classified as held-for-sale (Note 12)	31,870	–	31,870	–
Electricity derivatives income	48	1,067	48	1,711
Rental income	99	117	197	226
Gain from disposal of controlling interest	116	–	116	17
Other	478	789	895	1,913
	34,400	**2,389**	**35,818**	**5,573**

(in millions of RUR)

20. Operating expenses, net

	For the three months ended 30 June		*For the six months ended 30 June*	
	2016	***2015 (restated)***	***2016***	***2015 (restated)***
Purchased electricity and capacity	68,612	68,863	150,294	151,380
Electricity transmission fees	50,184	43,891	108,485	94,122
Fuel expense	25,683	28,771	60,103	68,729
Employee benefit expenses and payroll taxes	11,542	11,707	22,702	23,295
Depreciation and amortisation	5,609	5,693	11,100	11,445
Provision for impairment of accounts receivable, net	3,408	1,223	5,690	2,471
(Gain)/loss from electricity derivatives	(5)	1,221	5	1,851
Other materials for production purposes	660	617	1,230	1,090
Agency fees	1,161	1,082	2,273	2,322
Taxes other than income tax	598	922	1,616	2,040
Water supply expenses	715	676	1,348	1,294
Repairs and maintenance	1,350	1,533	2,010	2,230
Transportation expenses	458	475	969	947
Operating lease expenses	461	433	899	864
Consulting, legal and auditing services	259	241	555	508
Thermal power transmission expenses	225	198	921	834
Impairment of available-for-sale financial assets (Note 8)	–	16	–	18
Impairment of property, plant and equipment – (release)/charge	(4,417)	1	(4,417)	(7)
Loss/(gain) on sale or write-off of inventory	3	(46)	5	3
Other provisions – (release)/charge	(229)	(214)	709	189
Other	4,387	5,349	8,673	9,295
	170,664	**172,652**	**375,170**	**374,920**

21. Finance income and expense

	For the three months ended 30 June		*For the six months ended 30 June*	
	2016	***2015***	***2016***	***2015***
Finance income				
Interest income	2,063	2,030	3,950	4,055
Dividend income	288	1,117	288	1,117
Other finance income	162	392	237	783
	2,513	**3,539**	**4,475**	**5,955**

	For the three months ended 30 June		*For the six months ended 30 June*	
	2016	***2015***	***2016***	***2015***
Finance expenses				
Interest expenses	1,818	2,817	3,837	5,788
Foreign currency exchange loss, net	1,147	593	2,263	160
Other finance expenses, net	99	62	156	138
	3,064	**3,472**	**6,256**	**6,086**

(in millions of RUR)

22. Income tax expense

	For the three months ended 30 June		*For the six months ended 30 June*	
	2016	***2015***	***2016***	***2015***
Current tax expense/(benefit)	1,172	(99)	5,317	2,051
Deferred tax expense	1,567	1,714	2,374	1,630
Amended tax returns	(100)	136	(297)	95
Provision for income tax	(9)	–	(60)	2
Income tax expense	**2,630**	**1,751**	**7,334**	**3,778**

23. Fair value of financial instruments

Fair value is determined either by reference to market or by discounting relevant cash flows using market interest rates for similar instruments. As a result of this exercise management believes that fair value of its financial assets and liabilities approximates their carrying amounts except for loans and borrowings. Fair value of loans and borrowings is disclosed in Note 15.

Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by observable current market transactions and assets and liabilities for which pricing is obtained via pricing services. In case prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable. Non-market observable inputs mean that fair values are determined in whole or partly using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions with the same instrument nor they are based on available market data. Main asset classes in this category are unlisted equity investments and debt instruments. Valuation techniques are used to the extent that observable inputs are not available, whereby allow situations in which there is little, if any, market activity for the financial instrument at the measurement date. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing of the financial instrument (including risk assumptions). These inputs are developed based on the best information available, which might include the Group's own data.

Determination of fair value and fair values hierarchy

The Group uses the following hierarchy to determine and disclose fair value of financial instruments:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

(in millions of RUR)

23. Fair value of financial instruments (continued)

The following table shows an analysis of financial instruments by level of the fair value hierarchy:

At 30 June 2016	*Note*	*Total fair value*	*Fair value hierarchy*		
			Level 1	*Level 2*	*Level 3*
Financial assets					
Derivative financial instruments					
Electricity derivatives	9,13	**26**	26	–	–
Available-for-sale financial assets					
Quoted investment securities	8	**4,150**	4,150	–	–
Held to maturity financial assets					
Long-term bank deposits	9	**71**	–	–	71
Bonds issued by financial institutions		**329**	329	–	–
Total financial assets		**4,576**	**4,505**	**–**	**71**
Financial liabilities					
Derivative financial instruments					
Electricity derivatives	16,17	**75**	75	–	–
Interest rate SWAP	16,17	**43**	–	43	–
Total financial liabilities		**118**	**75**	**43**	**–**

At 31 December 2015	*Note*	*Total fair value*	*Fair value hierarchy*		
			Level 1	*Level 2*	*Level 3*
Financial assets					
Derivative financial instruments					
Electricity derivatives	9,13	**35**	35	–	–
Available-for-sale financial assets					
Quoted investment securities	8	**4,159**	4,159	–	–
Held to maturity financial assets					
Long-term bank deposits	9	**80**	–	–	80
Bonds issued by financial institutions		**313**	313	–	–
Total financial assets		**4,587**	**4,507**	**–**	**80**
Financial liabilities					
Derivative financial instruments					
Electricity derivatives	16,17	**206**	206	–	–
Interest rate SWAP	16,17	**50**	–	50	–
Total financial liabilities		**256**	**206**	**50**	**–**

24. Commitments

Investment and capital commitments

In accordance with the memorandum signed between the Group and the Government of Georgia in March 2013, the Group has to invest in realization of projects aimed to improve the electricity network which belongs to the Group entity JSC Telasi. As at 30 June 2016 realisation of investment commitments was in line with schedule for the year 2016.

As at 30 June 2016 joint venture JSC Stantsiya Ekibastuzskaya GRES-2 has contracted capital commitments for construction of block 3 in the amount of RUR 5,650 million.

As at 30 June 2016 capital commitments of subsidiaries of the Company, are as follows:

Subsidiary	*RUR, million*
JSC Inter RAO – Electric Power Plants	15,370
LLC Bashkir Generation Company	8,462
JSC TGC-11	539
Total	**24,371**

(in millions of RUR)

24. Commitments (continued)

Investment and capital commitments (continued)

Capital commitments of JSC Inter RAO – Electric Power Plants as at 30 June 2016 are mainly for supply of equipment for Permskaya GRES and for gas turbines and other equipment for Verkhnetagilskaya GRES (block 12).

Capital commitments of LLC Bashkir Generation Company included contractual obligations for the construction of Zatonskaya TEC, modernisation of water treatment plant, purchase of energy blocks 1, 2 and reconstruction of the office building.

Guarantees

- In September 2015 the Group entered into a bank guarantee agreement with ING Bank Eurasia for the purpose of financial support of agreement between the Group and CELEC EP for construction of HPP “Toachi Pilaton” (Ecuador). As at 30 June 2016 the guarantees amounted to USD 23 million, or RUR 1,458 million at the Central Bank of the Russian Federation exchange rate as of 30 June 2016 with an interest rate of 1.85% per annum (as at 31 December 2015: USD 30 million, or RUR 2,192 million at the Central Bank of the Russian Federation exchange rate as of 31 December 2015 with an interest rate of 1.85% per annum). These guarantees will expire in October 2016.
- In January 2016 the Group entered into the new guarantee agreement with ING Bank Eurasia for the purpose of financial support of agreement between the Group and CELEC EP for construction of HPP “Machala” (Ecuador). As at 30 June 2016 the guarantee amounted to USD 19 million, or RUR 1,195 million at the Central Bank of the Russian Federation exchange rate as of 30 June 2016 with an interest rate of 1.7% per annum. The guarantee will expire in January 2018.
- In May 2016 the Group entered into the new guarantee agreement with State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)” for the purpose of financial support of agreement between the Group and Empresa Importadora de Objetivos Electroenergeticos for capacity increase of TPP “East Havana” and TPP “Maximo Gomes” (Cuba). As at 30 June 2016 the guarantee amounted to EUR 7 million, or RUR 504 million at the Central Bank of the Russian Federation exchange rate as of 30 June 2016 with an interest rate of 1.05% per annum. The guarantee will expire in January 2024.
- In December 2010 the Group established together with General Electric and State Corporation Russian Technologies an associate entity, RUS Gas Turbines Holding B.V. The Group’s share in the entity is 25%. The entity was established to participate in production and sales of high-performance industrial gas turbines in the Russian Federation. The Group carries certain financial obligations to finance the associate.

  By the order of the Parent Company PJSC VTB Bank issued a StandBy Letter of Credit in favour of GE ENERGY HOLDINGS VOSTOK B.V. (Beneficiary) to the maximum aggregate amount of EUR 50 million in order to fulfill the Group’s investment obligations related to the associate at an annual interest rate of 0.45%.

  As at 30 June 2016 the financial guarantee outstanding amount was EUR 29 million, or RUR 2,073 million at the Central Bank of the Russian Federation exchange rate as of 30 June 2016 (as at 31 December 2015: EUR 29 million, or RUR 2,320 million at the Central Bank of the Russian Federation exchange rate as of 31 December 2015). The guarantee expires in August 2020.
- Guarantees of the Group’s share of the joint ventures contingent liabilities in the amount of RUR 1,193 million which are to be incurred jointly with other investors (as at 31 December 2015: RUR 1,453 million).

25. Contingencies

(a) Operating environment

The operations and earnings of Group entities continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia, Georgia, Armenia, Moldavia (including Transdniestria Republic), Lithuania and Kazakhstan.

In 2015 the Russian economy continued to be impacted by a significant drop in crude oil prices and devaluation of the Russian rouble, as well as unilateral political and economic restrictions imposed on Russia. The rouble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015. The combination of the above resulted in reduced access to capital, higher cost of capital, uncertainty regarding inflation and economic growth. The impact of these factors on the future results of operations and financial position of the Company at this time is difficult to determine.

(in millions of RUR)

25. Contingencies (continued)

(b) Insurance

The unified corporate standards are established in the Group for insurance coverage, for insurance companies reliability requirements and insurance coverage procedures developed by Parent Company.

There are two types of insurance undertaken by the Group: obligatory (as required by the law or by agreement between parties) and voluntary.

Obligatory insurance includes public liability insurance of owners of dangerous facilities and public liability insurance of car owners. The Group is obligated to insure different types of property, plant and equipment under loan agreements provisions.

Voluntary insurance includes property insurance against certain risks and equipment breakdown insurance, vehicles insurance, insurance against construction and assembly risks, voluntary public liability insurance of owners of dangerous facilities against social and environmental harm risks. The Group also undertakes insurance of directors' and officials' of certain Group entities responsibilities to cover financial losses of third parties.

The Groups' assets are insured for its replacement value which is set by valuation reports for insurance purposes considering technical risks. Obligatory condition of the property insurance of foreign subsidiaries is the availability of reliable reinsurance protection, which is done by transferring part of the risk to the foreign reinsurers with high reliability ratings.

In order to optimise insurance protection management performs regular appraisal of efficiency of Group's insurance terms and rationale for new insurance products acquired.

(c) Litigation

Legal proceedings

In the normal course of business the Group is a party to legal actions and consequently had received a number of legal claims from customers with the likelihood of negative outcome for the Group as not probable, but only possible, and, consequently, no provision has been made in these financial statements:

	30 June 2016	*31 December 2015*
Subcontractors claims,	7,165	2,733
including joint ventures	*28*	*179*
Customer's complaints,	261	103
including joint ventures	*132*	–
	7,426	**2,836**

Other than those litigations which have been accrued in the provisions (Note 17) and disclosed above, management of the Group is unaware of any actual, pending or threatened claims as at the date of approval of these interim condensed consolidated financial statements, which would have a material impact on the Group.

(d) Tax contingencies

The taxation systems in the Russian Federation and in other countries in which the Group operates are relatively new and characterised by frequent changes in legislation, official pronouncements and court decisions which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during three to five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

In addition, tax and other legislation do not address specifically all the aspects of the Group's reorganisation related to reforming of the electric utilities industry in the Russian Federation. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganisation and reform process.

These circumstances may create tax risks in the Russian Federation and in the other countries in which the Group operates. Management believes that it has adequately provided for tax liabilities based on its interpretations of applicable relevant tax legislation, official pronouncements and court decisions.

However, the interpretations of the relevant authorities could differ and the effect on these interim condensed consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(in millions of RUR)

25. Contingencies (continued)

(d) Tax contingencies (continued)

The Group includes a number of operating and investment companies located in a number of different tax jurisdictions across Europe and the CIS. Those entities are subject to a complex variety of tax regimes and the nature of current and past trading and investment activities exposes them to areas of tax legislation involving considerable judgement and, consequently, uncertainty.

The Parent Company and subsidiaries in the countries where they operate have various transactions with related parties. The pricing policy could give rise to transfer pricing risks. In management's opinion, the Group is in substantial compliance with the tax laws of the countries where Group entities operate. However, relevant authorities could take different positions with regard to interpretive issues or court practice could develop adversely with respect to the positions taken by the Group and the effect could be significant.

(e) Environmental matters

Group entities operate in the electric power industry in the Russian Federation, Georgia, Armenia, Kazakhstan and Moldavia. The enforcement of environmental regulations in these countries is evolving and position of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

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

Restoration provision liabilities relate to reclamation of land plots, used for ash dumps by generating entities, which use coal for production purposes (Note 17).

(f) Ownership of land

The current legislation in Georgia is unclear in relation to ownership issues with regard to land over which the Company's equipment for the transmission of electricity is located (JSC Telasi). On further clarification of the law, it is possible that the Company may be required to acquire ownership over certain land plots or to pay rentals to other parties for their use. At the date of approval of these financial statements, management considers that it is not possible to quantify any additional expense, if any, which JSC Telasi might incur and consequently, no provision has been made against such potential liabilities in these financial statements.

26. Related party transactions

(a) Parent Company and control relationships

The Russian Federation is the ultimate controlling party of PJSC Inter RAO and has a controlling interest in the Company of over 50%. Details of operations with entities controlled by the Russian Federation are provided in Note 26 (d).

(b) Transactions with key management personnel

The members of the Management Board and the Board of Directors own 0.0207% of ordinary shares of PJSC Inter RAO as at 30 June 2016 (31 December 2015: 0.0137%).

Compensation paid to key management and members of the Board of Directors for their service in that capacity is made up of contractual salary and performance bonuses. Key management and members of the Board of Directors received the following remuneration during the period, which is included in employee benefit expenses and payroll taxes (Note 20):

	Six months ended 30 June 2016	*Six months ended 30 June 2015*
Salaries and bonuses	860	722

(in millions of RUR)

26. Related party transactions (continued)

(c) Transactions with associates and joint ventures

Sales to and purchases from joint ventures and associates are made at terms equivalent to those that prevail in arm's length transactions.

The Group's transactions with associates and joint ventures are disclosed below.

	Six months ended 30 June 2016	*Six months ended 30 June 2015*
Revenue		
Joint ventures	329	482
Associates	6	–
Other operating income		
Joint ventures	4	4
Interest income		
Joint ventures	127	17
Associates	2	–
Dividend income		
Joint ventures	–	11
Associates	1	–
	469	**514**
Purchased power		
Joint ventures	806	34
Purchased capacity		
Joint ventures	516	515
Other expenses		
Joint ventures	10	143
Finance expenses		
Joint ventures	763	143
	2,095	**835**
Capital expenditures		
Joint ventures	4	317

	30 June 2016	*31 December 2015*
Accounts receivable		
Joint ventures	68	85
Associates	1	–
Loans issued		
Joint ventures	4,392	4,791
Associates	–	424
Accounts payable		
Joint ventures	196	127
Associates	6	–

(in millions of RUR)

26. Related party transactions (continued)

(d) Transactions with entities controlled by the Russian Federation

Sales to and purchases from entities controlled by the Russian Federation are made at terms equivalent to those that prevail in arm's length transactions.

Information on transactions with entities controlled by the Russian Federation is presented below:

	Six months ended 30 June 2016	*Six months ended 30 June 2015*
Revenue		
Electricity and capacity	132,473	121,050
Other revenues	6,754	7,235
Other operating income	676	1,410
	139,903	**129,695**
Operating expenses		
Purchased power and capacity	34,008	35,496
Transmission fees	102,399	88,870
Fuel expense (gas)	44,293	24,549
Fuel expense (coal)	203	413
Other purchases	62	66
Other expenses	5,915	5,417
	186,880	**154,811**
Capital expenditures	**469**	**2,092**

	Six months ended 30 June 2016	*Six months ended 30 June 2015*
Finance income/(expenses)		
Interest income	993	1,206
Other finance income	18	2
Interest expenses	(1,324)	(2,812)
	(313)	**(1,604)**

	30 June 2016	*31 December 2015*
Long-term accounts receivable		
Other account receivables	362	352
Less impairment provision	(26)	(35)
Other receivables – net	**336**	**317**
Short-term accounts receivable		
Trade accounts receivable, gross	27,454	28,344
Less impairment provision	(11,474)	(11,363)
Trade receivables – net	**15,980**	**16,981**
Advances issued	838	779
Advances issued for capital construction	963	1,019
Other receivables	843	1,491
	18,624	**20,270**

	30 June 2016	*31 December 2015*
Accounts payable		
Trade accounts payable	21,222	24,555
Payables for capital construction	36	159
Other accounts payable	215	695
Advances received	3,263	7,011
	24,736	**32,420**

(in millions of RUR)

26. Related party transactions (continued)

(d) Transactions with entities controlled by the Russian Federation (continued)

	30 June 2016	*31 December 2015*
Loans and borrowings		
Short-term loans and borrowings	9,391	13,258
Long-term loans and borrowings	1,280	8,456
Interest on loans and borrowings	94	1,771
	10,765	**23,485**

	30 June 2016	*31 December 2015*
Cash and cash equivalents	**9,650**	**2,806**

	30 June 2016	*31 December 2015*
Other current assets (bank deposits)	**23,037**	**14,158**

	Six months ended 30 June 2016	*Six months ended 30 June 2015*
Financial transactions		
Loans and borrowings received	330	6,723
Loans and borrowings repaid	(11,379)	(23,767)
	(11,049)	**(17,044)**

In July 2011 subsidiary of PJSC Inter RAO entered into an agreement with a state-controlled company for sale of electric power under the “take-or-pay” arrangement through 30 June 2026. The sales to and purchases from enterprises controlled by the Russian Federation are made at terms equivalent to those that prevail in arm’s length transactions.

(e) Transactions with other related parties

Sales to and purchases from other related parties are made at terms equivalent to those that prevail in arm’s length transactions. Amounts of transactions with other related parties (except for those controlled by the Russian Federation, equity investees and joint ventures), for each of the reporting periods are provided below:

	Six months ended 30 June 2016	*Six months ended 30 June 2015*
Revenue		
Electricity and capacity	3,022	2,481
Dividends received	–	1,018
Operating expenses		
Purchased electricity and capacity	1,717	2,018
Other expenses	97	50

	30 June 2016	*31 December 2015*
Short-term accounts receivable		
Trade and other accounts receivable	127	362
Short-term accounts payable		
Trade and other accounts payable	22	96

	30 June 2016	*31 December 2015*
Loans and borrowings payable		
Long-term loans and borrowings	984	4,044
Short-term loans and borrowings	11,585	3,810
	12,569	**7,854**

(in millions of RUR)

26. Related party transactions (continued)

(e) Transactions with other related parties (continued)

	30 June 2016	*31 December 2015*
Cash and cash equivalents		
Cash in bank	12,935	7,812
Short-term bank deposits	6,777	3,335
	19,712	**11,147**

	Six months ended 30 June 2016	*Six months ended 30 June 2015*
Income and expenses		
Interest income	177	728
Interest expenses	(698)	(674)

27. Events after the reporting period

Option program

In July 2016 the basic conditions of the option program approved by the Board of Directors of the Parent company, have been communicated to key managers. The total number of shares participating in the program, is 2% of the share capital of the Parent company. The duration of the program is up to February 2018.