

MOSENERGO GROUP

**IFRS CONSOLIDATED INTERIM
FINANCIAL STATEMENTS
(UNAUDITED)**

**31 March 2017
Moscow | 2017**

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MOSENERGO GROUP
CONSOLIDATED INTERIM BALANCE SHEET
AS OF 31 MARCH 2017
(In millions of Russian Rubles)

	Notes	31 March 2017	31 December 2016
Assets			
Current assets			
Cash and cash equivalents	5	14 469	10 097
Short-term financial assets	6	15 054	15 057
Trade and other receivables	7	53 618	47 631
Inventories	8	10 128	9 552
Other current assets	9	883	882
		<u>94 152</u>	<u>83 219</u>
Assets held for sale		76	459
Total current assets		94 228	83 678
Non-current assets			
Property, plant and equipment	11	222 224	223 670
Investment property	12	2 944	3 179
Goodwill	13	187	-
Intangible assets	13	242	273
Investments in associates	14	702	669
Long-term financial assets	6	3 171	3 171
Trade and other receivables	7	14 610	17 507
Other non-current assets	9	8 771	8 985
Total non-current assets		252 851	257 454
Total assets		347 079	341 132
Equity and liabilities			
Current liabilities			
Current borrowings	15	21 561	21 596
Trade and other payables	16	7 677	11 183
Taxes payable	17	4 505	7 024
Provisions	18	5 407	5 407
Total current liabilities		39 150	45 210
Non-current liabilities			
Non-current borrowings	15	21 513	21 990
Deferred tax liabilities	19	29 098	28 036
Employee benefits	20	373	368
Trade and other payables	16	150	95
Total non-current liabilities		51 134	50 489
Total liabilities		90 284	95 699
Equity			
Share capital	21	166 124	166 124
Treasury shares	21	(871)	(871)
Share premium	21	49 213	49 213
Revaluation surplus on PPE		107 150	107 533
Accumulated loss		(64 821)	(76 566)
Total equity		256 795	245 433
Total equity and liabilities		347 079	341 132

A.A. Butko
 Managing director
 «16» May 2017



E.Y. Novenkova
 Chief Accountant
 «16» May 2017



The accompanying notes on the pages 7 to 51 are an integral part of these consolidated financial statements.

MOSENERGO GROUP
CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
AS OF 31 MARCH 2017
(In millions of Russian Rubles)

	Notes	Three months ended 31 March	
		2017	2016
Sales	22	66 056	62 596
Operating expenses	23	(52 073)	(52 696)
Charge for impairment and other provisions, net	24	(693)	(281)
Operating profit		13 290	9 619
Gains from disposal of subsidiaries and associates	14	-	101
Share of profit (loss) of associates	14	33	(135)
Profit before interest and taxation		13 323	9 585
Financial income		1 044	707
Financial expenses		(771)	(750)
Net foreign exchange gain (loss)		605	734
Profit before income tax		14 201	10 276
Income tax expense		(2 839)	(2 070)
Profit for the period		11 362	8 206
Other comprehensive income:			
Remeasurement of post employee benefit obligation	20	-	13
Total items that will not be reclassified subsequently to profit or loss		-	13
Other comprehensive income for the period, net of tax		-	13
Total comprehensive income for the period		11 362	8 219
Profit attributable to:			
Equity holders of Mosenergo PJSC		11 362	8 206
Non-controlling interest		-	-
		11 362	8 206
Total comprehensive income is attributable to:			
Equity holders of the Mosenergo PJSC		11 362	8 219
Non-controlling interest		-	-
		11 362	8 219
Basic and diluted earnings per share for profit attributable to the owners of Mosenergo Group (in Russian Rubles)	26	0,2868	0,2072

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« 16 » May 2017

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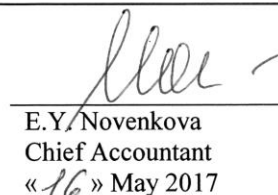
MOSENERGO GROUP
CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
AS OF 31 MARCH 2017
(In millions of Russian Rubles)

	Notes	Three months ended 31 March	
		2017	2016
Cash flow from operating activities			
Profit before net finance cost and income tax		13 323	9 586
Adjustments to profit before profit tax for:			
Depreciation and amortisation	23	3 532	3 698
Share of loss of associates	14	(33)	135
Gain on disposal of subsidiaries	14	-	(101)
Increase in provisions		1 013	441
Loss on disposal of property, plant and equipment, assets classified as held for sale		273	(36)
Total of adjustments		4 785	4 137
Cash flows from operations before working capital changes		18 108	13 723
Changes in working capital:			
Change in trade and other receivables		(3 638)	(5 310)
Change in inventories		(576)	(406)
Change in other current and non-current assets		23	(250)
Change in trade and other payables		(2 021)	(1 094)
Change in taxes payables (other than income tax)		1 155	2 789
Change in employee benefit liabilities		5	(4)
Total effect of working capital changes		(5 052)	(4 275)
Income tax paid		(5 442)	(802)
Interest paid		(708)	(595)
Net cash from operating activities		6 906	8 051
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangibles		(3 036)	(995)
Net changes in loans issued		(55)	190
Proceeds from sale of assets classified as held for sale		1	-
Interest received		563	208
Dividend received		-	90
Long-term deposits placement		-	(42)
Net cash used in investing activities		(2 527)	(549)
Cash flow from financing activities			
Proceeds from borrowings		50	682
Repayment of borrowings		(58)	(522)
Net cash used in financing activities		(8)	160
Effect of foreign exchange rate changes on cash and cash equivalents		-	19
Increase in cash and cash equivalents		4 371	7 681
Cash and cash equivalents at the beginning of the reporting period	5	10 098	5 666
Cash and cash equivalents at the end of the reporting period	5	14 469	13 347

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« 16 » May 2017



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MOSENERGO GROUP
CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
AS OF 31 MARCH 2017
(In millions of Russian Rubles)

	Notes	Share capital	Treasury shares	Share premium	Revaluation surplus	Accumulated loss	Total	Non-control-ling interest	Total Equity
Balance at 1 January 2016		166 124	(871)	49 213	107 889	(90 485)	231 870	-	231 870
Profit for the period						8 206	8 206	-	8 206
Other comprehensive loss/(income):									
Remeasurement of post employee benefit liabilities	20					13	13	-	13
Transfers from revaluation surplus to retained earnings		-	-	-	12	(12)	-	-	-
Total comprehensive income for the period		-	-	-	12	8 207	8 219	-	8 219
Transaction with owners									
Dividends to shareholders		-	-	-	-	17	17	-	17
Balance at 1 March 2016		166 124	(871)	49 213	107 901	(82 261)	240 106	-	240 106
Balance at 1 January 2017		166 124	(871)	49 213	107 533	(76 566)	245 433	-	245 433
Profit/(loss) for the period						11 362	11 362	-	11 362
Other comprehensive loss/(income):									
Transfers from revaluation surplus to retained earnings		-	-	-	(383)	383	-	-	-
Total comprehensive income(loss) for the period		-	-	-	(383)	11 745	11 362	-	11 362
Balance at 1 March 2017		166 124	(871)	49 213	107 150	(64 821)	256 795	-	256 795

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« 16 » May 2017



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1 The Group and its operations

1.1 Organisation and operations

The Public Joint Stock Company “Mosenergo” (PJSC “Mosenergo”) and its subsidiaries (together referred as the “Group” or the “Mosenergo Group”) are primarily involved in the generation of heat and electric power and heat distribution services in the Moscow city and Moscow region.

The Group’s power and heat generation base includes 15 power plants with operational capacity of approximately 12 963 megawatts of electricity and 42 954 gigacalories/hour heat capacity.

PJSC “Mosenergo” was incorporated under the legislation of the Russian Federation at 6 April 1993 in accordance with State Property Management Committee Decree 169-R dated 26 March 1993 following the privatisation process of electricity and heat power generation, transmission and distribution assets formerly under control of the Ministry of Energy of the Russian Federation.

The Company’s registered office is located at 101/3, Prospekt Vernadskogo, Moscow, 119526, Russian Federation.

On 10 June 2015 Open Joint Stock Company “Mosenergo” was renamed into Public Joint Stock Company “Mosenergo”. The change in the Company’s legal status is reflected in the new version of the Articles of Association approved by the annual General Shareholders Meeting. The Company’s name was changed with a view to bring it in line with the provisions of the Civil Code of the Russian Federation.

1.2 Group formation

On 1 April 2005, PJSC “Mosenergo” was reorganised through a spin-off following the reorganisation process within the Russian electric power industry aimed to introduce competition into the electricity market and to enable the companies of the electricity sector to maintain and further expand production capacity. Restructuring of PJSC “Mosenergo” was approved by general shareholder’s meeting on 28 June 2004. Before the restructuring took place PJSC “Mosenergo” operated an integrated utility model, which included generation, transmission and distribution activities. As a result of the restructuring, 13 new entities were separated from PJSC “Mosenergo” and each shareholder of the Company received ordinary shares of each of the separated entities pro rata to Company’s shares held by them prior to spin-off.

A general shareholders’ meeting held on 20 December 2006 approved a closed subscription for the additional shares issued in favor of PJSC “Gazprom” and its affiliates (together referred to as the “Gazprom Group”). As a result, the majority shareholder of PJSC “Mosenergo” changed from RAO UES of Russia to Gazprom Group holding 53,49% of ordinary shares. Following the reorganisation process, an extraordinary general shareholder’s meeting of RAO UES of Russia on 26 October 2007 approved the spin-off of several holding companies to which shares in electricity generation companies, including PJSC “Mosenergo”, held by RAO UES of Russia, were transferred. Holdings separated from RAO UES of Russia were merged with generation companies by means of shares conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in generation companies after reorganisation. Accordingly, upon spin-off from RAO UES of Russia OJSC “Mosenergo Holding” (the “Mosenergo Holding”) received the stake in PJSC “Mosenergo” held by RAO UES of Russia. Simultaneously with the spin-off “Mosenergo Holding” was merged with PJSC “Mosenergo” and its shares were converted into the shares of PJSC “Mosenergo”.

In February 2009, the Board of Directors of PJSC “Mosenergo” approved a program to improve the organisational structure of PJSC “Mosenergo”, which was aimed at concentrating production resources and optimising the labor capacity and supply chain. Organisational structure optimisation included the merger of several production branches situated geographically close to each other and reallocation and outsourcing of non-core functions.

In April 2009 PJSC “Gazprom” transferred its 53,49% share in PJSC “Mosenergo” to its 100% subsidiary LLC “Gazprom energoholding” (previously - LLC “Gazoenergeticheskaya Kompaniya”) which became the parent company of PJSC “Mosenergo”.

In May 2015 the General Meeting of Shareholders decided to transfer the powers of the sole executive body of PJSC “Mosenergo” to management organization LLC “Gazprom energoholding”.

1.3 Buisness environment

The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation (Note 29). During the three months ended 31 March 2017 the Russian economy was impacted by a fluctuation in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

The financial markets continue to be volatile and are characterized by frequent significant price movements and increased trading spreads.

These events may have a significant impact on the Group's operations, its prospective financial position, operational results and business perspectives. Management believes it takes all the necessary measures to support the sustainability and development of the Group's business.

1.4 Relations with the state and current regulation

At the end of the reporting period the Russian Federation owned (both direct and indirect ownership) over 50% in PJSC "Gazprom" (the previous "Parent"), which holds 53,49% of PJSC "Mosenergo" through its 100% subsidiary LLC "Gazprom energoholding" (immediate parent company). Thus the PJSC "Gazprom" is the ultimate parent company of the Group and the Russian Federation is the ultimate controlling party of the Group.

The government of the Russian Federation directly affects the Group's operations through regulations of wholesale and retail sales of electricity and heat exercised by the Federal Antimonopoly Service (the "FAS") and Department of economic policy and development of Moscow and Committee on the prices and tariffs of the Moscow region. Starting July 2015 OJSC "System Operator of the United Power System" (the "SO UPS"), which is controlled by the Russian Federation, regulates operations of generating assets of the Group.

The Group's customer base, as well as its supply chain, includes a large number of entities controlled by or related to the state.

As described in Note 29 and Note 30, the government's economic, social and other policies could materially affect operations of the Group.

1.5 Industry restructuring

Following the restructuring of the Russian electric utility sector aimed to introduce competition into the electricity (capacity) market, the New Wholesale Electric Power (capacity) Market Rules of the Transitional period (the "NOREM"), approved by Resolution of the Government of the Russian Federation № 529 dated 31 August 2006, were adopted. Under this new framework, electricity and capacity purchase-sales transactions in the regulated market sector are to be governed by a regulated bilateral contract system. Starting 1 September 2006 regulated contracts covered all volumes of electricity and capacity produced and consumed.

Starting 2007, the volumes of electricity and capacity traded in the wholesale market applying regulated prices are to be substantially reduced pursuant to Russian Federation Government Resolution No. 205 dated 7 April 2007 "On amending certain resolutions of the Russian Federation Government related to the calculation of electricity volumes sold at free (competitive) prices". The Resolution states that electricity and capacity supplied at regulated prices will gradually decrease.

Electricity volumes produced, not covered by the regulated contracts, are traded at unregulated prices on the basis of free bilateral contracts or on a day-ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers the day before the electricity is supplied.

Starting from 2011, electricity and capacity (except for supplies to the population and equivalent consumer categories under regulated contracts) have been supplied at unregulated prices. Electricity is supplied at free prices on the day-ahead market and balancing market while capacity is supplied based on competitive capacity selection under the contracts for sales of capacity. Furthermore, separate contracts are concluded for capacity, which is generated by assets operating under forced mode and traded at tariffs approved by the

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(In million of Russian Rubles)

Russian Federal Tariff Service (FTS). Starting to July 2015 functions of FST were transferred to FAS pursuant to the Russian Federation President Resolution No. 373 dated 21 July 2015 “On matters of state management and control in antimonopoly and tariff regulation”. Non-regulated bilateral contracts for supply of electricity and capacity may be also concluded.

Agreements for the provision of facilities provide on the one hand the obligations for suppliers to implement approved investment programs, and on the other hand give a guarantee of payment capacity of the new (upgraded) generating facilities from the Russian Government.

2 Basis of preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

2.2 Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment and investment property are revalued periodically; available-for-sale financial assets are measured at fair value; and the carrying amounts of equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, GosKomStat. Russia ceased to be hyperinflationary for IFRS purposes at 1 January 2003.

The methods used to measure fair values are discussed further in Note 2.

2.3 Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (RR), which is the Group’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RR has been rounded to the nearest million unless otherwise stated.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 11 – impairment test: key assumptions underlying recoverable amounts;
- Note 20 – measurement of defined benefit obligation: key actuarial assumptions;
- Note 18, 30 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow;
- Note 4 – segment information;
- Note 6 – lack of significant influence in investment equity.

A number of the Group’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 11 – fair value determination of property, plant and equipment;
- Note 12 – fair value determination of investment property;
- Note 10 – fair value determination of non-current assets classified as held for sale;
- Note 32 – fair value determination of financial instruments.

3 Significant accounting policies

3.1 Basis of consolidation

3.1.1 Subsidiaries

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 accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

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 at 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.

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 PJSC "Mosenergo". Non-controlling interest forms a separate component of the Group's equity.

3.1.2 Transfers of subsidiaries from parties under common control

Transfers of subsidiaries between parties under common control are accounted for using the predecessor basis of accounting method. Under this method the assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's carrying amounts. The financial statements incorporate the acquired entity's results from the date on which the transaction occurred. The corresponding figures of the previous year are not restated. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment within equity.

3.1.3 Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

3.1.4 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of PJSC "Mosenergo" at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

3.3 Financial instruments

3.3.1 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Classification of financial assets. Financial assets are classified into the following categories: (a) cash and cash equivalents, (b) loans and receivables, (c) held-to-maturity investments, (d) available-for-sale financial assets.

Cash and cash equivalents comprise cash on hand and balances with banks. Cash equivalents comprise short-term financial assets which are readily converted to cash and have an original maturity of three months or less.

Loans and receivables consist of financial assets with fixed or exactly determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Group upon initial recognition designates at fair value through profit or loss.

Held-to-maturity investments. If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains or losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Classification of financial liabilities. Financial liabilities are classified into the following categories: (a) at fair value and changes therein are recognized in profit or loss and (b) other financial liabilities. All the Group's financial liabilities, including liabilities under the loans are classified as other and are carried at amortised cost.

3.3.2 Share capital

Ordinary shares. Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Evaluation of own repurchased shares made in accordance the approach adopted by the Gazprom Group.

Repurchase of share capital (treasury shares). When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are disclosed in the line "treasury shares" in the amount of the consideration paid, including the costs directly related to this transaction.

When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

3.4 Property, plant and equipment

3.4.1 Recognition and measurement

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the balance sheet date. Increase in the carrying amount of property, plant and equipment as a result of revaluation is credited directly to other comprehensive income under the heading reserve, unless the decrease of the reserve was previously recognised in profit or loss. Decrease in the carrying amount shall be debited to other comprehensive income to the extent of any credit balance existing in the revaluation reserve. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revaluated amount of the asset.

The tax effects from the revaluation of property, plant and equipment are recognised in other comprehensive income and accumulated in equity.

Cost of acquired assets includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

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

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

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other operating expenses" in profit or loss. The revaluation surplus is transferred from reserve when the assets are disposed.

3.4.2 Reclassification to investment property

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent the gain reverses previous impairment loss on a specific property, with any remaining gain recognised in the revaluation reserve directly in other comprehensive income. Any loss is recognised in the revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognised immediately in profit or loss.

3.4.3 Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

3.4.4 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets under finance lease are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of lease term. Depreciation of an asset begins when it is available for use.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

As part of revaluation at 31 December 2013 estimates in respect of useful lives of certain classes of property, plant and equipment were revised for the year 2016 and were as follows:

Buildings and constructions	30 - 70 years
Plant and equipment	25 - 40 years
Transmission networks	30 years
Other	5 - 25 years

3.5 Intangible assets

3.5.1 Goodwill

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.

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

3.5.2 Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

3.5.3 Subsequent expenditures

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

3.5.4 Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of the software for the current and comparative periods equal to 7 years.

3.6 Investment property

Investment property is property or construction in progress held or constructed either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Any change in fair value is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

When the carrying amount of property is to be recovered principally through a sale transaction rather than through continuing use the property is remeasured to fair value and reclassified as assets held for sale. Any gain or loss on the remeasurement recognised in profit or loss.

3.7 Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

3.8 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.9 Impairment

3.9.1 Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

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

3.9.2 Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”). To calculate the recoverable amount in respect of a specific group of assets, the Group uses the fair value method, based on the possibility of alternative use. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in other comprehensive income if revaluation reserve existing to such assets, otherwise in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

3.9.3 Non-current assets held for sale

Non – current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. Immediately before classification as held-for-sale, the assets are remeasured in accordance with the Group’s accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, investment property and biological assets, which continue to be measured in accordance with the Group’s accounting policies. Impairment loss is recognised in the

revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognised immediately in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

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

3.10 Employee benefits

3.10.1 Defined contribution pension plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

3.10.2 Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation 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 that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in year in which they arise.

Current service cost, interest on employee benefit obligations, past service cost, effect of curtailment and settlement are recognised to profit or loss.

3.10.3 Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Russian government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in year in which they arise.

3.10.4 Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

3.10.5 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.10.6 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3.11 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief operating decision-maker. The Chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors including Managing Director who makes strategic decisions.

Beginning from the year 2016 the Group changed presentation of information concerning reporting segments. These changes will allow users of the consolidated financial statements to get the access to the more useful and reliable information for decision making.

3.12 Revenues

3.12.1 Goods sold

Revenues from sales of electricity and heat are recognised when electricity and heat are supplied to customers.

Revenue from the sale of goods other than electricity and heat is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

3.12.2 Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

3.12.3 Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

3.13 Government subsidies

Government subsidies are assistance by government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of PJSC “Mosenergo”.

Government subsidies are recognised initially as deferred income when there is reasonable assurance that they will be received and that PJSC “Mosenergo” will comply with the conditions associated with the subsidy. Subsidies that compensate PJSC “Mosenergo” for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Government subsidies that compensate PJSC “Mosenergo” for the cost of an asset are recognised in the profit or loss on a systematic basis over the useful life of the asset. Unconditional government subsidies are recognised on profit or loss when subsidy becomes receivable. Government subsidies for the compensation of the difference between tariffs set to the urban population and the tariffs of PJSC “Mosenergo” are recognised as income and included in other operating income.

3.14 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.15 Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group’s right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on certain financial assets. All borrowing costs are recognised in profit or loss using the effective interest method except for those which are capitalised.

Foreign currency gains and losses are reported on gross basis.

3.16 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the consolidated statement of changes in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable the profit or loss, and differences relating to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.17 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.

3.18 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of PJSC "Mosenergo" by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees. There are no dilutive potential ordinary shares as of 31 december 2016 and 31 December 2015.

3.19 Adoption of new or revised standards and interpretations

3.19.1 Application of new IFRSs

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later:

- The amendments to IAS 7 Cash Flow Statements (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The revised standard requires disclosing a reconciliation of movements for obligations arising from financing activities.
- The amendments to IAS 12 Income Taxes in the recognition of deferred tax assets for unrealised losses (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).

The Group has applied amended standards while preparing this consolidated financial information. The amended standards have no significant impact on the Group's consolidated financial information.

3.19.2 Standards 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 2017 or later, and which the Group has not early adopted:

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. Earlier application of the standard is permitted simultaneously with earlier application IFRS 15 Revenue from Contracts with Customers.
- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Revenue from sales of any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognised as an asset and amortised over the period when the benefits of the contract are consumed.
- The amendments to IFRS 9 Financial Instruments (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). IFRS 9 Financial Instruments replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification and measurement of financial assets. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 Financial Instruments or continuing to apply IAS 39 Financial Instruments: Recognition and Measurement to all hedging instruments because the standard currently does not address accounting for macro hedging.
- The amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IAS 40 Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments to clarify the guidance on transfers to, or from, investment properties.

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- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions when payment is made or received in advance.

The impact of adoption of these Standards and Interpretations in the preparation of consolidated financial statements in the future periods is currently being assessed by the management of PJSC “Mosenergo”.

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4 Segment information

The chief operating decision-maker has been identified as the Board of Directors and Managing Director. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources.

The operating segments are aggregated into two primary reportable segments - electricity and heat. The other segments consist of services and products sold by the Group and mainly include rent services, feed water sales and maintenance services. All operating segments are located in the Russian Federation.

The measure of the segment information is calculated in accordance with IFRS. Differences in items between those reported in the segment information and those reported in the Group's consolidated financial statements are due to the unallocated items of income and expense that can't be directly allocated to identifiable reportable segments.

Due to the combined method production of electricity and heat, there is no adequate basis for splitting of shared assets and liabilities thus the Group does not disclose information of the assets and liabilities by the segment.

4.1 Financial results of segments

The segment information for the three months ended 31 March 2017 and 31 March 2016 as follows:

	Notes	Electricity	Heat	All other segments	Total	Intra-group transactions	Total
Three months ended 31 March 2017							
Segment revenue	22	33 873	31 502	771	66 146	(90)	66 056
Revenue from external customers		33 873	31 495	689	66 056	-	66 056
Intra-group revenue		-	8	82	90	(90)	-
Segment profit or loss		12 243	1 496	(329)	13 411	-	13 411
Depreciation and amortisation	23	(1 362)	(1 825)	(345)	(3 532)	-	(3 532)
Provisions for accounts receivable and prepayments	24	(332)	(206)	(156)	(694)	-	(694)
Three months ended 31 March 2016							
Segment revenue	22	29 314	32 735	631	62 679	(83)	62 596
Revenue from external customers		29 314	32 727	555	62 596	-	62 596
Intra-group revenue		-	8	76	83	(83)	-
Segment profit or loss		9 404	648	(218)	9 834	-	9 834
Depreciation and amortisation	23	(1 356)	(2 026)	(318)	(3 700)	-	(3 700)
Provisions for accounts receivable and prepayments	24	(81)	(127)	(66)	(274)	-	(274)

Reconciliation of the segment profit or loss to consolidated profit (loss) before tax for the three months ended 31 March 2017 and 31 March 2016 is provided as follows:

	Notes	Three months ended 31 March	
		2017	2016
Segment profit or loss for reportable segments		13 739	10 052
Other segments (loss)/profit		(329)	(218)
Segment profit or loss		13 411	9 834
Gain from disposal of subsidiaries and associates	14	-	101
Net financial income/(expense)		273	(44)
Foreign exchange differences	25	605	734
Share of profit (loss) of associates accounted for using the equity method	14	33	(135)
Other items		(121)	(212)
Profit/(loss) before income tax		14 201	10 277

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4.2 Core customers

The revenue presented within the `heat` segment includes the customer with the revenue exceeding 10% of the Group`s revenue for 3 months ended 31 March 2017 (for 3 months ended 31 March 2016: the revenue of the same customer exceeded 10% of the Group`s revenue).

The revenue presented within the `electricity` segment includes two customers with the revenue exceeding 10% of the Group`s revenue for 3 months ended 31 March 2017 (for 3 months ended 31 March 2016: the revenue of the same two customers exceeded 10% of the Group`s revenue).

5 Cash and cash equivalents

	31 March 2017	31 December 2016
Short-term deposits (< 3 months)	14 361	9 791
Bank balances	108	306
Total	14 469	10 097

6 Financial assets

	31 March 2017	31 December 2016
Investments held-to-maturity		
Deposits	15 054	15 057
Total short-term financial assets	15 054	15 057
Available-for-sale financial assets		
Shares	3 171	3 171
Total long-term financial assets	3 171	3 171

The Group`s exposure to credit, currency and interest risks related to investments is disclosed in Note 31.

Available-for-sale financial assets include equity instrument of LLC "Gazeks-Management" in the amount of RR 3 149 million at 31 March 2017 that was received in settlement for accounts receivable in October 2013 (31 December 2016: RR 3 149 million).

Management assessed the level of the Company`s influence on LLC "Gazeks-Management", and concluded that despite holding 33,3% of shares the Company has no significant influence due to the following factors:

- PJSC "Mosenergo" does not have any representative in the LLC "Gazeks-Management" Board of Directors and does not have a right to appoint them;
- PJSC "Mosenergo" does not participate in LLC "Gazeks-Management" policy-making decisions including participate in managerial decisions;

There are no material transactions between the Group and LLC "Gazeks-Management, there is no interchange of personnel between the two companies and there is no sharing of technical information between the companies.

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7 Trade and other receivables

	31 March 2017	31 December 2016
Current assets		
Trade receivables	49 917	47 562
Loans issued	1 200	1 200
Advances to suppliers and prepaid expenses	3 523	2 651
VAT recoverable	203	195
Taxes other than income tax prepaid	16	23
Accounts receivable on disposal of investments	6 965	4 181
Other receivables	4 821	4 204
Total	66 645	60 016
Provision for doubtful debts	(13 027)	(12 385)
Total	53 618	47 631
Non-current assets		
Loans issued	10 615	10 560
Advances to suppliers and prepaid expenses	235	237
Accounts receivable on disposal of property, plant and equipment	3 760	3 723
Accounts receivable on disposal of investments	-	2 784
Other receivables	-	203
Total	14 610	17 507

Provision for doubtful debts includes provision for trade receivables impairment (31 March 2017: RR 12 771 million, 31 December 2016: RR 12 176 million) and provision for other receivables impairment (31 March 2017: RR 256 million; 31 December 2016: RR 209 million).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 31.

8 Inventories

	31 марта 2017 года	31 декабря 2016 года
Сырье и материалы	10 618	10 054
Незавершенное производство	12	-
Прочие запасы	7	7
	10 637	10 061
Резерв под снижение стоимости	(509)	(509)
Итого	10 128	9 552

Inventories held by the Group are not subject to any retention of title clauses.

9 Other current and non-current assets

	31 March 2017	31 December 2016
Raw materials and consumables	10 618	10 054
Work in progress	12	-
Supplies	7	7
	10 637	10 061
Provision for obsolete inventories	(509)	(509)
Total	10 128	9 552

Constructed assets

Since June 2005 the Group was engaged in the construction of the Ostashkovskaya thermal main to be jointly used by the Group and the government of Moscow city. Construction of the distribution unit is jointly

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financed and shall be distributed between the parties involved upon completion. Included in other payables and accrued expenses is a liability to the government of Moscow city amounting to RR 523 million.

10 Assets held for sale

	Three months ended 31 March	
	2017	2016
Opening balance	459	172
Transfer from/to assets classified as held for sale	(123)	7
Sale	(4)	-
Disposals	(256)	-
Closing balance	76	178

At 31 March 2017 and at 31 March 2016 the Group is in the process of disposing of non-core assets and corresponding liabilities. The sale is expected during 2017-2018.

The fair value measurement for assets and disposal group classified as held for sale was categorised as a Level 3 fair value based on inputs to the valuation technique used (Note 2).

The following table shows the valuation technique used in measuring the fair value, as well as the significant unobservable inputs used.

Cost approach	Replacement cost and index method
Discounted cash flows	Projected profit and loss, projected cash flows

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11 Property, plant and equipment

	Buildings and construc- tions	Plant and equipment	Transmissio n networks	Other	Construc- tion in progress	Total
Appraised value						
Balance at 1 January 2016	117 513	116 388	2 968	15 088	42 413	294 370
Reclassification	-	-	-	-	-	-
Additions	-	4	-	-	1 484	1 488
Disposals and other	(79)	(2)	-	(7)	-	(88)
Transfers	4 898	11 580	-	671	(17 149)	-
Disposal of controlling interest	-	-	-	(4)	-	(4)
Balance at 31 March 2016	122 332	127 970	2 968	15 748	26 748	295 766
Balance at 1 January 2017	123 548	129 718	1 234	16 823	28 864	300 187
Reclassification	(3)	(45)	(5)	53	-	-
Additions	-	-	2	-	1 262	1 264
Disposals and other	143	86	(100)	287	-	416
Transfers	632	855	49	305	(1 841)	-
Acquisition of subsidiary	479	-	-	-	-	479
Balance at 31 March 2017	124 799	130 614	1 180	17 468	28 285	302 346
Depreciation and impairment						
Balance at 1 January 2016	(21 654)	(29 687)	(719)	(4 907)	(6 122)	(63 089)
Reclassification	-	-	-	-	-	-
Depreciation charge	(1 240)	(1 984)	(80)	(381)	-	(3 685)
Transfers	(769)	(1 440)	-	(25)	2 234	-
Disposals and other	(1)	1	-	9	-	9
Balance at 31 March 2016	(23 664)	(33 110)	(799)	(5 304)	(3 888)	(66 765)
Balance at 1 January 2017	(27 202)	(38 895)	(322)	(6 425)	(3 673)	(76 517)
Reclassification	-	-	-	-	-	-
Depreciation charge	(1 207)	(1 906)	(15)	(357)	-	(3 485)
Transfers	(127)	(55)	(6)	(38)	226	-
Disposals and other	(16)	(48)	19	(70)	-	(115)
Acquisition of subsidiary	(5)	-	-	-	-	(5)
Balance at 31 March 2017	(28 557)	(40 904)	(324)	(6 890)	(3 447)	(80 122)
Net book value						
At 1 January 2016	95 859	86 701	2 249	10 181	36 291	231 281
At 31 March 2016	98 668	94 860	2 169	10 444	22 860	229 001
At 1 January 2017	96 346	90 823	912	10 398	25 191	223 670
At 31 March 2017	96 242	89 710	856	10 578	24 838	222 224

Assets under construction represent the expenditures for property, plant and equipment that are being constructed, including advances to construction companies and suppliers of property, plant and equipment.

As at 31 March 2017 such advances amounted to RR 706 million (31 March 2016: RR 1 952 million).

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

There were no properties pledged as security for the Company's bank loans at 31 March 2017 and at 31 March 2016.

11.1 Revaluation

The Group changed its accounting policy in respect of property, plant and equipment measurement from a cost model to a revaluation model starting from 1 January 2007 in order to provide users of the financial statements with more reliable information about the value of the Group's property, plant and equipment.

In 2013 the Group contracted an independent appraiser to estimate the fair value of the Group's property, plant and equipment and investment property at 31 December 2013. The fair value of property, plant and equipment was determined to be RR 273 766 million.

As a result of revaluation, the Group's equity increased by RR 46 771 million, comprising net increase in the carrying value of property, plant and equipment of RR 58 464 million and the related deferred tax of RR 11 693 million.

Net increase in the carrying value of property, plant and equipment amounted to RR 57 562 million consisted of increase in amount of RR 67 597 million related to revaluation recognized within the equity and decrease of RR 10 035 million related to impairment charge out of which RR 9 133 million were recognized within the equity and RR 902 million were recognized in the consolidated income statement.

No revaluations were performed at 31 March 2017 as the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The fair value measurement for property, plant and equipment was categorised as a Level 3 of fair value hierarchy (Note 2).

11.2 Impairment

The Group assessed whether there were any indicators that the Group assets for cash generating units may be impaired. No impairment was identified at 31 March 2017 and 31 December 2016.

It is reasonably possible, on the basis of existing knowledge, that outcomes within the next accounting period that are different from the assumptions used could require a material adjustment to the carrying amount of certain CGUs.

11.3 Leased assets

The Group leases property, plant and equipment under a number of finance lease agreements. All leases provide the Group with the option to purchase the buildings and equipment at a beneficial price. The leased plant and equipment secures lease obligations (Note 15).

At 31 March 2017 the net carrying amount of leased plant and equipment was RR 59 million (at 31 December 2015: RR 452 million).

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12 Investment property

	<u>2017</u>	<u>2016</u>
Balance at 1 January	3 180	1 323
Transfer from/to property, plant and equipment	(233)	74
Disposals	(3)	-
Balance 31 March	2 944	1 397

The fair value of investment property at 31 March 2017 was determined to be RR 2 944 million (at 31 March 2016: RR 1 397 million) and based on the market trends for the year 2017.

The fair value measurement for investment property was categorised as a Level 3 fair value based on inputs to the valuation technique used (Note 2).

In 2016 the Group has adopted an approach to the estimation of supplies of other assets (heating systems) within a single lease. Assets that cannot be easily moved to another location, usually an integral part of a group of assets, generating cash flows, and may be classified as an investment property as a part of this group.

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Cost approach	Replacement cost and index method
Income approach	The forecast of income and expenses and cash flows
Market approach	Market prices for identical assets

Rental income for the three months ended 31 March 2017 amounted to RR 201 million (for the three months ended 31 March 2016 amounted to RR 59 million), was recognised in the consolidated statement of comprehensive income.

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	<u>2017</u>	<u>2016</u>
As at 31 March		
Less than one year	578	320
Total	578	320

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13 Intangibles

13.1 Goodwill

Goodwill arised on the acquisition of subsidiaries.

	Three months ended 31 March	
	2017	2016
Balance at 1 January	-	-
Acquisition of Mosenergoproject OOO	187	-
Balance at 31 March	187	-

The goodwill arised on the acquisition of LLC “Mosenergoproject” (Note 28.1) is provisional and will be tested for impairment after the final estimate of the fair values of identifiable assets and liabilities is completed.

13.2 Other intangibles

	Software	Licenses	Total
Cost			
Balance at 1 January 2016	628	4	632
Additions	17	0	17
Disposals	-	-	-
Balance at 31 March 2016	646	4	650
Balance at 1 January 2017	807	3	811
Additions	16	-	16
Disposals	-	-	-
Balance at 31 March 2017	823	3	826
Amortisation and impairment			
Balance at 1 January 2016	(463)	(2)	(465)
Amortisation charge	(15)	(0)	(15)
Disposals	-	-	-
Balance at 31 March 2016	(478)	(2)	(480)
Balance at 1 January 2017	(535)	(2)	(537)
Amortisation charge	(47)	(0)	(47)
Disposals	-	-	-
Balance at 31 March 2017	(582)	(2)	(584)
Net book value			
At 1 January 2016	165	2	167
At 31 March 2016	168	2	170
At 1 January 2017	272	1	273
At 31 March 2017	241	1	242

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14 Investment in associates

	Three months ended	
	31 March	
	2017	2016
Balance at 1 January	669	3 978
Share of profit (loss) of associates	33	(135)
Disposal from investments in associates	-	(2 684)
Balance at 31 March	702	1 159

The table below summarises financial information about the Group's investments in associates:

	LLC "TSK Mosenergo"		LLC "OGK Investproject"	
	31 March	31 December	31 March	31 December
	2017	2016	2017	2016
Country of incorporation and place of business	Russia		Russia	
Nature of business	Heat and water supply		Construction	
Ownership interest	22,51%	22,51%	-	-
As of 31 March 2017 (31 December 2016) and for 3 months ended 31 March 2017 (31 March 2016)				
Non-current assets	7 501	6 974	-	-
Current assets	8 150	8 739	-	-
Non-current liabilities	749	1 113	-	-
Current liabilities	9 447	10 690	-	-
Revenue	3 652	4 404	-	2 852
Profit (loss) for the period	147	(136)	-	(224)
Total comprehensive income (loss) for the period	147	(136)	-	(224)

In March 2016 the Group sold its 45,0% interest in LLC "OGK-Investproject" for consideration of RR 2 784 million. Gain from disposal of interest in the amount of RR 101 million was recognized in profit or loss.

15 Borrowings

The note provides information about the contractual terms of the Group's interest-bearing borrowings, which are measured at amortised cost.

	31 March	31 December
	2017	2016
Short-term debt financing		
Bank financing	21 421	21 510
Finance lease liability	11	6
Interest payable	129	80
Total short-term debt financing	21 561	21 596
Long - term debt financing		
Bank financing	21 315	21 791
Finance lease liability	198	199
Interest payable	-	-
Total long-term debt financing	21 513	21 990
Total debt financing	43 074	43 586

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Terms and conditions of outstanding liabilities are as follows:

	Cur- rency	Nominal interest rate	Year of matu- rity	31 March 2017		31 December 2016	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bank loans							
PJSC Sberbank	RUB	8,73%	2017	19 750	19 750	19 750	19 750
PJSC Sberbank	RUB	8,14%	2018	3 750	3 750	3 750	3 750
VTB BANK (PJSC)	RUB	8,14%	2018	8 250	8 250	8 250	8 250
		EURIBOR					
BNP Paribas	EUR	6M+2.00%	2022	5 847	5 592	6 157	5 884
Credit Agricole Bank PJSC	EUR	EURIBOR 6M+1.95%	2024	5 572	5 395	5 868	5 667
				43 169	42 736	43 775	43 301
Interest payable				129	129	80	80
Finance lease liability		8,34%	2048	209	209	205	205
Total				43 507	43 074	44 060	43 586

Finance lease rentals are payable as follows:

	Less than one year	Between one and five years	More than five years	Total
31 March 2017				
Future minimum lease payments	28	72	474	573
Interest	(17)	(65)	(283)	(364)
Present value of minimum lease payments	11	7	191	209
31 December 2016				
Future minimum lease payments	23	72	478	573
Interest	(17)	(65)	(287)	(368)
Present value of minimum lease payments	6	7	192	205

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16 Trade and other payables

	31 March 2017	31 December 2016
Current liabilities		
Trade payables	3 358	5 598
Advances received	1 043	1 024
Accounts payable for property, plant and equipment	1 316	3 145
Other payables	1 960	1 416
Total	7 677	11 183
Non-current liabilities		
Advances received	1	1
Accounts payable for property, plant and equipment	127	94
Other payables	22	-
Total	150	95

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 31.

17 Taxes payable

	31 March 2017	31 December 2016
VAT payable	3 524	2 463
Income tax payable	154	3 838
Property tax payable	574	566
Social contributions payable	178	137
Other taxes payable	75	20
Total	4 505	7 024

18 Provision for contingencies

	Provision for income tax	Provision for other taxes	Provisions for litigations and claims	Total
Balance at 1 January 2017	1 407	3 990	9	5 407
Provisions made during the period	-	-	-	-
Provisions used during the period	-	-	-	-
Provision released during the period	-	-	-	-
Balance at 1 March 2017	1 407	3 990	9	5 407
Balance at 1 January 2016	70	1 722	11	1 803
Provisions made during the period	1 337	2 270	9	3 615
Provisions used during the period	-	-	-	-
Provision released during the period	-	-	(11)	(11)
Balance at 1 March 2016	1 407	3 991	9	5 407

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19 Profit tax

19.1 Reconciliation of profit before tax to profit tax

Profit before profit tax for financial reporting purposes is reconciled to profit tax expense as follows:

	Three months ended 31 March	
	2017	2016
Profit before profit tax	14 201	10 276
Theoretical tax charge calculated at applicable tax rates	(2 840)	(2 055)
Adjustments in respect of current income tax of previous periods	-	(12)
Other non-taxable income (expenses)	1	(3)
Income tax expense	(2 839)	(2 070)

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the applicable statutory rates, including the prevailing rate of 20 % in the Russian Federation.

19.2 Tax effects of taxable and deductible temporary differences

Tax effects of taxable and deductible temporary differences for the three months ended 31 March 2017 and 31 March 2016 are as follows:

	31 December 2016	Recognised in profit or loss	Acquisi- tion of subsi- diaries	31 March 2017	31 December 2015	Recognised in profit or loss	Recognised in other comprehen- sive income	31 March 2016
	Property plant and equipment	(29 340)	34	-	(29 306)	(28 455)	(956)	-
Investment property	71	(12)	-	59	(124)	157	-	33
Investments in associates	141	-	-	141	-	42	-	42
Trade and other receivables	2 224	(1 137)	-	1 087	1 166	(1 192)	-	(26)
Assets classified as held for sale	(13)	55	-	42	57	(7)	-	50
Trade and other payables	118	(83)	-	35	853	(43)	-	810
Employee benefit liabilities	74	1	-	75	74	3	(3)	74
Tax losses carried forward	30	14	19	63	168	28	-	196
Provisions for contingencies	598	0	-	598	360	2	-	362
Borrowings	(90)	3	-	(87)	(116)	6	-	(110)
Other assets	(1 849)	43	-	(1 806)	(1 706)	26	-	(1 680)
Total	(28 036)	(1 081)	19	(29 098)	(27 723)	(1 934)	(3)	(29 660)

20 Post-employment benefit obligations

The Group sponsors a post-employment and other long-term benefit program that covers the majority of the Group's employees.

The plan principally consists of a defined contribution plan enabling employees to contribute a portion of their salary to the plan and equivalent portion of contribution from the Group. The plan is administrated by non-state pension fund.

To be entitled for participation in this defined contribution pension plan an employee should meet certain age and past service requirements. Maximum possible amount of employer's contribution is limited and depends on employee's position in the Group.

In addition to defined contribution pension plan the Group maintains several plans of a defined benefit nature which are provided in accordance with collective bargaining agreement and other documents. The main benefits provided under this agreement are a lump sum upon retirement and material assistance.

A new collective bargaining agreement came into force from 1 January 2016. There were no significant changes in benefits provided via the agreement compared to the version effective in the prior year.

	2017	2016
Balance at 1 January	368	372
Current service cost	4	4
Net interest expense (income)	8	12
Total included in operational and financial expenses	11	16
Remeasurements:	-	-
Actuarial (gains) losses - experience	-	(15)
Total recognised in other comprehensive loss	-	(15)
Benefits paid	(6)	(5)
Balance at 31 March	373	368
Actuarial assumptions:		
Discount rate	8,30%	9,50%
Inflation rate	5,00%	6,00%
Salaries increase	7,00%	8,00%

21 Equity

21.1 Share capital and share premium

At 31 March 2017 the authorised share capital comprised 39 749 359 700 ordinary shares (at 31 December 2016: 39 749 359 700) of RR 1.00 par value each. All issued ordinary shares are fully paid.

The share capital includes the translation of the consolidated financial statements to bring it equal to the purchasing power of the Russian Ruble at 31 December 2002 in accordance with IAS 29 Accounting in Hyperinflationary Economies.

The holders of ordinary shares are entitled to receive dividends as declared in due time and are entitled to one vote per share at meetings of the PJSC "Mosenergo". In respect of the PJSC "Mosenergo's" shares that are held by the Group (see below), all rights are suspended until those shares are reissued.

Share premium amounted to RR 49 213 million represents excess of the cash proceeds from the issue of share capital over its par value net of the transaction costs amounted to RR 7 million.

21.2 Treasury shares

Treasury shares at 31 March 2016 and at 31 December 2016 amounted to RR 871 million. No decisions regarding further operations with treasury shares were made by the PJSC "Mosenergo's" management.

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22 Revenue

	Three months ended 31 March	
	2017	2016
Electricity	33 873	29 314
Heat	31 495	32 727
Other revenue	688	555
Total	66 056	62 596

Other revenue was primarily received from rent and water usage services.

For the three months ended 31 March 2017 approximately 2% of sales of electricity relates to resale of purchased electricity on the wholesale market OREM (for the three months ended 31 March 2016: 2%).

23 Operating expenses

	Three months ended 31 March	
	2017	2016
Materials		
Fuel expenses	38 005	37 530
Purchased heat and electricity	2 775	2 834
Other materials expenses	582	595
	41 362	40 959
Other external supplies		
Heat transmission	1 206	2 104
Electricity market administration fees	374	376
Rent payments	240	474
Security services	234	227
Grid connection	158	158
Legal, consulting and data processing services	58	65
Transport services	123	133
Cleaning services	85	88
Agency fee	43	59
Insurance expenses, excluding medical insurance	52	56
Communication services	21	24
Other professional services	208	174
	2 802	3 938
Depreciation and amortisation	3 532	3 700
Personnel expenses	2 800	2 789
Maintenance and repairs expenses	790	709
Taxes other than income tax	600	543
Other expenses on ordinary activities	(1)	4
Total of production, administration and selling expenses	51 885	52 642
Other operating expenses/(income)		
(Income) loss on disposal of property, plant and equipment	297	(36)
(Income) loss on disposal of materials	13	2
Property (surplus) deficit	(1)	(60)
(Income) loss on fines and penalties on business contracts	(70)	44
Subsidies on the difference in tariffs for sales to the urban population	(7)	(50)
Other expenses (income)	(44)	154
Total other operating expenses/(income)	188	54
Total operating expenses	52 073	52 696

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Electricity market administration fees include payments to JSC “TSA” and JSC “FSC” for arrangement of settlements between parties on electricity market and payments to JSC “SO UES” for regulation of generating assets operation of the Group.

For the three months ended 31 March 2017 the average number of employees of the Group was 8 479 (for the three months ended 31 March 2016: 9 549).

Reimbursement from government of Moscow city represents cash paid to the Group to compensate the difference between tariffs set to the urban population and the tariffs of the Group.

24 Charge for impairment and other provisions

	Three months ended 31 March	
	2017	2016
Impairment of assets		
Change in trade and other receivables provisions	(694)	(274)
Change in slow moving inventory provision	-	1
	<u>(694)</u>	<u>(273)</u>
Provisions for contingencies		
Change in provisions on claims	-	(9)
Change in other provisions	1	1
	<u>1</u>	<u>(8)</u>
Total	<u>(693)</u>	<u>(281)</u>

25 Finance income and expense

	Three months ended 31 March	
	2017	2016
Finance income		
Interest income on bank deposits	550	174
Interest income on loans	408	380
Other interest income	86	153
Total finance income	<u>1 044</u>	<u>707</u>
Finance cost		
Interest expenses on borrowings	(718)	(663)
Lease expenses	(4)	(73)
Other interest expenses	(49)	(14)
Total finance cost	<u>(771)</u>	<u>(750)</u>
Foreign exchange gain (losses)		
Foreign exchange gains	726	1 429
Foreign exchange losses	(121)	(695)
Net foreign exchange differences	<u>605</u>	<u>734</u>
Net finance income	<u>878</u>	<u>691</u>

26 Basic and diluted earnings per share, attributable to owners of Mosenergo Group

Earnings per share attributable to owners of PJSC “Mosenergo” have been calculated by dividing the profit for the period, attributable to the owners of PJSC “Mosenergo” by the weighted average number of shares outstanding during the period, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 21.2). The calculation of basic and dilution earnings per share is presented in the table below.

	Three months ended 31 March	
	2017	2016
Issued shares (pieces)	39 749 359 700	39 749 359 700
Effect of treasury shares (pieces)	(140 229 451)	(140 229 451)
Weighted average number of ordinary shares (pieces)	39 609 130 249	39 609 130 249
Profit attributable to the owners of Mosenergo PJSC (in Russian Rubles)	11 361 772 803	8 206 054 560
Profit per ordinary share (basic and diluted) (in Russian Rubles)	0,2868	0,2072

There were 39 609 million and 39 609 million weighted average shares outstanding for the three months ended 31 March 2017 and 31 March 2016, respectively.

There are no dilutive financial instruments outstanding in the Group.

27 Subsidiaries

PJSC “Mosenergo” and its following subsidiaries form the Mosenergo Group:

	Nature of business	Percentage of ownership	
		31 March 2017	31 December 2016
Centralny remontno-mekhanicheskiy zavod OOO	Repair and reconstruction services	100,00%	100,00%
Mosenergoproekt OOO	Supply of heat and water	100,00%	-
GRES-3 Electrogorsk OOO	Power generation	100,00%	100,00%
TEC-17 Stupino OOO	Power generation	100,00%	100,00%
TEC-29 Electrostal OOO	Power generation	100,00%	100,00%

No preference shares are held by the Group.

28 Acquisition and disposal of subsidiaries

28.1 Acquisition of subsidiaries

In January 2017 the Group acquired 100% of share capital of LLC “Mosenergoprojekt” for cash consideration of RR 650 million. According to IFRS 3 Business combinations the Group recognized the acquired assets and liabilities assumed based upon their provisional fair values. The final estimate of the fair values will be reported in the consolidated financial statements within the period of 12 months from the date of acquisition. All fair value adjustments will be shown retrospectively from the date of acquisition.

The Group recognized the acquired assets and liabilities of LLC “Mosenergoprojekt” based upon their carrying amounts as of the date of acquisition. The acquired assets and liabilities are listed below:

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	Fair value
Current assets	
Cash and cash equivalents	1
Trade and other receivables	20
Inventories	0
	21
Non-current assets	
Property, plant and equipment	470
Deferred tax assets	19
	489
Total assets	511
Current liabilities	
Debt financing	8
Trade and other payables	23
Other tax payables	16
	48
Total liabilities	48
Net assets at the acquisition date	463
Consideration paid	650
Goodwill	187

28.2 Disposal of subsidiaries

In July 2016 the Group sold LLC “TSK Novaya Moskva” for consideration of RR 10 thousand. The carrying values of disposed assets and liabilities were as follows:

	TSK Novaya Moskva 000
Non-current assets	464
Current assets	1 092
Non-current liabilities	(510)
Current liabilities	(1 997)
Net liabilities	(951)
Gain from disposal of subsidiary	951
Consideration receivable	-
Cash and cash equivalents in disposed subsidiary	(505)
Net cash out on disposal of subsidiary	(505)

29 Related parties

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the three months ended 31 March 2017 and 31 March 2016, or had significant balances outstanding at 31 March 2017 and at 31 December 2016 are detailed below. PJSC “GAZPROM” is an ultimate parent company of PJSC “Mosenergo” during the current and prior reporting periods. The Russian Federation is the ultimate controlling party of the Group during the current and prior reporting periods.

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29.1 Transactions with Gazprom Group and its associates

The Group has the following turnover and balances outstanding with Gazprom Group and its associates.

	Three months	
	2017	2016
Revenue	30 188	27 620
Heat	28 016	26 103
Electricity	1 629	1 179
Other revenue	543	338
Expenses	(33 855)	(33 673)
Fuel expenses	(31 292)	(30 358)
Heat transmission	(1 196)	(2 093)
Maintenance and repair expenses	(597)	(415)
Purchased heat and electricity	(289)	(324)
Rent payments	(76)	(126)
Agency fee	(43)	(59)
Cleaning services	(66)	(66)
Transport services	(77)	(62)
Insurance expenses, except voluntary medical insurance expenses	(52)	(56)
Security services	(37)	(14)
Voluntary medical insurance expenses	(49)	(44)
Other professional services	(85)	(56)
Other operating income (loss)	4	-
Gains from disposal of subsidiaries and associates	-	101
Financial income and expenses	572	340
Financial income	576	447
Financial expense	(4)	(108)

	31 March	31 December
	2017	2016
Outstanding balance		
Cash and cash equivalents	3	7 163
Trade and other receivables	52 469	47 242
Advances for acquisition of property, plant and equipment	106	92
Total assets	52 578	54 497
Current borrowings	(209)	(205)
Trade and other payables	(1 662)	(3 980)
Total liabilities	(1 871)	(4 185)

29.2 Transactions with key management and headquarter

Key management personnel (the members of the Board of Directors and Management Committee) received the following remuneration, which is included in personnel expenses:

	Three months	
	2017	2016
Wages and salaries	(6)	(3)
Social taxes and contributions	(1)	-
Termination benefits	-	-
Total	(7)	(3)

There are no outstanding balances at 31 March 2017 and at 31 December 2016 as for transactions with key management.

Remuneration to management organization LLC “Gazprom energoholding” for the three months ended 31 March 2017 was in the amount of RR 36 million (for the three months ended 31 March 2016: RR 36 million).

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29.3 Transactions with other state-controlled entities

Information below excludes transactions and outstanding balances with Gazprom Group and its associates as disclosed in Note 29.1.

In the normal course of business the Group enters into transactions with other entities, which are under control of the Russian Federation government.

	Three months	
	2017	2016
Revenue	27 134	25 552
Heat	1 117	2 086
Electricity	25 945	23 397
Other revenue	72	69
Expenses	(3 455)	(3 677)
Purchased heat and electricity	(2 469)	(2 509)
Electricity market administration fees	(373)	(353)
Rent payments	(153)	(333)
Water usage expenses	(319)	(327)
Security services	(114)	(105)
Fuel expenses	(42)	(42)
Heat transmission	(10)	(11)
Other professional services	(30)	(31)
Other operating income (loss)	55	34
Net financial expense	(561)	(534)
Financial income	105	138
Financial expense	(666)	(672)

	31 March	31 December
	2017	2016
Outstanding balance		
Cash and equivalents	14 363	2 601
Investments	54	57
Trade and other receivables	18 638	11 251
Advances for acquisition of property, plant and equipment	8	7
Other non-current assets	523	523
Total assets	33 586	14 439
Non-current borrowings	(12 000)	(12 000)
Current borrowings	(19 750)	(19 750)
Trade and other payables	(1 741)	(1 300)
Total liabilities	(33 491)	(33 050)

30 Commitments and contingencies

30.1 Operating leases

Operating leases refer mainly to long-term rental agreements for land rent where generation facilities of the Group are located. The leases typically run for periods from 5 to 45 years with an option to renew the lease. For the three months ended March 31, 2017, operating lease expenses in amounts of RR 240 million were recognized in profit or loss (for the three months ended March 31, 2016, RR 474 million, respectively)

Non-cancellable operating lease rentals are payable as follows:

	31 March 2017	31 December 2016
Less than one year	692	652
Between one and five years	2 831	2 654
More than five years	16 578	15 702
Total	20 101	19 008

30.2 Capital commitments

As of 31 March 2017, the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RR 4 926 million (as of 31 December 2016: 4 687 million).

The amount includes Capacity Supply Contracts capital commitments for amount of RR 107 million (as of 31 December 2016: RR 43 million).

30.3 Taxation environment

The Russian tax legislation is subject to varying interpretation and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may arise.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years succeeding the year of review. Under certain circumstances review may cover longer periods.

Management believes that as at 31 March 2017 its interpretation of the relevant legislation was appropriate and the Group's tax position would be sustained.

The transfer pricing rules that became effective from 1 January 2012 appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

30.4 Environmental liabilities

Environmental regulations are currently in the process of development in the Russian Federation. Group evaluates on a regular basis its obligations due to new and amended legislation. As liabilities in respect of environmental obligations can be measured, they are immediately recognised in profit or loss. Currently the likelihood and amount of potential environmental liabilities cannot be estimated reliably but could be material. However, management believes that under existing legislation there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

30.5 Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not generally available. Management believes that the Group has adequate property damage coverage for its main production assets. The Group does not have full coverage for business interruption and third party liability. Until the Group obtains adequate insurance coverage, there is a risk that the loss from business interruption and third party liability could have a material adverse effect on the Group's operations and financial position.

30.6 Guarantees

The Group has issued direct guarantees to third parties which require the Group to make contingent payments based on the occurrence of certain events consisting primarily of guarantees for mortgages of Group employees amounting to RR 3 million at 31 March 2017 (at 31 December 2016: RR 3 million).

31 Financial risk factors

The use of financial instruments exposes the Group to the following types of risk: market risks relating to foreign currency exchange rates and interest rates, credit risk and liquidity risk.

The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

The Managing Director has overall responsibility for proper functioning of the Group's internal controls system. The Board of Directors establishes and oversees the Group's risk management framework and control environment mitigating those risks. The Audit Committee as part of Board of Directors evaluates the internal controls system effectiveness. The Group's Audit Committee is assisted in its oversight role by the Department of Internal Audit, who oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Department of Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The risk management functions are performed by department of the Company and managing company LLC "Gazprom energoholding". Credit risk of investment securities is considered by the managing company. Credit risk in respect of receivables from customers is assessed by Group. Liquidity risk is considered by the Efficiency and Control department.

The Group's risk management policies are summarised in the Company's Regulations on Risk Management which are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The procedures carried out in relation to the Company's risk analysis include examination of the customers reliability, analysis of bank guarantees for prepayments given to suppliers, bank currency position analysis, sensitivity analysis of exchange and interest rates for borrowings, budget implementation analysis etc.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive internal control environment in which all employees understand their roles and obligations.

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31.1 Market risk

31.1.1 Foreign exchange risk

The Group is exposed to foreign exchange risk in the event of transactions and the existence of debt in a currency other than its functional currency. Part of the Group's assets and liabilities are denominated in foreign currency. Currency risk arises when the value of assets actually available or planned to receive assets expressed in foreign currency is higher or lower than the amount of liabilities in that currency. The currency in which these transactions are predominantly denominated is the euro.

	Note	Euro	
		31 March 2017	31 December 2016
Unsecured bank loans	15	(11 055)	(11 570)
Deposits	6	54	57
Cash and cash equivalents		-	-
Trade and other payables	16	(29)	-
Net liabilities		(11 030)	(11 513)

The table below provides information on the Group's sensitivity to strengthening the euro against the Russian ruble by 20% (20% in 2016). This analysis is based on changes in the foreign exchange rate that the Group applies at the end of the reporting period. For this purpose, the monetary items available at the balance sheet date, expressed in the respective currencies, were analyzed.

	Euro impact	
	31 March 2017	31 December 2016
Decrease in profit	(2 206)	(2 303)

The weakening of the currencies considered above by 20% relative to the functional currency at 31 March 2017 would have the same effect, but with the opposite sign, on the basis that all other variables remain constant.

31.1.2 Interest risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

The Group constantly analyses dynamics of variable interest rates. To minimise interest rate risk the Group prepares budgets taking into account possible changes of interest rates creates special reserves to cover contingent expenses and losses.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	31 March 2017	31 December 2016
Fixed rate instruments		
Financial assets	94 989	88 984
Financial liabilities	(36 932)	(40 990)
Total	58 057	47 994
Variable rate instruments		
Financial liabilities	(11 055)	(11 570)
Total	(11 055)	(11 570)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 31 March 2017 and 31 December 2016.

	31 March 2017	31 December 2016
Decrease in profit	(111)	(116)

31.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Geographically credit risk is concentrated in the city of Moscow and Moscow Region as most of sales are made in this area. Creditworthiness of existing customers is periodically evaluated based on internal and external information regarding history of settlements with these customers. The Group constantly analyses accounts receivable turnover ratios, maturity dates and takes appropriate measures on collection of debts due. Approximately 90-95% of the customers are the clients of the Group for a period longer than 2-3 years.

There are standard contract terms for any customer purchasing energy under regulated contracts, the day-ahead market or the balancing market. Special conditions are envisaged by the Russian legislation on Power industry for some heat consumers such as state companies, housing organisations and entities, which may not be limited or refused energy supply because it can lead to casualties or other harmful aftermath (hospitals, schools etc.). Currently no upper limits for debt due from a single customer are established.

The Group is working to minimize the number of contracts entered into with advance payment conditions, if necessary, payment of advance payments, requests bank guarantees from counterparties to return advances.

The credit risk for loans and receivables based on the information provided to key management is as follows:

	31 March 2017	31 December 2016
Trade and other receivables	49 778	48 230
Loans issued	11 815	11 760
Total	61 593	59 990

Debtors within two main classes of accounts receivable electricity and heat are quite homogenous regarding their credit quality and concentration of credit risk.

The account receivables of the Group are primarily comprised of a few, large, reputed customers who purchase electricity and heat. Historical data, including payment history during the recent credit crisis, would suggest that the risk of default from such customers is very low.

Impairment losses

In monitoring customer credit risk, customers are grouped according to the accounts receivable type and maturity dates. Accounts receivable are divided into five major groups, which are current, overdue, long-term, doubtful and irrecoverable accounts receivable. As early as an account receivable is classified as current measures are taken on collection of debt due, which include oral and written notices, instituting a claim, putting in a late payment penalty etc.

The aging of loans and receivables at the reporting date was:

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	31 March 2017		31 December 2016	
	Carrying amount	Impairment	Carrying amount	Impairment
Not past due	53 216	-	52 499	-
Past due 0-30 days	1 134	-	1 117	-
Past due 31-120 days	3 464	629	3 421	326
Past due 121-365 days	4 502	1 361	3 696	1 711
More than one year	12 049	10 781	11 433	10 139
Total	74 365	12 771	72 166	12 176

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The movement in the allowance for impairment in respect of loans and receivables during the reporting period was as follows:

	2017	2016
Balance at 1 January	12 176	7 832
Impairment loss recognised during the period	652	242
Allowance used and written off	(57)	(30)
Balance at 31 March	12 771	8 044

The impairment allowance at 31 March 2017 of RR 12 771 million (at 31 December 2016: RR 12 176 million) relates to the customers that were declared bankrupt or had significant liquidity problems during the reporting period.

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and written off against the financial asset directly.

Cash in banks and call deposits

All bank balances and call deposits are neither past due nor impaired. The Group pursues the policy of cooperation with banks that have a high rating, which is approved by the Board of Directors of PJSC “Mosenergo”.

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31.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The liquidity risk management is performed on three different levels. Long-term policies are incorporated in the overall financial model of the Company. Middle-term monitoring is fulfilled during the quarterly and monthly planning of the Group's budgets. Short-term actions include planning and control of daily cash receipts and payments of the Company.

Liquidity management system includes also drawing up monthly, quarterly and yearly cash budgets, comparing actual amounts to planned and explaining any discrepancies found.

In the table below, the Group's financial liabilities are grouped by maturity based on the period at the reporting date remaining until the maturity date, in accordance with the terms of the contract.

	Carrying amount	Contractual cash flow	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<u>Balance at 31 March 2017</u>							
Debt finance	43 074	46 158	21 285	1 426	14 462	5 458	3 527
Trade and other payables	4 912	4 912	4 763	-	149	-	-
Other liabilities	-	-	-	-	-	-	-
Total	47 986	51 070	26 048	1 426	14 611	5 458	3 527
<u>Balance at 31 December 2016</u>							
Debt finance	43 586	47 473	21 754	1 481	14 782	5 670	3 786
Trade and other payables	8 974	8 974	8 880	-	94	-	-
Other liabilities	-	-	-	-	-	-	-
Total	52 560	56 447	30 634	1 481	14 876	5 670	3 786

31.4 Capital risk management

The Group is subject to the following externally imposed capital requirements that have been established for joint stock companies by the legislation of Russian Federation:

- share capital cannot be lower than 1,000 minimum shares at the date of the company registration;
- if the share capital of the entity is greater than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- if the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

At 31 March 2017 and 31 December 2016 the Group was in compliance with the above share capital requirements.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating profit divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

On the Group level capital is monitored on the basis of the net debt to adjusted EBITDA ratio. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt (short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable) less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

Adjusted EBITDA is calculated as operating profit less depreciation and less provision for impairment of assets and other provisions (excluding provisions for accounts receivable and prepayments).

The net debt to adjusted EBITDA ratios at 31 March 2017 and 31 December 2016 were as follows:

	31 March 2017	31 December 2016
Total debt	43 074	43 586
Less: cash and cash equivalents	<u>(14 469)</u>	<u>(10 097)</u>
Net debt	28 605	33 489
Adjusted EBITDA	16 821	13 326
Net debt / Adjusted EBITDA ratio	1,70	2,51

32 Fair value of financial instruments

The fair value of financial assets and liabilities is determined as follows:

Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market closing prices at the reporting date.

Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using various valuation techniques, primarily based on market or income approach, such as discounted cash flows valuation method. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on Group specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Financial instruments in Level 3

If one or more of the significant inputs in the valuation model used to fair value an instrument is not based on observable market data, the instrument is included in Level 3. The fair value of financial instruments, such as short-term trade and other receivables and trade and other payables are classified as Level 3 and are not disclosed, because their fair value is slightly different from their present value.

As of 31 March 2017 and 31 December 2016 the Group had the following assets and liabilities that are measured at fair value:

	Level 1	Level 2	Level 3	Total
Balance at 31 March 2017				
Available -for-sale financial assets	-	-	3 171	3 171
Balance at 31 March 2017				
Available -for-sale financial assets	-	-	3 171	3 171