MOSENERGO GROUP

IFRS CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

30 September 2017
Moscow | 2017

Contents

Notes to the consolidated interim financial statements:

MOSENERGO GROUP
CONSOLIDATED INTERIM BALANCE SHEET
AS OF 30 SEPTEMBER 2017
(In millions of Russian Rubles)

	Notes	30 September 2017	31 December 2016
Aseets			
Current assets			
Cash and cash equivalents	5	27 499	10 097
Short-term financial assets	6	-	15 057
Trade and other receivables	7	38 547	47 631
Inventories	8	11 208	9 552
Income tax receivable	17	268	-
Other current assets	9	1 347	893
		78 869	83 230
Assets held for sale	10	64	458
Total current assets		**78 933**	**83 688**
Non-current assets			
Property, plant and equipment	11	217 404	223 671
Investment property	12	2 548	3 180
Goodwill	13	187	-
Other intangible assets	13	191	273
Investments in associates	14	438	669
Long-term financial assets	6	3 171	3 171
Trade and other receivables	7	16 106	17 507
Other non-current assets	9	9 472	8 985
Total non-current assets		**249 517**	**257 456**
Total assets		**328 450**	**341 144**
Equity and liabilities			
Current liabilities			
Current borrowings	15	2 412	21 596
Trade and other payables	16	8 501	11 181
Income tax payable	17	-	3 842
Other taxes payable (other than income tax)	17	1 796	3 191
Provisions	18	5 607	5 407
Total current liabilities		**18 316**	**45 217**
Non-current liabilities			
Non-current borrowings	15	21 888	21 990
Deferred tax liabilities	19	29 496	28 038
Employee benefits	20	370	368
Trade and other payables	16	1	98
Total non-current liabilities		**51 755**	**50 494**
Total liabilities		**70 071**	**95 711**
Equity			
Share capital	21	166 124	166 124
Treasury shares	21	(871)	(871)
Share premium	21	49 213	49 213
Revaluation surplus on PPE		107 174	107 534
Accumulated loss and other reserves		(63 261)	(76 567)
Total equity		**258 379**	**245 433**
Total equity and liabilities		**328 450**	**341 144**

A.A. Butko
Managing director
« 9 » November 2017

E.Y. Novenkova
Chief Accountant
« 9 » November 2017

The accompying notes on the pages 7 to 52 are an integral part of these consolidated interim financial statments.

MOSENERGO GROUP
CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2017
(in millions of Russian Rubles)

		Three months ended 30 September		Nine months ended 30 September	
	Notes	2017	2016	2017	2016
Sales	22	31 164	31 862	135 345	127 630
Operating expenses	23	(29 546)	(30 467)	(114 468)	(115 130)
Charge for impairment and other provisions, net	24	(53)	(4 279)	(1 399)	(4 838)
Operating profit (loss)		**1 565**	**(2 884)**	**19 478**	**7 662**
Gains from disposal of subsidiaries and associates	14, 28.2	-	821	-	922
Share of loss of associates	14	(212)	(441)	(231)	(646)
Profit (loss) before interest and taxation		**1 353**	**(2 504)**	**19 247**	**7 938**
Financial income	25	979	864	2 949	2 511
Financial expenses	25	(339)	(583)	(1 493)	(1 987)
Net foreign exchange gain (loss)	25	(165)	107	(782)	1 970
Profit (loss) before income tax		**1 828**	**(2 116)**	**19 921**	**10 432**
Income tax (expense) benefit	19	466	(575)	(3 101)	(3 101)
Profit (loss) for the period		**2 294**	**(2 691)**	**16 820**	**7 331**
Other comprehensive income (loss):					
Remeasurement of post employee benefit obligation	20	-	(13)	-	7
Effect of acquisition under common control	28.1	(329)	1 918	(514)	1 914
Total items that will not be reclassified subsequently to profit or loss		**(329)**	**1 905**	**(514)**	**1 921**
Other comprehensive income (loss) for the period, net of tax		**(329)**	**1 905**	**(514)**	**1 921**
Total comprehensive income (loss) for the period		**1 965**	**(786)**	**16 306**	**9 252**
Profit (loss) attributable to:					
Equity holders of Mosenergo PJSC		2 294	(2 691)	16 820	7 331
Non-controlling interest		-	-	-	-
		2 294	**(2 691)**	**16 820**	**7 331**
Total comprehensive income (loss) is attributable to:					
Equity holders of the Mosenergo PJSC		1 965	(786)	16 306	9 252
Non-controlling interest		-	-	-	-
		1 965	**(786)**	**16 306**	**9 252**
Basic and diluted earnings per share for profit (loss) attributable to the owners of Mosenergo Group (in Russian Rubles)	26	**0,0579**	**(0,0680)**	**0,4247**	**0,1850**

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MOSENERGO GROUP
CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(in millions of Russian Rubles)

	Notes	Nine months ended 30 September 2017	2016
Cash flow from operating activities			
Profit (loss) before interest and taxation		**19 247**	**7 938**
Adjustments to profit before income tax for:			
Depreciation and amortisation	23	11 238	11 207
Share of loss of associates	14	231	646
Gains from disposal of subsidiaries and associates	14, 28.2	-	(922)
Increase in provisions		1 399	4 838
Loss on disposal of property, plant and equipment, assets held for sale		461	1
Total of adjustments		**13 329**	**15 770**
Cash flows from operations before working capital changes		32 576	23 708
Changes in working capital:			
Change in trade and other receivables		10 221	(2 004)
Change in inventories		(1 636)	(990)
Change in other current and non-current assets		(458)	(502)
Change in trade and other payables		(1 334)	897
Change in other taxes payables (other than income tax)		(1 387)	880
Change in employee benefit liabilities		2	(28)
Total effect of working capital changes		5 408	(1 747)
Income tax paid		(5 617)	(1 474)
Interest paid		(1 361)	(1 820)
Net cash from operating activities		**31 006**	**18 667**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangibles		(6 014)	(7 574)
Net changes in loans issued	7	(1 047)	278
Disposal of subsidiaries, net of cash disposed		-	(505)
Acquisition of subsidiaries, net of cash acquired		(16)	-
Proceeds from sale of property, plant and equipment		4	69
Interest received		2 370	1 666
Dividend received		43	90
Long-term deposits placement		-	(719)
Repayment of long-term deposits		15 054	602
Net cash generated from (used in) investing activities		**10 394**	**(6 093)**
Cash flow from financing activities			
Proceeds from borrowings		49	868
Repayment of borrowings		(20 680)	(1 430)
Dividend paid		(3 350)	(2 230)
Net cash used in financing activities		**(23 981)**	**(2 792)**
Effect of foreign exchange rate changes on cash and cash equivalents		(17)	52
Increase in cash and cash equivalents		**17 402**	**9 834**
Cash and cash equivalents at the beginning of the reporting period	5	10 097	5 666
Cash and cash equivalents at the end of the reporting period	5	**27 499**	**15 500**

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(in millions of Russian Rubles)

		Attributable to equity holders of the PJSC Mosenergo					
	Notes	Share capital	Treasury shares	Share premium	Revaluation surplus on PPE	Accumulated loss	Total
Balance at 1 January 2016		**166 124**	**(871)**	**49 213**	**107 889**	**(90 483)**	**231 872**
Profit for the period						7 331	7 331
Other comprehensive income (loss):							
Remeasurement of post employee benefit liabilities	20					7	7
Effect of acquisition under common control						1 914	1 914
Transfers from revaluation surplus to retained earnings					11	(11)	-
Total comprehensive income for the period					**11**	**9 241**	**9 252**
Transaction with owners of PJSC "Mosenergo"							
Dividends to shareholders						(2 226)	(2 226)
Balance at 30 September 2016		**166 124**	**(871)**	**49 213**	**107 900**	**(83 468)**	**238 898**
Balance at 1 January 2017		**166 124**	**(871)**	**49 213**	**107 534**	**(76 567)**	**245 433**
Profit for the period						16 820	16 820
Other comprehensive income (loss):							
Effect of acquisition under common control	28.1, 29.1					(514)	(514)
Transfers from revaluation surplus to retained earnings					(360)	360	-
Total comprehensive income (loss) for the period					**(360)**	**16 666**	**16 306**
Transaction with owners of PJSC Mosenergo							
Dividends to shareholders						(3 360)	(3 360)
Balance at 30 September 2017		**166 124**	**(871)**	**49 213**	**107 174**	**(63 261)**	**258 379**

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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 12 873 megawatts of electricity and 42 760 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.

1.2 Group formation

On 1 April 2005, PJSC "Mosenergo" was reorganised through a spin-off following the reorganisation process within the Russian Federation 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" received the stake in PJSC "Mosenergo" held by RAO UES of Russia. Simultaneously with the spin-off OJSC "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" 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 nine months ended 30 September 2017 the Russian Federation 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.

The consolidated interim financial statements reflect the management's assessment of the impact of the business environment in the Russian Federation on the operations and financial position of the Group. The future economic situation and regulatory environment may differ from the current expectations of management.

1.4 Relations with the state and influence on group activities

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 Federation 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 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 interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and completely corresponds to them.

2.2 Basis of measurement

The consolidated interim 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. The Russian Federation ceased to be hyperinflationary for IFRS purposes at 1 January 2003.

The methods used to measure fair values are discussed further in Note 2.4.

2.3 Functional and presentation currency

The national currency of the Russian Federation is the Russian Ruble (RR), which is the Group's functional currency and the currency in which these consolidated interim 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 4 – segment information;
- Note 6 – lack of significant influence in ivestment equity.
- 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;

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 10 – Assets classified as held for sale;
- Note 11 – Property, plant and equipment;
- Note 12 – Investment property;
- 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 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 interim financial statements as an adjustment within equity.

3.1.3 Associates

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 interim 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

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-termfinancial 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. Financial assets classified as loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognised within the profit and loss section of the consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortization process.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

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.

3.4 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.

3.5 Property, plant and equipment

3.5.1 Recognition and measurement

Property, plant and equipment are stated at revalued amounts, which are the fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment losses.

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.

(in million of Russian Rubles)

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.

3.5.2 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.

3.5.3 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.

3.5.4 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:

Types of property, plant and equipment	Useful life,years
Buildings and constructions	30 - 70
Plant and equipment	25 - 40
Transmission networks	30
Other	5 - 25

3.6 Intangible assets

3.6.1 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.

3.6.2 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.

3.6.3 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.

3.6.4 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.

3.7 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.

3.8 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.

3.9 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.

3.10 Impairment

3.10.1 Financial assets

A financial asset is tested 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.

3.10.2 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.

3.10.3 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.

3.11 Employee benefits

3.11.1 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.

3.11.2 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.

3.11.3 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.

3.11.4 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.

3.11.5 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.

3.12 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.

3.13 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 interim financial statements to get the access to the more useful and reliable information for decision making.

3.14 Revenues

3.14.1 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.

3.14.2 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.

3.14.3 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.

3.15 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.

3.16 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.

3.17 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 in the statement of comprehensive income on net basis.

3.18 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 in other comprehensive income.

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.

3.19 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.

3.20 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 30 September 2017 and 31 December 2016.

3.21 Adoption of new or revised standards and interpretations

3.21.1 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 interim financial information. The amended standards have no significant impact on the Group's consolidated interim financial information.

3.21.2 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.
- IFRS 9 Financial Instruments (issued in November 2009 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.

- 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 for recognising a non-monetary asset or a non-monetary obligation arising from a result of committing or receiving prepayment until the recognition of the related asset, income or expense.
- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.

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

(in million of Russian Rubles)

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, that generate revenue from manufacturing and sale of electricity and heat accordingly. 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 interim financial statements are due to the unallocated items of income and expense that can`t be directly allocated to identifiable reportable segments.

Considering that the management responsible for decision-making does not review assets and liabilities by each reportable segment not least because of the lack of technical capabilities to present such information, 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 nine months ended 30 September 2017 and 30 September 2016 as follows:

	Notes	Electricity	Heat	All other segments	Total	Intra-group transactions	Total
Nine months ended 30 September 2017							
Segment revenue	22	**84 631**	**48 793**	**2 274**	**135 698**	**(353)**	**135 345**
Revenue from external customers		84 631	48 784	1 930	135 345	-	**135 345**
Intra-group revenue		-	9	344	353	(353)	-
Segment profit or loss		**22 910**	**(2 739)**	**(574)**	**19 597**	-	**19 597**
Depreciation and amortisation	23	5 889	4 407	942	11 238	-	**11 238**
Provisions for accounts receivable and prepayments	24	599	384	216	1 199	-	**1 199**
Nine months ended 30 September 20							
Segment revenue	22	**77 369**	**48 539**	**2 118**	**128 026**	**(396)**	**127 630**
Revenue from external customers		77 369	48 531	1 731	127 630	-	**127 630**
Intra-group revenue		-	8	387	396	(396)	-
Segment profit or loss		**15 705**	**(5 096)**	**(991)**	**9 618**	-	**9 618**
Depreciation and amortisation	23	5 824	4 159	1 229	11 212	-	**11 212**
Provisions for accounts receivable and prepayments	24	793	1 720	263	2 775	-	**2 775**
Three months ended 30 September 2							
Segment revenue	22	**25 163**	**5 278**	**867**	**31 308**	**(144)**	**31 164**
Revenue from external customers		25 163	5 279	722	31 164	-	**31 164**
Intra-group revenue		-	(1)	145	144	(144)	-
Segment profit or loss		**3 992**	**(2 203)**	**64**	**1 853**	-	**1 853**
Depreciation and amortisation	23	2 597	1 077	174	3 849	-	**3 849**
Provisions for accounts receivable and prepayments	24	72	(143)	43	(27)	-	**(27)**
Three months ended 30 September 2							
Segment revenue	22	**25 642**	**5 700**	**688**	**32 030**	**(168)**	**31 862**
Revenue from external customers		25 642	5 700	520	31 862	-	**31 862**
Intra-group revenue		-	-	168	168	(168)	-
Segment profit or loss		**2 826**	**(3 375)**	**(360)**	**(909)**	-	**(909)**
Depreciation and amortisation	23	2 422	917	427	3 766	-	**3 766**
Provisions for accounts receivable and prepayments	24	684	1 527	57	2 268	-	**2 268**

(in million of Russian Rubles)

Reconciliation of the segment profit or loss to consolidated profit (loss) before tax in the statement of comprehensive income for the three and nine months ended 30 September 2017 and 30 September 2016 is provided as follows:

	Notes	Three months ended 30 September 2017	Three months ended 30 September 2016	Nine months ended 30 September 2017	Nine months ended 30 September 2016
Segment profit or loss for reportable segments		1 789	(549)	20 171	10 609
Other segments profit (loss)		64	(360)	(574)	(991)
Segment profit or loss		**1 853**	**(909)**	**19 597**	**9 618**
Impairment loss on property, plant and equipment		-	-	-	-
Gains from disposal of subsidiaries and associates	14, 28.2	-	821	-	922
Tax exposure provision		(80)	(2 033)	(200)	(2 033)
Loss on impairment of materials		-	(1)	-	(6)
Net financial income		640	281	1 456	524
Foreign exchange differences	25	(165)	107	(782)	1 970
Share of loss of associates	14	(212)	(440)	(231)	(646)
Other items		(208)	58	81	83
Profit (loss) before income tax		**1 828**	**(2 116)**	**19 921**	**10 432**

4.2 Core customers

The revenue presented within the `heat` segment includes the customer with the revenue exceeding 10% of the Group`s revenue and amounting to RR 42 746 million for 9 months ended 30 September 2017 (for 9 months ended 30 September 2016: the revenue of the same customer exceeded 10% of the Group`s revenue and amounted to RR 39 000 million).

The revenue presented within the `electricity` segment includes two customers with the total revenue exceeding 10% of the Group`s revenue and amounting to RR 56 386 million for 9 months ended 30 September 2017 (for 9 months ended 30 September 2016: the total revenue of the same two customers exceeded 10% of the Group`s revenue and amounted to RR 55 040 million).

5 Cash and cash equivalents

	30 September 2017	31 December 2016
Short-term deposits (less than 3 months)	27 295	9 791
Bank balances	204	306
Total	**27 499**	**10 097**

6 Financial assets

	30 September 2017	31 December 2016
Investments held-to-maturity		
Deposits	-	15 057
Total short-term financial assets	**-**	**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 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 30 September 2017 that was received in settlement for accounts receivable in October 2013 (31 December 2016: RR 3 149 million).

(in million of Russian Rubles)

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.

7 Trade and other receivables

	30 September 2017	31 December 2016
Current assets		
Trade receivables	36 314	47 578
Loans issued	1 000	1 200
Advances to suppliers and prepaid expenses	2 439	2 645
VAT recoverable	220	186
Taxes other than income tax prepaid	4	22
Accounts receivable on disposal of investments	6 965	4 181
Other receivables	5 107	4 204
Total	**52 049**	**60 016**
Provision for doubtdul debts	(13 502)	(12 385)
Total	**38 547**	**47 631**
Non-current assets		
Loans issued	11 808	10 560
Advances to suppliers and prepaid expenses	246	237
Accounts receivable on disposal of property, plant and equipment	3 870	3 723
Accounts receivable on disposal of investments	-	2 784
Other receivables	182	203
Total	**16 106**	**17 507**

Provision for doubtdul debts includes provision for trade receivables impairment (30 September 2017: RR 13 242 million, 31 December 2016: RR 12 176 million) and provision for other receivables impairment (30 September 2017: RR 260 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

	30 September 2017	31 December 2016
Raw materials and consumables	11 704	10 054
Supplies	13	7
	11 717	**10 061**
Provision for obsolete inventories	(509)	(509)
Total	**11 208**	**9 552**

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

(in million of Russian Rubles)

9 Other current and non-current assets

	30 September 2017	31 December 2016
Other current assets		
Grid connection	633	633
Service contracts and other assets	714	260
Total	**1 347**	**893**
Other non-current assets		
Grid connection	7 433	7 907
Constructed assets financed by the government of Moscow city	523	523
Service contracts and other assets	1 516	555
Total	**9 472**	**8 985**

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 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

	2017	2016
Balance at 1 January	**458**	**172**
Transfer to (from) assets classified as held for sale	(157)	10
Sale	(5)	-
Disposals	(232)	-
Balance 30 September	**64**	**182**

At 30 September 2017 and at 31 December 2016 the Group is in the process of disposing of non-core assets, comprising fixed assets and investment property classified as held for sale.

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

(in million of Russian Rubles)

11 Property, plant and equipment

	Buildings and construc-tions	Plant and equipment	Transmission 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	200	33	-	(233)	-	-
Additions	1	25	-	3	6 447	6 476
Disposals and other	(24)	(282)	-	(38)	(144)	(488)
Transfers	5 991	12 604	-	1 233	(19 828)	-
Transfer to other accounts	(36)	(5)	-	(11)	-	(52)
Balance at 30 September 2016	**123 645**	**128 763**	**2 968**	**16 042**	**28 888**	**300 306**
Balance at 1 January 2017	**123 548**	**129 718**	**1 234**	**16 823**	**28 865**	**300 188**
Reclassification	(3)	(45)	(5)	53	-	-
Additions	10	-	2	7	4 122	4 141
Disposals and other	(43)	(44)	-	(49)	(313)	(449)
Transfers	1 415	4 148	53	1 102	(6 718)	-
Transfer from (to) other accounts	236	88	(49)	503	4	782
Acquisition of subsidiary	479	-	-	5	-	484
Balance at 30 September 2017	**125 642**	**133 865**	**1 235**	**18 444**	**25 960**	**305 146**
Depreciation and impairment						
Balance at 1 January 2016	**(21 654)**	**(29 687)**	**(719)**	**(4 907)**	**(6 122)**	**(63 089)**
Reclassification	(34)	(6)	-	40	-	-
Depreciation charge	(3 762)	(6 005)	(239)	(1 152)	-	(11 158)
Transfers	(807)	(1 489)	-	(87)	2 383	-
Disposals and other	5	184	-	16	-	205
Transfer from (to) other accounts	(28)	5	-	6	-	(17)
Balance at 30 September 2016	**(26 280)**	**(36 998)**	**(958)**	**(6 084)**	**(3 739)**	**(74 059)**
Balance at 1 January 2017	**(27 202)**	**(38 895)**	**(322)**	**(6 425)**	**(3 673)**	**(76 517)**
Reclassification	-	-	-	-	-	-
Depreciation charge	(3 651)	(6 067)	(45)	(1 330)	-	(11 093)
Transfers	(162)	(621)	(10)	(106)	899	-
Disposals and other	18	29	-	6	-	53
Transfer from (to) other accounts	(19)	(49)	1	(104)	(1)	(172)
Charge for impairment allowance	-	-	-	-	-	-
Acquisition of subsidiary	(9)	-	-	(3)	-	(12)
Balance at 30 September 2017	**(31 025)**	**(45 603)**	**(376)**	**(7 962)**	**(2 775)**	**(87 741)**
Net book value						
At 1 January 2016	**95 859**	**86 701**	**2 249**	**10 181**	**36 291**	**231 281**
At 30 September 2016	**97 365**	**91 765**	**2 010**	**9 958**	**25 149**	**226 247**
At 1 January 2017	**96 346**	**90 823**	**912**	**10 398**	**25 192**	**223 671**
At 30 September 2017	**94 617**	**88 262**	**859**	**10 482**	**23 185**	**217 405**
Net book value of property, plant and eq						
At 1 January 2016	**47 549**	**56 890**	**1 158**	**8 006**	**38 796**	**152 399**
At 30 September 2016	**53 054**	**65 141**	**1 046**	**7 801**	**24 091**	**151 133**
At 1 January 2017	**52 835**	**64 578**	**610**	**8 319**	**24 529**	**150 871**
At 30 September 2017	**52 622**	**62 540**	**586**	**8 448**	**22 406**	**146 600**

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 30 September 2017 such advances amounted to RR 645 million (31 December 2016: RR 1 012 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 30 September 2017 and at 31 December 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 statement of comprehensive income.

No revaluations were performed at 30 September 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 30 September 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 30 September 2017 the net carrying amount of leased plant and equipment was RR 55 million (at 31 December 2016: RR 61 million).

(in million of Russian Rubles)

12 Investment property

	2017	2016
Balance at 1 January	**3 180**	**1 323**
Transfer to (from) property, plant and equipment	(453)	51
Disposals	(179)	-
Balance at 30 September	**2 548**	**1 374**

The fair value of investment property at 30 September 2017 was determined to be RR 2 548 million (at 31 December 2016: RR 3 180 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).

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.

Method of evaluation	Observed outgoing data
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 nine months ended 30 September 2017 amounted to RR 417 million (for the nine months ended 30 September 2016 amounted to RR 195 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:

	2017	2016
As at 30 Septemer		
Less than one year	26	309
Later than one year but not later than 5 years	14	-
Later than 5 years	301	-
Total	**340**	**309**

(in million of Russian Rubles)

13 Intangibles

13.1 Goodwill

Goodwill arised on the acquisition of subsidiaries.

	2017	2016
Balance at 1 January	**-**	**-**
Acquisition of Mosenergoproject LLC	187	-
Balance at 30 September	**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	Other intangibles	Total
Cost				
Balance at 1 January 2016	**628**	**4**	**-**	**632**
Additions	62	-	-	62
Balance at 30 September 2016	**690**	**4**	**-**	**694**
Balance at 1 January 2017	**807**	**3**	**-**	**811**
Additions	44	-	19	63
Balance at 30 September 2017	**852**	**3**	**19**	**874**
Amortisation and impairment				
Balance at 1 January 2016	**(463)**	**(2)**	**-**	**(465)**
Amortisation charge	(46)	-	-	(46)
Balance at 30 September 2016	**(509)**	**(2)**	**-**	**(511)**
Balance at 1 January 2017	**(535)**	**(2)**	**-**	**(537)**
Amortisation charge	(145)	-	-	(145)
Balance at 30 September 2017	**(680)**	**(2)**	**-**	**(683)**
Net book value				
At 1 January 2016	**165**	**2**	**-**	**167**
At 30 September 2016	**182**	**2**	**-**	**184**
At 1 January 2017	**272**	**1**	**-**	**273**
At 30 September 2017	**171**	**1**	**19**	**191**

(in million of Russian Rubles)

14 Investment in associates

	2017	2016
Balance at 1 January	**669**	**3 978**
Share of loss of associates	(231)	(646)
Dilution losses on investments in associates	-	(130)
Disposal of investments in associates	-	(2 683)
Balance at 30 September	**438**	**519**

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

	TSK Mosenergo LLC		OGK Investproject LLC	
	30 September 2017	31 December 2016	30 September 2017	31 December 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 30 September 2017 (31 December 2016)				
Non-current assets	5 470	8 739	-	-
Current assets	7 880	6 974	-	-
Non-current liabilities	8 001	10 690	-	-
Current liabilities	1 040	1 113	-	-
For 9 months ended 30 September 2017 (30 September 2016)				
Revenue	6 356	3 865	-	2 852
Loss for the period	(1 028)	(2 360)	-	(224)
Total comprehensive loss for the period	(1 028)	(2 360)	-	(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 in the consolidated interim financial statement of comprehensive income.

On July 2016 the Group’s share in LLC “TSK Mosenergo” decreased from 25.6% to 22.51% because of equity dilution. Dilution losses on investments in associates in the amount RR 130 million has been recognised in the consolidated interim statement of comphehensive income.

15 Borrowings

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

	30 September 2017	31 December 2016
Short-term debt financing		
Bank financing	1 887	21 510
Finance lease liability	6	6
Interest payable	150	80
Short - term other financing	369	-
Total short-term debt financing	**2 412**	**21 596**
Long - term debt financing		
Bank financing	21 691	21 791
Finance lease liability	197	199
Total long-term debt financing	**21 888**	**21 990**
Total debt financing	**24 300**	**43 586**

(in million of Russian Rubles)

Terms and conditions of outstanding liabilities are as follows:

	Cur-rency	Nominal interest rate	Year of matu-rity	30 September 2017 Face value	30 September 2017 Carrying amount	31 December 2016 Face value	31 December 2016 Carrying amount
Unsecured bank financing							
BNP Paribas	Euro	EURIBOR 6M+2.00%	2022	6 054	5 834	6 157	5 884
Credit Agricole Bank PJSC	Euro	EURIBOR 6M+1.95%	2024	5 901	5 744	5 868	5 667
				11 955	**11 578**	**12 025**	**11 551**
PJSC Sberbank	Rubles	8,73%	2017	-	-	19 750	19 750
PJSC Sberbank	Rubles	8,14%	2018	3 750	3 750	3 750	3 750
PJSC VTB BANK	Rubles	8,14%	2018	8 250	8 250	8 250	8 250
				12 000	**12 000**	**31 750**	**31 750**
Total unsecured bank financing				**23 955**	**23 578**	**43 775**	**43 301**
Short - term other financing							
LLC PRO GRES	Rubles	7,6%, 12%	2017	226	226	-	-
JSC Gazprom energoremont	Rubles	14,00%	2017	103	103	-	-
LLC TER	Rubles	7,65%	2017	40	40	-	-
Total short - term other financing				**369**	**369**	-	-
Interest payable				**203**	**203**	**205**	**205**
Finance lease liability		8,73%	2048	**150**	**150**	**80**	**80**
Total				**24 676**	**24 300**	**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
30 September 2017				
Future minimum lease payments	23	72	465	**559**
Interest	(17)	(65)	(275)	**(356)**
Present value of minimum lease payments	**6**	**7**	**190**	**203**
31 December 2016				
Future minimum lease payments	23	72	479	**573**
Interest	(17)	(65)	(287)	**(368)**
Present value of minimum lease payments	**6**	**7**	**192**	**205**

(in million of Russian Rubles)

16 Trade and other payables

	30 September 2017	31 December 2016
Current liabilities		
Trade payables	4 127	5 596
Advances received	1 094	1 024
Accounts payable for property, plant and equipment	1 596	3 145
Other payables	1 684	1 416
Total	**8 501**	**11 181**
Non-current liabilities		
Advances received	1	1
Accounts payable for property, plant and equipment	-	97
Total	**1**	**98**

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

17 Taxes receivable and payable

	30 September 2017	31 December 2016
Income tax receivable	**268**	**-**
Income tax payable	**-**	**3 842**
Other taxes payable		
VAT payable	1 138	2 463
Property tax payable	458	566
Social contributions payable	140	142
Other taxes payable	60	20
Total other taxes payable	**1 796**	**3 191**
Total taxes payable (net)	**1 528**	**7 033**

18 Provisions

	Provision for income tax	Provision for other taxes	Provisions for litigations and claims	Total
Balance at 1 January 2017	**1 407**	**3 991**	**9**	**5 407**
Provisions made during the period	-	200	-	200
Balance at 30 September 2017	**1 407**	**4 191**	**9**	**5 607**
Balance at 1 January 2016	**70**	**1 722**	**11**	**1 803**
Provisions made during the period	1 337	2 269	9	3 615
Provision released during the period	-	-	(11)	(11)
Balance at 31 December 2016	**1 407**	**3 991**	**9**	**5 407**

(in million of Russian Rubles)

19 Profit tax

19.1 Reconcilation 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 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Profit (loss) before income tax	1 828	(2 116)	19 921	10 432
Theoretical tax benefit (expense) calculated at applicable tax rates	(366)	423	(3 984)	(2 086)
Adjustments of current income tax of previous periods	82	(944)	831	(944)
Other non-taxable income (expenses)	749	(54)	52	(71)
Income tax (expense) benefit	**465**	**(575)**	**(3 101)**	**(3 101)**

Differences between the recognition criteria in the Russian Federation 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 nine months ended 30 September 2017 and 30 September 2016 are as follows:

	31 December 2016	Recognised in profit or loss	Recognised in other comprehensive income	Acquisition of subsidiaries	30 September 2017	31 December 2015	Recognised in profit or loss	Recognised in other comprehensive income	30 September 2016
Property plant and equipment	(29 340)	975	-	-	(28 365)	(28 455)	(852)	-	(29 307)
Investment property	71	(354)	-	-	(283)	(124)	149	-	25
Investments in associates	141	(141)	-	-	-	-	171	-	171
Trade and other receivables	2 224	(2 402)	-	(8)	(186)	1 166	(1 963)	-	(797)
Assets classified as held for sale	(13)	62	-	-	49	57	(13)	-	44
Trade and other payables	81	396	47	-	524	853	284	(479)	658
Employee benefit liabilities	74	-	-	-	74	74	4	(3)	75
Tax losses carried forward	30	20	-	93	143	168	(139)	-	29
Provisions	598	24	-	1	623	360	412	-	772
Borrowings	(54)	18	-	-	(36)	(116)	19	-	(97)
Other assets	(1 850)	(189)	-	-	(2 039)	(1 706)	(145)	-	(1 851)
Total	**(28 038)**	**(1 591)**	**47**	**86**	**(29 496)**	**(27 723)**	**(2 073)**	**(482)**	**(30 278)**

(in million of Russian Rubles)

20 Employee benefits

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**	**376**
Current service cost	12	23
Net interest expense	23	34
Total included in operational and financial expenses	**35**	**57**
Actuarial gains - experience	-	(13)
Decrease in liabilities as a result of disposals	-	(5)
Total recognised in other comprehensive income	**-**	**(18)**
Benefits paid	(33)	(42)
Balance at 30 September	**370**	**373**
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 30 September 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 interim 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 30 September 2017 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.

21.3 Dividends

In 31 May 2016 the general shareholders meeting of the PJSC “Mosenergo” made the decision to pay dividends for the result of financial year 2015. The amount of declared dividends on the issuer shares was RR 0.05665 per share, total amount of dividends is RR 2 244 million. The amount of dividends in the consolidated statement of changes in equity was presented net of unclaimed dividends for the result of financial year 2011 amount to RR 18 million.

In 31 May 2017 the general shareholders meeting of the PJSC “Mosenergo” made the decision to pay dividends for the result of financial year 2016. The amount of declared dividends on the issuer shares was RR 0.08482 per share, total amount of dividends is RR 3 360 million.

(in million of Russian Rubles)

22 Revenue

	Three months ended 30 September		Nine months ended 30 September	
	2017	**2016**	**2017**	**2016**
Electricity	25 163	25 642	84 631	77 369
Heat	5 279	5 700	48 784	48 531
Other revenue	722	520	1 930	1 730
Total	**31 164**	**31 862**	**135 345**	**127 630**

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

For the nine months ended 30 September 2017 approximately 2% of sales of electricity relates to resale of purchased electricity on the wholesale market OREM (for the nine months ended 30 September 2016: 2%).

23 Operating expenses

	Three months ended 30 September		Nine months ended 30 September	
	2017	**2016**	**2017**	**2016**
Materials				
Fuel expenses	16 070	17 810	73 965	74 001
Purchased heat and electricity	1 926	1 964	6 906	6 844
Other materials expenses	600	578	1 708	1 736
	18 596	**20 352**	**82 579**	**82 581**
Other external supplies				
Heat transmission	62	164	1 562	2 694
Electricity market administration fees	363	367	1 102	1 108
Rent payments	261	336	783	1 211
Security services	224	200	667	647
Grid connection	158	159	475	475
Legal, consulting and data processing services	38	120	175	241
Transport services	102	122	352	355
Cleaning services	89	78	269	248
Agency fee	45	53	137	191
Insurance expenses, excluding medical insurance	53	56	158	168
Communication services	24	23	68	71
Other professional services	453	267	1 006	858
	1 872	**1 945**	**6 754**	**8 267**
Depreciation and amortisation	3 849	3 766	11 238	11 212
Personnel expenses	2 561	2 298	8 023	7 906
Maintenance and repairs expenses	1 864	1 594	4 265	3 597
Taxes other than income tax	577	537	1 672	1 656
Other expenses on ordinary activities	20	9	21	18
Total of production, administration and selling expenses	**29 339**	**30 501**	**114 552**	**115 237**
Other operating expenses (income)				
Loss on disposal of property, plant and equipment	179	40	461	12
Loss on disposal of materials	39	2	63	7
Property surplus	(2)	(55)	(5)	(166)
(Income) loss on fines and penalties on business contracts	17	(43)	(452)	31
Government subsidies	-	(1)	(9)	(67)
Other expenses (income)	(26)	23	(142)	76
Total other operating expenses (income)	**207**	**(34)**	**(84)**	**(107)**
Total operating expenses	**29 546**	**30 467**	**114 468**	**115 130**

(in million of Russian Rubles)

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 nine months ended 30 September 2017 the average number of employees of the Group was 8 441 (for the nine months ended 30 September 2016: 9 561).

Government subsidies represent 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 30 September		Nine months ended 30 September	
	2017	**2016**	**2017**	**2016**
Impairment of assets				
Change in trade and other receivables provisions	27	(2 270)	(1 200)	(2 775)
Change in slow moving inventory provision	-	-	-	(6)
	27	**(2 270)**	**(1 200)**	**(2 781)**
Provisions				
Change in tax provision	(80)	(2 033)	(200)	(2 033)
Change in provisions on claims	-	24	-	(25)
Change in other provisions	-	-	1	1
	(80)	**(2 009)**	**(199)**	**(2 057)**
Charge for impairment and other provisions, net	**(53)**	**(4 279)**	**(1 399)**	**(4 838)**

25 Finance income and expense

	Three months ended 30 September		Nine months ended 30 September	
	2017	**2016**	**2017**	**2016**
Finance income				
Interest income on bank deposits	461	259	1 423	781
Interest income on loans	407	443	1 224	1 257
Other interest income	111	162	302	473
Total finance income	**979**	**864**	**2 949**	**2 511**
Finance cost				
Interest expenses on borrowings	(300)	(577)	(1 360)	(1 882)
Lease expenses	(4)	4	(12)	(69)
Other interest expenses	(35)	(10)	(121)	(36)
Total finance cost	**(339)**	**(583)**	**(1 493)**	**(1 987)**
Foreign exchange gains (losses)				
Foreign exchange gains	308	745	1 059	3 352
Foreign exchange losses	(473)	(638)	(1 841)	(1 382)
Foreign exchange gain (loss)	(165)	107	(782)	1 970
Net finance income	**475**	**388**	**674**	**2 494**

(in million of Russian Rubles)

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 30 September		Nine months ended 30 September	
	2017	**2016**	**2017**	**2016**
Issued shares (pieces)	39 749 359 700	39 749 359 700	39 749 359 700	39 749 359 700
Effect of treasury shares (pieces)	(140 229 451)	(140 229 451)	(140 229 451)	(140 229 451)
Weighted average number of ordinary shares (pieces)	**39 609 130 249**	**39 609 130 249**	**39 609 130 249**	**39 609 130 249**
Profit (loss) attributable to the owners of Mosenergo PJSC (in Russian Roubles)	2 293 580 276	(2 691 443 639)	16 821 781 593	7 329 373 362
Profit (loss) per ordinary share (basic and diluted) (in Russian Roubles)	**0,0579**	**(0,0680)**	**0,4247**	**0,1850**

There were 39 609 million and 39 609 million weighted average shares outstanding for the nine months ended 30 September 2017 and 30 September 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	
		30 September 2017	**31 December 2016**
Centralny remontno-mekhanicheskiy zavod LLC	Repair and reconstruction services	100,00%	100,00%
Mosenergoproekt LLC	Design	100,00%	-
Remontproekt LLC	Design	99,00%	-
GRES-3 Electrogorsk LLC	Power generation	100,00%	100,00%
TEC-17 Stupino LLC	Power generation	100,00%	100,00%
TEC-29 Electrostal LLC	Power generation	100,00%	100,00%

No preference shares are held by the Group.

(in million of Russian Rubles)

28 Acquisition and disposal of subsidiaries

28.1 Acquisition of subsidiaries

In January 2017 the Group acquired 100% of share capital of LLC “Mosenergoproject” 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 that equal their carrying amounts as of the date of acquisition. 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.

In 28 September 2017 the Group acquired 80% of share capital of LLC “Remontproekt” for cash consideration of RR 15 million, then in 4 October 2017 the additional 19% of share capital was acquired for cash consideration of RR 4 million. Therefore the total share in LLC “Remontproekt” amounted to 99%. For consolidation purposes the Group recognised control over 99% of share capital as of September 30, 2017. The Group accounted for the acquisition as a transfer of subsidiary between entities under common control. According to the accounting policy of the Group, the assets and liabilities of LLC “Remontproekt” transferred between entities under common control were recognised at the predecessor entity`s carrying amounts. The difference between the consideration for acquisition and the carrying amounts of assets and liabilities was accounted for as an adjustment within equity in the retained earnings in the amount of RR 328 million. Comparative information was not restated for the previous year and the financial result of the acquired entity was included from the date of acquisition in the present consolidated interim financial statement.

The information about the assets and liabilities of acquired entities is presented below:

	Mosenergoproekt LLC	Remonproekt LLC
Current assets		
Cash and cash equivalents	1	2
Trade and other receivables	20	230
Other current assets	-	5
Total current assets	**21**	**237**
Non-current assets		
Property, plant and equipment	470	1
Deferred tax assets	19	67
Total non-current assets	**489**	**68**
Total assets	**510**	**304**
Current liabilities		
Debt financing	8	437
Trade and other payables	23	176
Other taxes payables (other than income tax)	16	0
Total current liabilities	**48**	**613**
Total liabilities	**48**	**613**
Net assets at the acquisition date	463	(309)
Share of net assets at the acquisition date		
Consideration paid	650	19
Goodwill	**187**	**-**
Effect from operations under common control	**-**	**328**

(in million of Russian Rubles)

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 LLC
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)**

(in million of Russian Rubles)

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.

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.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the nine months ended 30 September 2017 and 30 September 2016, or had significant balances outstanding at 30 September 2017 and at 31 December 2016 are detailed below.

29.1 Transactions with Gazprom Group and its associates

The Group's transactions and balances outstanding with Gazprom Group and its associates are detailed below:

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Revenue	**6 735**	**6 657**	**48 826**	**43 853**
Heat	4 930	5 156	43 166	39 350
Electricity	1 268	1 094	4 267	3 366
Other revenue	538	408	1 392	1 137
Expenses	**(4 865)**	**(6 776)**	**(47 567)**	**(49 248)**
Fuel expenses	(3 212)	(4 843)	(41 349)	(41 806)
Maintenance and repair expenses	(1 243)	(1 155)	(2 937)	(2 505)
Heat transmission	(62)	(163)	(1 550)	(2 679)
Purchased heat and electricity	(46)	(65)	(483)	(549)
Rent payments	(83)	(101)	(236)	(341)
Transport services	(77)	(78)	(231)	(207)
Cleaning services	(62)	(55)	(197)	(184)
Insurance expenses excl voluntary medical insurance	(53)	(56)	(158)	(166)
Voluntary medical insurance incl in personnel expenses	(49)	(49)	(148)	(141)
Agency fee	(45)	(52)	(137)	(191)
Security services	(4)	(18)	(77)	(46)
Legal, consulting and data processing services	(6)	(43)	(21)	(187)
Other expenses	(300)	(73)	(462)	(179)
Other operating income (loss)	377	(25)	419	(67)
Gains from disposal of subsidiaries and associates	**377**	**(25)**	**-**	**1 134**
Financial income and expenses	**420**	**433**	**1 459**	**1 680**
Financial income	424	429	1 471	1 830
Financial expense	(4)	4	(12)	(150)

	30 September 2017	31 December 2016
Outstanding balance		
Cash and cash equivalents	1	7 163
Trade and other receivables	39 561	47 242
Advances for acquisition of PP&E (incl. in Property, plant and equipment)	130	92
Total assets	**39 692**	**54 497**
Current borrowings	(443)	(205)
Trade and other payables	(2 159)	(3 980)
Total liabilities	**(2 602)**	**(4 185)**

In the nine months of 2017 there was a recalculation of payments under the lease agreement with the right to repurchase between MOEK and Mosenergo: payments from the date of contracting that were not accounted for at the time of redemption. The result of the restatement was recorded in the statement of changes in equity under line "Effect of acquisition under common control" in amount of 187 million rubles according to the method of the predecessor (net of deferred tax).

(in million of Russian Rubles)

29.2 Transactions with associates

The Group's transactions and balances outstanding with associates are detailed below:

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Revenue	**202**	**67**	**1 234**	**609**
Heat	193	64	1 206	537
Other revenue	10	2	28	72
Expenses	**-**	**(5)**	**(1)**	**(92)**
Heat transmission	-	-	-	(47)
Rent payments	-	-	-	(39)
Other expenses	-	(5)	(1)	(6)
Financial income and expenses	**-**	**-**	**7**	**280**
Financial income	-	-	7	280

	30 September 2017	31 December 2016
Outstanding balance		
Trade and other receivables	1 755	781
Total assets	**1 755**	**781**
Trade and other payables	(12)	(2)
Total liabilities	**(12)**	**(2)**

29.3 Transactions with key management and headquater

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 ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Wages and salaries	(38)	(35)	(49)	(38)
Social taxes and contributions	(7)	-	(9)	-
Total	**(44)**	**(35)**	**(57)**	**(38)**

There are no outstanding balances at 30 September 2017 and at 31 December 2016 as for transactinons with key management.

Remuneration to management organization LLC "Gazprom energoholding" for the nine months ended 30 September 2017 was in the amount of RR 108 million (for the nine months ended 30 September 2016: RR 108 million).

(in million of Russian Rubles)

29.4 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.

The Group's transactions and balances outstanding with other state-controlled entities are detailed below:

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Revenue	**6 292**	**5 525**	**21 070**	**19 441**
Electricity	5 870	5 258	19 196	16 463
Heat	251	198	1 561	2 766
Other revenue	171	69	313	211
Expenses	**(1 176)**	**(1 245)**	**(2 905)**	**(3 811)**
Electricity market administration fees	(362)	(366)	(1 098)	(1 105)
Other materials expenses	(338)	(362)	(956)	(1 040)
Rent payments	(169)	(229)	(514)	(818)
Security services	(115)	(105)	(347)	(316)
Fuel expenses	(8)	(8)	(68)	(66)
Purchased heat and electricity	(11)	(25)	(50)	(184)
Heat transmission	-	(1)	(12)	(14)
Other expenses	(33)	(44)	(98)	(148)
Other operating income (loss)	(140)	(105)	238	(120)
Net financial expense	**71**	**(668)**	**(418)**	**(1 727)**
Financial income	317	11	785	295
Financial expense	(246)	(679)	(1 203)	(2 022)

	30 September 2017	31 December 2016
Outstanding balance		
Cash and equiavelents	26 726	2 601
Investments	-	57
Trade and other receivables	18 229	11 251
Advances for acquisition of PP&E (incl. in Property, plant and equipment)	21	7
Other non-current assets	523	523
Total assets	**45 500**	**14 439**
Current borrowings	(8)	(19 750)
Non-current borrowings	(12 000)	(12 000)
Trade and other payables	(1 784)	(1 300)
Total liabilities	**(13 792)**	**(33 050)**

29.5 Transactions with JSC "FSC"

Some of the transactions on the wholesale electricity and capacity market OREM are conducted through commission agreements with JSC "Financial Settling Center" (JSC "FSC"). Current financial system of JSC "FSC" does not provide the final counterparty with automated information about transactions and outstanding balances with the end consumers. Government-related entities and Gazprom Group and its associates may also act as counterparties.

The Group's transactions and balances outstanding with JSC "FSC"are detailed below:

(in million of Russian Rubles)

	Three months ended 30 September		Nine months ended 30 September	
	423,8842466	**429,4373241**	**1471**	**1830,134571**
Revenue	**12 452**	**14 338**	**43 653**	**43 629**
Electricity	12 452	14 338	43 653	43 629
Expenses	**(1 858)**	**(1 854)**	**(6 330)**	**(6 084)**
Purchased heat and electricity	(1 858)	(1 854)	(6 330)	(6 084)

	30 September 2017	31 December 2016
Outstanding balance		
Trade and other receivables	1 708	2 816
Total assets	**1 708**	**2 816**
Trade and other payables	(343)	(401)
Total liabilities	**(343)**	**(401)**

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 nine months ended September 30, 2017, operating lease expenses in amounts of RR 261 million were recognized in profit or loss (for the nine months ended September 30, 2016: RR 336 million, respectively) (Note 23).

Non-cancellable operating lease rentals are payable as follows:

	30 September 2017	31 December 2016
Less than one year	572	652
Between one and five years	2 284	2 654
More than five years	23 189	15 702
Total	**26 044**	**19 008**

30.2 Capital commitments

As of 30 September 2017, the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RR 3 676 million (as of 31 December 2016: RR 4 687 million).

The amount includes Capacity Supply Contracts capital commitments for amount of RR 81 million (as of 31 December 2016: RR 43 million).

30.3 Taxation environment

The Russian Federation 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 30 September 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 controlledtransactions (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 30 September 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 oversights of 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.

(in million of Russian Rubles)

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	30 September 2017	31 December 2016
Financial assets			
Current assets			
Cash and cash equivalents	5	9	-
Short-term financial assets	6	-	57
Total financial assets		**9**	**57**
Financial liabilities			
Current liabilities			
Current borrowings	15	(1 959)	(1 779)
Trade and other payables	16	(153)	-
Non-current liabilities			
Non-current borrowings	15	(9 691)	(9 791)
Total financial liablities		**(11 803)**	**(11 570)**
Net financial liabilities		**(11 793)**	**(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	
	30 September 2017	**31 December 2016**
Decrease in profit	**(2 359)**	**(2 303)**

The weakening of the currencies considered above by 20% relative to the functional currency at 30 September 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:

(in million of Russian Rubles)

	30 September 2017	31 December 2016
Fixed rate instruments		
Financial assets	79 771	88 588
Financial liabilities	(18 417)	(40 992)
Total	**61 354**	**47 596**
Variable rate instruments		-
Financial liabilities	(11 649)	(11 570)
Total	**(11 649)**	**(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 30 September 2017 and 31 December 2016.

	30 September 2017	31 December 2016
Decrease in profit	**(116)**	**(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 receiavables

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 Federation 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:

	30 September 2017	31 December 2016
Trade and other receivables	36 293	48 230
Loans issued	12 808	11 760
Total	**49 101**	**59 990**

(in million of Russian Rubles)

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:

	30 September 2017		31 December 2016	
	Carrying amount	Impairment	Carrying amount	Impairment
Not past due	41 488	-	52 499	-
Past due 0-30 days	485	2	1 117	-
Past due 31-120 days	1 061	143	3 421	326
Past due 121-365 days	6 788	2 004	3 696	1 711
More than one year	12 522	11 092	11 433	10 139
Total	**62 342**	**13 242**	**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 toother 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	1 169	2 595
Allowance used and written off	(102)	(43)
Balance at 30 September	**13 242**	**10 384**

The impairment allowance at 30 September 2017 of RR 13 242 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”.

(in million of Russian Rubles)

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
Balance at 30 September							
Debt finance	24 300	26 769	1 996	1 538	14 172	6 019	3 044
Trade and other payables	5 766	5 766	5 766	-	-	-	-
Other liabilities	-	-	-	-	-	-	-
Total	**30 066**	**32 535**	**7 762**	**1 538**	**14 172**	**6 019**	**3 044**
Balance at 31 December 2016							
Debt finance	43 586	47 473	21 754	1 481	14 782	5 670	3 786
Trade and other payables	8 976	8 976	8 882	-	94	-	-
Other liabilities	-	-	-	-	-	-	-
Total	**52 562**	**56 449**	**30 636**	**1 481**	**14 876**	**5 670**	**3 786**

(in million of Russian Rubles)

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 the 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 30 September 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 (borrowings, finance lease liabilities) 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 change in trade and other receivables provision).

The net debt to adjusted EBITDA ratios at 30 September 2017 and 31 December 2016 were as follows:

	30 September 2017	31 December 2016
Total debt	24 300	43 586
Less: cash and cash equivalents	(27 499)	(10 097)
Net (cash) debt	(3 199)	33 489
Adjusted EBITDA	30 915	20 937
Net debt / Adjusted EBITDA ratio	**(0,10)**	**1,60**

(in million of Russian Rubles)

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.

There were no change in the fair value measurement methods attributed to Level 2 and Level 3 for the nine months ended 30 September 2017 (31 December 2017: there was no change). There were no transfers between levels for the nine months ended 30 September 2017 (31 December 2017: there was no transfers).

As of 30 September 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 30 September 2017				
Available -for-sale financial assets (note 6)	-	-	3 171	3 171
Balance at 31 December 2016				
Available -for-sale financial assets (note 6)	-	-	3 171	3 171