

**MOSENERGO GROUP**

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

**30 June 2017  
Moscow | 2017**

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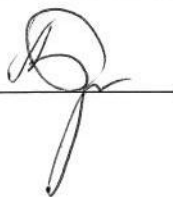
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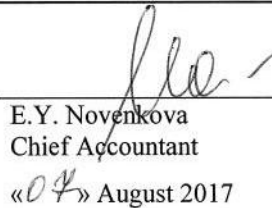
**MOSENERGO GROUP**  
**CONSOLIDATED INTERIM BALANCE SHEET**  
**AS OF 30 June 2017**  
**(In millions of Russian Rubles)**

	Notes	30 June 2017	31 December 2016
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	18 999	10 097
Short-term financial assets	6	-	15 057
Trade and other receivables	7	42 179	47 631
Inventories	8	11 297	9 552
Other current assets	9	1 220	882
		<u>73 695</u>	<u>83 219</u>
Assets held for sale		92	459
<b>Total current assets</b>		<b>73 787</b>	<b>83 678</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	219 599	223 670
Investment property	12	2 933	3 179
Goodwill	13	187	-
Intangible assets	13	217	273
Investments in associates	14	650	669
Long-term financial assets	6	3 171	3 171
Trade and other receivables	7	15 995	17 507
Other non-current assets	9	9 450	8 985
		<u>252 202</u>	<u>257 454</u>
<b>Total non-current assets</b>		<b>252 202</b>	<b>257 454</b>
<b>Total assets</b>		<b>325 989</b>	<b>341 132</b>
<b>Equity and liabilities</b>			
<b>Current liabilities</b>			
Current borrowings	15	1 893	21 596
Trade and other payables	16	7 848	11 183
Taxes payable	17	1 977	7 024
Provisions	18	5 527	5 407
		<u>17 245</u>	<u>45 210</u>
<b>Total current liabilities</b>		<b>17 245</b>	<b>45 210</b>
<b>Non-current liabilities</b>			
Non-current borrowings	15	21 722	21 990
Deferred tax liabilities	19	30 113	28 036
Employee benefits	20	365	368
Trade and other payables	16	130	95
		<u>52 330</u>	<u>50 489</u>
<b>Total non-current liabilities</b>		<b>52 330</b>	<b>50 489</b>
<b>Total liabilities</b>		<b>69 575</b>	<b>95 699</b>
<b>Equity</b>			
Share capital	21	166 124	166 124
Treasury shares	21	(871)	(871)
Share premium	21	49 213	49 213
Revaluation surplus on PPE		107 133	107 533
Accumulated loss		(65 185)	(76 566)
		<u>256 414</u>	<u>245 433</u>
<b>Total equity</b>		<b>256 414</b>	<b>245 433</b>
<b>Total equity and liabilities</b>		<b>325 989</b>	<b>341 132</b>

\_\_\_\_\_  
A.A. Butko  
Managing director  
«07» August 2017



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E.Y. Novenkova  
Chief Accountant  
«07» August 2017



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

**MOSENERGO GROUP**  
**CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME**  
**AS OF 30 JUNE 2017**  
(In millions of Russian Rubles)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2017	2016	2017	2016
<b>Sales</b>	22	38 125	33 172	104 181	95 769
Operating expenses	23	(32 847)	(32 088)	(84 920)	(84 784)
Charge for impairment and other provisions, net	24	(653)	(158)	(1 346)	(439)
<b>Operating profit</b>		<b>4 625</b>	<b>926</b>	<b>17 915</b>	<b>10 546</b>
Gains from disposal of subsidiaries and associates	14	-	-	-	101
Share of profit (loss) of associates	14	(52)	(70)	(19)	(206)
<b>Profit before interest and taxation</b>		<b>4 573</b>	<b>856</b>	<b>17 896</b>	<b>10 441</b>
Financial income		926	940	1 970	1 647
Financial expenses		(383)	(654)	(1 154)	(1 404)
Net foreign exchange gain (loss)		(1 222)	1 129	(617)	1 863
<b>Profit before income tax</b>		<b>3 894</b>	<b>2 271</b>	<b>18 095</b>	<b>12 547</b>
Income tax expense		(728)	(456)	(3 567)	(2 526)
<b>Profit for the period</b>		<b>3 166</b>	<b>1 815</b>	<b>14 528</b>	<b>10 021</b>
<b>Other comprehensive income:</b>					
Remeasurement of post employee benefit obligation	20	-	6	-	20
Effect of acquisition under common control	29.1	(187)	-	(187)	-
<b>Total items that will not be reclassified subsequently to profit or loss</b>		<b>(187)</b>	<b>6</b>	<b>(187)</b>	<b>20</b>
<b>Other comprehensive income for the period, net of tax</b>		<b>(187)</b>	<b>6</b>	<b>(187)</b>	<b>20</b>
<b>Total comprehensive income for the period</b>		<b>2 979</b>	<b>1 821</b>	<b>14 341</b>	<b>10 041</b>
<b>Profit attributable to:</b>					
Equity holders of Mosenergo PJSC		3 166	1 815	14 528	10 021
Non-controlling interest		-	-	-	-
		<b>3 166</b>	<b>1 815</b>	<b>14 528</b>	<b>10 021</b>
<b>Total comprehensive income is attributable to:</b>					
Equity holders of the Mosenergo PJSC		2 979	1 821	14 341	10 041
Non-controlling interest		-	-	-	-
		<b>2 979</b>	<b>1 821</b>	<b>14 341</b>	<b>10 041</b>
<b>Basic and diluted earnings per share for profit attributable to the owners of Mosenergo Group (in Russian Rubles)</b>	26	<b>0,0799</b>	<b>0,0458</b>	<b>0,3668</b>	<b>0,2530</b>
A.A. Butko Managing director «07» August 2017				E.Y. Novenkova Chief Accountant «07» August 2017	

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

**MOSENERGO GROUP**  
**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
**AS OF 30 JUNE 2017**  
**(In millions of Russian Rubles)**

	Notes	Six months ended 30 June	
		2017	2016
<b>Cash flow from operating activities</b>			
<b>Profit before net finance cost and income tax</b>		<b>17 896</b>	<b>10 441</b>
<b>Adjustments to profit before profit tax for:</b>			
Depreciation and amortisation	23	7 389	7 441
Share of loss of associates	14	19	206
Gain on disposal of subsidiaries	14	-	(101)
Increase in provisions		1 832	766
Loss on disposal of property, plant and equipment, assets classified as held for sale		232	(32)
<b>Total of adjustments</b>		<b>9 472</b>	<b>8 280</b>
Cash flows from operations before working capital changes		27 368	18 721
<b>Changes in working capital:</b>			
Change in trade and other receivables		5 112	2 629
Change in inventories		(1 745)	(778)
Change in other current and non-current assets		(335)	(351)
Change in trade and other payables		(2 043)	(1 020)
Change in taxes payables (other than income tax)		(867)	1 130
Change in employee benefit liabilities		(3)	-
Total effect of working capital changes		119	1 610
Income tax paid		(5 601)	(1 221)
Interest paid		(1 186)	(1 336)
<b>Net cash from operating activities</b>		<b>20 700</b>	<b>17 774</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment and intangibles		(4 153)	(3 092)
Net changes in loans issued	7	(72)	190
Proceeds from sale of assets classified as held for sale		(52)	2
Interest received		1 662	959
Dividend received		-	90
Long-term deposits placement		-	(42)
Repayment of long-term deposits		15 054	602
Net changes in other financial assets		-	44
<b>Net cash used in investing activities</b>		<b>12 439</b>	<b>(1 247)</b>
<b>Cash flow from financing activities</b>			
Proceeds from borrowings		50	868
Repayment of borrowings		(20 924)	(1 397)
Dividend paid		(3 347)	(2 235)
<b>Net cash used in financing activities</b>		<b>(24 221)</b>	<b>(2 764)</b>
Effect of foreign exchange rate changes on cash and cash equivalents		(16)	47
<b>Increase in cash and cash equivalents</b>		<b>8 902</b>	<b>13 810</b>
Cash and cash equivalents at the beginning of the reporting period	5	10 097	5 666
<b>Cash and cash equivalents at the end of the reporting period</b>	5	<b>18 999</b>	<b>19 476</b>

A.A. Butko  
 Managing director  
 «04» August 2017

E.Y. Novenkova  
 Chief Accountant  
 «04» August 2017

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**MOSENERGO GROUP**  
**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**  
**AS OF 30 JUNE 2017**  
(In millions of Russian Rubles)

	Attributable to equity holders of the Group						Non- control- ling interest	Total Equity
	Share capital	Treasury shares	Share premium	Revalua- tion surplus	Accumula- ted loss	Total		
Notes	166 124	(871)	49 213	107 889	(90 485)	231 870	231 870	
<b>Balance at 1 January 2016</b>				10 021	10 021	10 021	10 021	
<b>Profit for the period</b>								
<b>Other comprehensive loss/(income):</b>								
Remeasurement of post employee benefit liabilities	20			20	20	20	20	
Transfers from revaluation surplus to retained earnings				26	(26)			
<b>Total comprehensive income for the period</b>				26	10 015	10 041	10 041	
<b>Transaction with owners</b>								
Dividends to shareholders					(2 226)	(2 226)	(2 226)	
<b>Balance at 30 June 2016</b>	166 124	(871)	49 213	107 915	(82 696)	239 685	239 685	
<b>Balance at 1 January 2017</b>	166 124	(871)	49 213	107 533	(76 566)	245 433	245 433	
<b>Profit/(loss) for the period</b>				14 528	14 528	14 528	14 528	
<b>Other comprehensive loss/(income):</b>								
Effect of acquisition under common control	29.1				(187)	(187)	(187)	
Transfers from revaluation surplus to retained earnings				(400)	400			
<b>Total comprehensive income(loss) for the period</b>				(400)	14 741	14 341	14 341	
Dividends to shareholders					(3 360)	(3 360)	(3 360)	
<b>Balance at 30 June 2017</b>	166 124	(871)	49 213	107 133	(65 185)	256 414	256 414	

A.A. Butko  
Managing director  
« 07 » August 2017

E.Y. Novenkova  
Chief Accountant  
« 07 » August 2017

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

## **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 12 908 megawatts of electricity and 42 834 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 electric power industry aimed to introduce competition into the electricity market and to enable the companies of the electricity sector to maintain and further expand production capacity. Restructuring of PJSC “Mosenergo” was approved by general shareholder’s meeting on 28 June 2004. Before the restructuring took place PJSC “Mosenergo” operated an integrated utility model, which included generation, transmission and distribution activities. As a result of the restructuring, 13 new entities were separated from PJSC “Mosenergo” and each shareholder of the Company received ordinary shares of each of the separated entities pro rata to Company’s shares held by them prior to spin-off.

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

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

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

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

### **1.3 Business 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 six months ended 30 June 2017 the Russian economy was impacted by a fluctuation in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

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

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

### **1.4 Relations with the state and current regulation**

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

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

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

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

### **1.5 Industry restructuring**

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

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

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

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



**MOSENERGO GROUP**  
**NOTES TO THE IFRS CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**30 JUNE 2017**  
**(In million of Russian Rubles)**

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

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

## **2 Basis of preparation**

### **2.1 Statement of compliance**

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

### **2.2 Basis of measurement**

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

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

### **2.3 Functional and presentation currency**

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

### **2.4 Use of estimates and judgment**

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

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

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

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

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

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

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

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

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

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

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

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

### **3 Significant accounting policies**

#### **3.1 Basis of consolidation**

##### **3.1.1 Subsidiaries**

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

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

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

### **3.1.2 Transfers of subsidiaries from parties under common control**

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

### **3.1.3 Associates (equity accounted investees)**

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

### **3.1.4 Transactions eliminated on consolidation**

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

## **3.2 Foreign currency transactions**

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

## **3.3 Financial instruments**

### **3.3.1 Non-derivative financial instruments**

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

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

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

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

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

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

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

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

### **3.3.2 Share capital**

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

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

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

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

## **3.4 Property, plant and equipment**

### **3.4.1 Recognition and measurement**

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

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

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

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

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

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

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

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

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

### **3.4.2 Reclassification to investment property**

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

### **3.4.3 Subsequent costs**

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

### **3.4.4 Depreciation**

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

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

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

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

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### **3.5 Intangible assets**

#### **3.5.1 Goodwill**

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

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

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

#### **3.5.2 Other intangible assets**

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

#### **3.5.3 Subsequent expenditures**

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

#### **3.5.4 Amortisation**

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

### **3.6 Investment property**

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

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

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

### **3.7 Leased assets**

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

### **3.8 Inventories**

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

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

### **3.9 Impairment**

#### **3.9.1 Financial assets**

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

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

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

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

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

#### **3.9.2 Non-financial assets**

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

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

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



the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

### **3.9.3 Non-current assets held for sale**

Non – current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. Immediately before classification as held-for-sale, the assets are remeasured in accordance with the Group’s accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, investment property and biological assets, which continue to be measured in accordance with the Group’s accounting policies. Impairment loss is recognised in the revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognised immediately in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

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

## **3.10 Employee benefits**

### **3.10.1 Defined contribution pension plans**

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

### **3.10.2 Defined benefit plans**

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

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

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

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

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

### **3.10.3 Other long-term employee benefits**

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

### **3.10.4 Termination benefits**

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group

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

### **3.10.5 Short-term benefits**

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

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

### **3.10.6 Provisions**

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

### **3.11 Segment reporting**

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

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

### **3.12 Revenues**

#### **3.12.1 Goods sold**

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

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

#### **3.12.2 Services**

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

#### **3.12.3 Rental income**

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

### **3.13 Government subsidies**

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

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

### **3.14 Lease payments**

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

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

### **3.15 Financial income and expenses**

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

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

Foreign currency gains and losses are reported on gross basis.

### **3.16 Income tax expense**

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

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

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

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

### **3.17 Uncertain tax positions**

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

### **3.18 Earnings per share**

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

### **3.19 Adoption of new or revised standards and interpretations**

#### **3.19.1 Application of new IFRSs**

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

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

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

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

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted:

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

**MOSENERGO GROUP**  
**NOTES TO THE IFRS CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**30 JUNE 2017**  
**(In million of Russian Rubles)**

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

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

**MOSENERGO GROUP**  
**NOTES TO THE IFRS CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**30 JUNE 2017**  
(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. The other segments consist of services and products sold by the Group and mainly include rent services, feed water sales and maintenance services. All operating segments are located in the Russian Federation.

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

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

##### 4.1 Financial results of segments

The segment information for the six months ended 30 June 2017 and 30 June 2016 as follows:

	Notes	Electricity	Heat	All other segments	Total	Intra-group transactions	Total
<b>Six months ended 30 June 2017</b>							
<b>Segment revenue</b>	22	<b>59 468</b>	<b>43 515</b>	<b>1 407</b>	<b>104 390</b>	<b>(209)</b>	<b>104 181</b>
Revenue from external customers		59 468	43 505	1 207	104 181	-	104 181
Intra-group revenue		-	10	200	209	(209)	-
<b>Segment profit or loss</b>		<b>12 243</b>	<b>1 496</b>	<b>(329)</b>	<b>13 411</b>	<b>-</b>	<b>13 411</b>
Depreciation and amortisation	23	(3 288)	(3 343)	(758)	(7 389)	-	(7 389)
Provisions for accounts receivable and prepayments	24	(501)	(527)	(200)	(1 227)	-	(1 227)
<b>Six months ended 30 June 2016</b>							
<b>Segment revenue</b>	22	<b>51 727</b>	<b>42 839</b>	<b>1 431</b>	<b>95 996</b>	<b>(228)</b>	<b>95 769</b>
Revenue from external customers		51 727	42 831	1 211	95 769	-	95 769
Intra-group revenue		-	8	219	228	(228)	-
<b>Segment profit or loss</b>		<b>9 404</b>	<b>648</b>	<b>(218)</b>	<b>9 834</b>	<b>-</b>	<b>9 834</b>
Depreciation and amortisation	23	(3 451)	(3 296)	(699)	(7 446)	-	(7 446)
Provisions for accounts receivable and prepayments	24	(108)	(193)	(85)	(386)	-	(386)
<b>Three months ended 30 June 2017</b>							
<b>Segment revenue</b>	22	<b>25 595</b>	<b>12 013</b>	<b>636</b>	<b>38 245</b>	<b>(120)</b>	<b>38 125</b>
Revenue from external customers		25 595	12 011	519	38 125	-	38 125
Intra-group revenue		-	2	118	120	(120)	-
<b>Segment profit or loss</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation and amortisation	23	(1 926)	(1 518)	(414)	(3 857)	-	(3 857)
Provisions for accounts receivable and prepayments	24	(169)	(320)	(44)	(533)	-	(533)
<b>Three months ended 30 June 2016</b>							
<b>Segment revenue</b>	22	<b>22 413</b>	<b>10 104</b>	<b>800</b>	<b>33 317</b>	<b>(144)</b>	<b>33 172</b>
Revenue from external customers		22 413	10 104	656	33 172	-	33 172
Intra-group revenue		-	1	144	144	(144)	-
<b>Segment profit or loss</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation and amortisation	23	(2 096)	(1 269)	(381)	(3 746)	-	(3 746)
Provisions for accounts receivable and prepayments	24	(28)	(66)	(18)	(112)	-	(112)

Reconciliation of the segment profit or loss to consolidated profit (loss) before tax for the six months ended 30 June 2017 and 30 June 2016 is provided as follows:

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	Notes	Three months ended 30 June		Six months ended 30 June	
		2017	2016	2017	2016
Segment profit or loss for reportable segments		4 625	1 194	18 365	11 246
Other segments (loss)/profit		(347)	(107)	(675)	(324)
<b>Segment profit or loss</b>		<b>4 278</b>	<b>1 088</b>	<b>17 689</b>	<b>10 922</b>
Gain from disposal of subsidiaries and associates	14	-	-	-	101
Tax exposure provision		(120)	-	(120)	-
Net financial income /(expense)		543	287	816	243
Foreign exchange differences	25	(1 222)	1 129	(617)	1 863
Share of profit (loss) of associates	14	(52)	(70)	(19)	(206)
Other items		467	(162)	346	(375)
<b>Profit/(loss) before income tax</b>		<b>3 894</b>	<b>2 271</b>	<b>18 095</b>	<b>12 547</b>

#### 4.2 Core customers

The revenue presented within the `heat` segment includes the customer with the revenue exceeding 10% of the Group`s revenue for 6 months ended 30 June 2017 (for 6 months ended 30 June 2016: the revenue of the same customer exceeded 10% of the Group`s revenue).

The revenue presented within the `electricity` segment includes two customers with the revenue exceeding 10% of the Group`s revenue for 6 months ended 30 June 2017 (for 6 months ended 30 June 2016: the revenue of the same two customers exceeded 10% of the Group`s revenue).

#### 5 Cash and cash equivalents

	30 June 2017	31 December 2016
Short-term deposits (< 3 months)	18 794	9 791
Bank balances	205	306
<b>Total</b>	<b>18 999</b>	<b>10 097</b>

#### 6 Financial assets

	30 June 2017	31 December 2016
<b>Investments held-to-maturity</b>		
Deposits	-	15 057
Total short-term financial assets	-	<b>15 057</b>
<b>Available-for-sale financial assets</b>		
Shares	3 171	3 171
Total long-term financial assets	<b>3 171</b>	<b>3 171</b>

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

Available-for-sale financial assets include equity instrument of LLC "Gazeks-Management" in the amount of RR 3 149 million at 30 June 2017 that was received in settlement for accounts receivable in October 2013 (31 December 2016: RR 3 149 million).

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

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



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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

	<b>30 June 2017</b>	<b>31 December 2016</b>
<b>Current assets</b>		
Trade receivables	42 154	47 562
Loans issued	-	1 200
Advances to suppliers and prepaid expenses	1 634	2 651
VAT recoverable	217	195
Taxes other than income tax prepaid	3	23
Accounts receivable on disposal of investments	6 965	4 181
Other receivables	4 766	4 204
<b>Total</b>	<b>55 739</b>	<b>60 016</b>
Provision for doubtful debts	(13 560)	(12 385)
<b>Total</b>	<b>42 179</b>	<b>47 631</b>
<b>Non-current assets</b>		
Loans issued	11 832	10 560
Advances to suppliers and prepaid expenses	232	237
Accounts receivable on disposal of property, plant and equipment	3 813	3 723
Accounts receivable on disposal of investments	-	2 784
Other receivables	118	203
<b>Total</b>	<b>15 995</b>	<b>17 507</b>

Provision for doubtful debts includes provision for trade receivables impairment (30 June 2017: RR 13 292 million, 31 December 2016: RR 12 176 million) and provision for other receivables impairment (30 June 2017: RR 268 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

	<b>30 June 2017</b>	<b>31 December 2016</b>
Raw materials and consumables	11 782	10 054
Work in progress	12	-
Supplies	12	7
	<b>11 806</b>	<b>10 061</b>
Provision for obsolete inventories	(509)	(509)
<b>Total</b>	<b>11 297</b>	<b>9 552</b>

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

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**9 Other current and non-current assets**

	<b>30 June 2017</b>	<b>31 December 2016</b>
<b>Other current assets</b>		
Grid connection	633	633
Service contracts and other assets	587	249
<b>Total</b>	<b>1 220</b>	<b>882</b>
<b>Other non-current assets</b>		
Grid connection	7 591	7 907
Constructed assets financed by the government of Moscow city	523	523
Service contracts and other assets	1 335	555
<b>Total</b>	<b>9 450</b>	<b>8 985</b>

**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**

	<b>2017</b>	<b>2016</b>
<b>Balance at 1 January</b>	<b>459</b>	<b>172</b>
Transfer from/to assets classified as held for sale	(130)	6
Sale	(4)	-
Disposals	(232)	-
<b>Balance 30 June</b>	<b>92</b>	<b>178</b>

At 30 June 2017 and at 30 June 2016 the Group is in the process of disposing of non-core assets and corresponding liabilities. The sale is expected during 2017-2018.

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

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

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

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**11 Property, plant and equipment**

	<b>Buildings and construc- tions</b>	<b>Plant and equipment</b>	<b>Transmissio n networks</b>	<b>Other</b>	<b>Construc- tion in progress</b>	<b>Total</b>
<b>Appraised value</b>						
<b>Balance at 1 January 2016</b>	<b>117 513</b>	<b>116 388</b>	<b>2 968</b>	<b>15 088</b>	<b>42 413</b>	<b>294 370</b>
Reclassification	-	-	-	-	-	-
Additions	-	2	-	1	4 442	4 445
Disposals and other	(114)	(14)	-	(22)	-	(150)
Transfers	5 788	12 226	-	1 055	(19 069)	-
Disposal of controlling interest	(2)	-	-	(3)	-	(5)
<b>Balance at 30 June 2016</b>	<b>123 185</b>	<b>128 602</b>	<b>2 968</b>	<b>16 119</b>	<b>27 786</b>	<b>298 660</b>
<b>Balance at 1 January 2017</b>	<b>123 548</b>	<b>129 718</b>	<b>1 234</b>	<b>16 823</b>	<b>28 864</b>	<b>300 187</b>
Reclassification	(3)	(45)	(5)	53	-	-
Additions	7	-	2	-	2 425	2 434
Disposals and other	139	85	(93)	282	-	413
Transfers	791	2 832	53	654	(4 330)	-
Acquisition of subsidiary	479	-	-	-	-	479
<b>Balance at 30 June 2017</b>	<b>124 961</b>	<b>132 590</b>	<b>1 191</b>	<b>17 812</b>	<b>26 959</b>	<b>303 513</b>
<b>Depreciation and impairment</b>						
<b>Balance at 1 January 2016</b>	<b>(21 654)</b>	<b>(29 687)</b>	<b>(719)</b>	<b>(4 907)</b>	<b>(6 122)</b>	<b>(63 089)</b>
Reclassification	1	-	-	0	-	1
Depreciation charge	(2 490)	(4 000)	(160)	(763)	-	(7 413)
Transfers	(769)	(1 457)	-	(37)	2 263	-
Disposals and other	2	17	-	17	-	37
<b>Balance at 30 June 2016</b>	<b>(24 910)</b>	<b>(35 127)</b>	<b>(879)</b>	<b>(5 690)</b>	<b>(3 859)</b>	<b>(70 465)</b>
<b>Balance at 1 January 2017</b>	<b>(27 202)</b>	<b>(38 895)</b>	<b>(322)</b>	<b>(6 425)</b>	<b>(3 673)</b>	<b>(76 517)</b>
Reclassification	-	-	-	-	-	-
Depreciation charge	(2 436)	(3 977)	(28)	(852)	-	(7 293)
Transfers	(139)	(551)	(10)	(58)	758	-
Disposals and other	(13)	(47)	33	(68)	-	(95)
Acquisition of subsidiary	(9)	-	-	-	-	(9)
<b>Balance at 30 June 2017</b>	<b>(29 799)</b>	<b>(43 470)</b>	<b>(327)</b>	<b>(7 403)</b>	<b>(2 915)</b>	<b>(83 914)</b>
<b>Net book value</b>						
At 1 January 2016	<b>95 859</b>	<b>86 701</b>	<b>2 249</b>	<b>10 181</b>	<b>36 291</b>	<b>231 281</b>
At 30 June 2016	<b>98 275</b>	<b>93 475</b>	<b>2 089</b>	<b>10 429</b>	<b>23 926</b>	<b>228 195</b>
At 1 January 2017	<b>96 346</b>	<b>90 823</b>	<b>912</b>	<b>10 398</b>	<b>25 191</b>	<b>223 670</b>
At 30 June 2017	<b>95 162</b>	<b>89 120</b>	<b>864</b>	<b>10 409</b>	<b>24 044</b>	<b>219 599</b>
<b>Net book value of property, plant and equipment had no revaluation taken place</b>						
At 1 January 2016	<b>47 549</b>	<b>56 890</b>	<b>1 158</b>	<b>8 006</b>	<b>38 796</b>	<b>152 399</b>
Balance at 30 June 2016	<b>52 989</b>	<b>65 729</b>	<b>1 083</b>	<b>8 404</b>	<b>23 577</b>	<b>151 782</b>
At 1 January 2017	<b>52 835</b>	<b>64 578</b>	<b>610</b>	<b>8 319</b>	<b>23 517</b>	<b>149 859</b>
Balance at 30 June 2017	<b>52 641</b>	<b>63 414</b>	<b>572</b>	<b>8 405</b>	<b>23 363</b>	<b>148 395</b>

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 June 2017 such advances amounted to RR 617 million (30 June 2016: RR 2 087 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 June 2017 and at 30 June 2016.

### **11.1 Revaluation**

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

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

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

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

No revaluations were performed at 30 June 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 June 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 June 2017 the net carrying amount of leased plant and equipment was RR 57 million (at 31 December 2015: RR 446 million).

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**12 Investment property**

	<b>2017</b>	<b>2016</b>
<b>Balance at 1 January</b>	<b>3 180</b>	<b>1 323</b>
Transfer from/to property, plant and equipment	(237)	108
Disposals	(10)	-
<b>Balance 30 June</b>	<b>2 933</b>	<b>1 431</b>

The fair value of investment property at 30 June 2017 was determined to be RR 2 933 million (at 30 June 2016: RR 1 431 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.

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 six months ended 30 June 2017 amounted to RR 284 million (for the six months ended 30 June 2016 amounted to RR 261 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:

	<b>2017</b>	<b>2016</b>
<b>As at 30 June</b>		
Less than one year	342	188
<b>Total</b>	<b>342</b>	<b>188</b>

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### 13 Intangibles

#### 13.1 Goodwill

Goodwill arised on the acquisition of subsidiaries.

	<b>2017</b>	<b>2016</b>
<b>Balance at 1 January</b>	-	-
Acquisition of Mosenergoproject OOO	187	-
<b>Balance at 30 June</b>	<b>187</b>	-

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

	<b>Software</b>	<b>Licenses</b>	<b>Total</b>
<b>Cost</b>			
<b>Balance at 1 January 2016</b>	<b>628</b>	<b>4</b>	<b>632</b>
Additions	38	0	38
Disposals	-	-	-
<b>Balance at 30 June 2016</b>	<b>666</b>	<b>4</b>	<b>670</b>
<b>Balance at 1 January 2017</b>	<b>807</b>	<b>3</b>	<b>811</b>
Additions	40	-	40
Disposals	-	-	-
<b>Balance at 30 June 2017</b>	<b>848</b>	<b>3</b>	<b>851</b>
<b>Amortisation and impairment</b>			
<b>Balance at 1 January 2016</b>	<b>(463)</b>	<b>(2)</b>	<b>(465)</b>
Amortisation charge	(30)	(0)	(30)
Disposals	-	-	-
<b>Balance at 30 June 2016</b>	<b>(493)</b>	<b>(2)</b>	<b>(495)</b>
<b>Balance at 1 January 2017</b>	<b>(535)</b>	<b>(2)</b>	<b>(537)</b>
Amortisation charge	(96)	(0)	(96)
Disposals	-	-	-
<b>Balance at 30 June 2017</b>	<b>(631)</b>	<b>(2)</b>	<b>(634)</b>
<b>Net book value</b>			
At 1 January 2016	<b>165</b>	<b>2</b>	<b>167</b>
At 30 June 2016	<b>174</b>	<b>2</b>	<b>175</b>
At 1 January 2017	<b>272</b>	<b>1</b>	<b>273</b>
At 30 June 2017	<b>217</b>	<b>1</b>	<b>217</b>

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**14 Investment in associates**

	<u>2017</u>	<u>2016</u>
<b>Balance at 1 January</b>	<b>669</b>	<b>3 978</b>
Share of profit (loss) of associates	(19)	(206)
Disposal from investments in associates	-	(2 684)
<b>Balance at 30 June</b>	<b>650</b>	<b>1 088</b>

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

	<u>LLC "TSK Mosenergo"</u>		<u>LLC "OGK Investproject"</u>	
	<u>30 June</u>	<u>31 December</u>	<u>30 June</u>	<u>31 December</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Country of incorporation and place of business	Russia		Russia	
Nature of business	Heat and water supply		Construction	
Ownership interest	22,51%	22,51%	-	-
<b>As of 30 June 2017 (31 December 2016) and for 6 months ended 30 June 2017 (30 June 2016)</b>				
Non-current assets	7 507	6 974	-	-
Current assets	6 368	8 739	-	-
Non-current liabilities	1 028	1 113	-	-
Current liabilities	7 622	10 690	-	-
Revenue	5 464	3 028	-	2 852
Profit (loss) for the period	(84)	(467)	-	(224)
<b>Total comprehensive income (loss) for the period</b>	<b>(84)</b>	<b>(467)</b>	<b>-</b>	<b>(224)</b>

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

**15 Borrowings**

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

	<u>30 June</u>	<u>31 December</u>
	<u>2017</u>	<u>2016</u>
<b>Short-term debt financing</b>		
Bank financing	1 861	21 510
Finance lease liability	5	6
Interest payable	27	80
<b>Total short-term debt financing</b>	<b>1 893</b>	<b>21 596</b>
<b>Long - term debt financing</b>		
Bank financing	21 524	21 791
Finance lease liability	198	199
<b>Total long-term debt financing</b>	<b>21 722</b>	<b>21 990</b>
<b>Total debt financing</b>	<b>23 615</b>	<b>43 586</b>

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Terms and conditions of outstanding liabilities are as follows:

	Cur- rency	Nominal interest rate	Year of matu- rity	30 June 2017		31 December 2016	
				Face value	Carrying amount	Face value	Carrying amount
<b>Unsecured bank loans</b>							
PJSC Sberbank	RUB	8,73%	2017	-	-	19 750	19 750
PJSC Sberbank	RUB	8,14%	2018	3 750	3 750	3 750	3 750
VTB BANK (PJSC)	RUB	8,14%	2018	8 250	8 250	8 250	8 250
BNP Paribas	EUR	EURIBOR 6M+2.00%	2022	5 970	5 733	6 157	5 884
Credit Agricole Bank PJSC	EUR	EURIBOR 6M+1.95%	2024	5 819	5 652	5 868	5 667
				<b>23 789</b>	<b>23 386</b>	<b>43 775</b>	<b>43 301</b>
Interest payable				27	27	80	80
Finance lease liability		8,34%	2048	202	202	205	205
<b>Total</b>				<b>24 018</b>	<b>23 615</b>	<b>44 060</b>	<b>43 586</b>

Finance lease rentals are payable as follows:

	Less than	Between	More than	Total
	one year	one and five years	five years	
<b>30 June 2017</b>				
Future minimum lease payments	21	72	469	<b>563</b>
Interest	(17)	(65)	(279)	<b>(360)</b>
<b>Present value of minimum lease payments</b>	<b>5</b>	<b>7</b>	<b>191</b>	<b>202</b>
<b>31 December 2016</b>				
Future minimum lease payments	23	72	478	<b>573</b>
Interest	(17)	(65)	(287)	<b>(368)</b>
<b>Present value of minimum lease payments</b>	<b>6</b>	<b>7</b>	<b>192</b>	<b>205</b>



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**16 Trade and other payables**

	<b>30 June 2017</b>	<b>31 December 2016</b>
<b>Current liabilities</b>		
Trade payables	3 682	5 598
Advances received	1 067	1 024
Accounts payable for property, plant and equipment	1 361	3 145
Other payables	1 738	1 416
<b>Total</b>	<b>7 848</b>	<b>11 183</b>
<b>Non-current liabilities</b>		
Advances received	1	1
Accounts payable for property, plant and equipment	129	94
<b>Total</b>	<b>130</b>	<b>95</b>

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

**17 Taxes payable**

	<b>30 June 2017</b>	<b>31 December 2016</b>
VAT payable	1 573	2 463
Income tax payable	(338)	3 838
Property tax payable	477	566
Social contributions payable	203	137
Other taxes payable	62	20
<b>Total</b>	<b>1 977</b>	<b>7 024</b>

**18 Provision for contingencies**

	<b>Provision for income tax</b>	<b>Provision for other taxes</b>	<b>Provisions for litigations and claims</b>	<b>Total</b>
<b>Balance at 1 January 2017</b>	<b>1 407</b>	<b>3 991</b>	<b>9</b>	<b>5 407</b>
Provisions made during the period	-	120	-	120
Provisions used during the period	-	-	-	-
Provision released during the period	-	-	-	-
<b>Balance at 30 June 2017</b>	<b>1 407</b>	<b>4 111</b>	<b>9</b>	<b>5 527</b>
<b>Balance at 1 January 2016</b>	<b>70</b>	<b>1 722</b>	<b>11</b>	<b>1 803</b>
Provisions made during the period	1 337	2 269	9	3 615
Provisions used during the period	-	-	-	-
Provision released during the period	-	-	(11)	(11)
<b>Balance at 31 December 2016</b>	<b>1 407</b>	<b>3 991</b>	<b>9</b>	<b>5 407</b>

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**19 Profit tax**

**19.1 Reconciliation of profit before tax to profit tax**

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

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Profit before profit tax	3 895	2 269	18 095	12 545
Theoretical tax charge calculated at applicable tax rates	(779)	(454)	(3 619)	(2 509)
Adjustments in respect of current income tax of previous periods	749	-	749	(12)
Other non-taxable income (expenses)	(698)	(2)	(697)	(5)
<b>Income tax expense</b>	<b>(728)</b>	<b>(456)</b>	<b>(3 567)</b>	<b>(2 526)</b>

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

**19.2 Tax effects of taxable and deductible temporary differences**

Tax effects of taxable and deductible temporary differences for the six months ended 30 June 2017 and 30 June 2016 are as follows:

	31	Recognised	Recognised	Acquisi-	30	31	Recognised	Recognised	30
	December	in profit or	in other	tion	June	December	in profit or	in other	June
	2016	loss	comprehen-	of subsi-	2017	2015	loss	comprehen-	2016
			sive	diaries				sive	
			income					income	
Property plant and equipment	(29 340)	(496)	-	-	(29 836)	(28 455)	(935)	-	(29 390)
Investment property	71	(36)	-	-	35	(124)	149	-	25
Investments in associates	141	0	-	-	141	-	57	-	57
Trade and other receivables	2 224	(1 831)	47	-	439	1 166	(1 803)	-	(637)
Assets classified as held for sale	(13)	65	-	-	53	57	(11)	-	46
Trade and other payables	81	12	-	-	94	853	96	-	949
Employee benefit liabilities	74	(1)	-	-	73	74	5	(7)	72
Tax losses carried forward	30	29	-	19	78	168	70	-	238
Provisions for contingencies	598	16	-	-	615	360	10	-	370
Borrowings	(54)	13	-	-	(41)	(116)	13	-	(103)
Other assets	(1 848)	86	-	-	(1 762)	(1 706)	(16)	-	(1 722)
<b>Total</b>	<b>(28 036)</b>	<b>(2 142)</b>	<b>47</b>	<b>19</b>	<b>(30 113)</b>	<b>(27 723)</b>	<b>(2 365)</b>	<b>(7)</b>	<b>(30 095)</b>

## 20 Post-employment benefit obligations

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

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

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

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

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

	<b>2017</b>	<b>2016</b>
<b>Balance at 1 January</b>	<b>368</b>	<b>372</b>
Current service cost	8	4
Net interest expense (income)	15	12
<b>Total included in operational and financial expenses</b>	<b>23</b>	<b>16</b>
Remeasurements:	-	-
Actuarial (gains) losses - experience	-	(15)
<b>Total recognised in other comprehensive loss</b>	<b>-</b>	<b>(15)</b>
Benefits paid	(26)	(5)
<b>Balance at 30 June</b>	<b>365</b>	<b>368</b>
<b>Actuarial assumptions:</b>		
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 June 2017 the authorised share capital comprised 39 749 359 700 ordinary shares (at 31 December 2016: 39 749 359 700) of RR 1.00 par value each. All issued ordinary shares are fully paid.

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

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

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

### 21.2 Treasury shares

Treasury shares at 30 June 2016 and at 31 December 2016 amounted to RR 871 million. No decisions regarding further operations with treasury shares were made by the PJSC "Mosenergo's" management.

### 21.3 Dividends

In 31 May 2016 the general shareholders meeting of the Company 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

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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 Company 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.

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## 22 Revenue

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Electricity	25 595	22 413	59 468	51 727
Heat	12 011	10 104	43 505	42 831
Other revenue	484	655	1 208	1 211
<b>Total</b>	<b>38 090</b>	<b>33 172</b>	<b>104 181</b>	<b>95 769</b>

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

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

## 23 Operating expenses

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
<b>Materials</b>				
Fuel expenses	19 890	18 661	57 895	56 191
Purchased heat and electricity	2 205	2 046	4 980	4 881
Other materials expenses	525	563	1 108	1 158
	<b>22 620</b>	<b>21 270</b>	<b>63 983</b>	<b>62 230</b>
<b>Other external supplies</b>				
Heat transmission	294	426	1 500	2 530
Electricity market administration fees	364	366	739	742
Rent payments	283	401	523	875
Security services	234	249	468	476
Grid connection	158	158	316	316
Legal, consulting and data processing services	80	167	137	231
Transport services	127	99	250	232
Cleaning services	95	82	181	170
Agency fee	48	79	92	138
Insurance expenses, excluding medical insurance	53	56	105	112
Communication services	23	25	44	49
Other professional services	318	273	523	450
	<b>2 077</b>	<b>2 381</b>	<b>4 878</b>	<b>6 321</b>
<b>Depreciation and amortisation</b>	3 857	3 746	7 389	7 446
<b>Personnel expenses</b>	2 662	2 819	5 462	5 608
<b>Maintenance and repairs expenses</b>	1 611	1 294	2 402	2 003
<b>Taxes other than income tax</b>	495	576	1 095	1 119
<b>Other expenses on ordinary activities</b>	2	5	1	9
<b>Total of production, administration and selling expenses</b>	<b>33 324</b>	<b>32 091</b>	<b>85 210</b>	<b>84 736</b>
<b>Other operating expenses/(income)</b>				
(Income) loss on disposal of property, plant and equipment	(15)	9	281	(28)
(Income) loss on disposal of materials	12	4	25	5
Property (surplus) deficit	(1)	(51)	(2)	(111)
(Income) loss on fines and penalties on business contracts	(400)	30	(469)	74
Subsidies on the difference in tariffs for sales to the urban population	(2)	(16)	(9)	(66)
Other expenses (income)	(71)	21	(116)	174
<b>Total other operating expenses/(income)</b>	<b>(477)</b>	<b>(3)</b>	<b>(290)</b>	<b>48</b>
<b>Total operating expenses</b>	<b>32 847</b>	<b>32 088</b>	<b>84 920</b>	<b>84 784</b>

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.

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For the six months ended 30 June 2017 the average number of employees of the Group was 8 479 (for the six months ended 30 June 2016: 9 049).

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

**24 Charge for impairment and other provisions**

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
<b>Impairment of assets</b>				
Change in trade and other receivables provisions	(533)	(112)	(1 227)	(386)
Change in slow moving inventory provision	-	(6)	-	(6)
	<u>(533)</u>	<u>(118)</u>	<u>(1 227)</u>	<u>(392)</u>
<b>Provisions for contingencies</b>				
Change in tax provision	(120)	-	(120)	-
Change in provisions on claims	-	(40)	-	(48)
Change in other provisions	-	-	1	1
	<u>(120)</u>	<u>(40)</u>	<u>(119)</u>	<u>(47)</u>
<b>Total</b>	<u>(653)</u>	<u>(158)</u>	<u>(1 346)</u>	<u>(439)</u>

**25 Finance income and expense**

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
<b>Finance income</b>				
Interest income on bank deposits	411	349	961	523
Interest income on loans	410	433	817	814
Other interest income	105	158	192	310
<b>Total finance income</b>	<u>926</u>	<u>940</u>	<u>1 970</u>	<u>1 647</u>
<b>Finance cost</b>				
Interest expenses on borrowings	(343)	(641)	(1 060)	(1 305)
Lease expenses	(4)	-	(8)	(73)
Other interest expenses	(36)	(13)	(86)	(26)
<b>Total finance cost</b>	<u>(383)</u>	<u>(654)</u>	<u>(1 154)</u>	<u>(1 404)</u>
<b>Foreign exchange gain (losses)</b>				
Foreign exchange gains	25	1 178	751	2 607
Foreign exchange losses	(1 247)	(49)	(1 368)	(744)
<b>Net foreign exchange differences</b>	<u>(1 222)</u>	<u>1 129</u>	<u>(617)</u>	<u>1 863</u>
<b>Net finance income</b>	<u>(679)</u>	<u>1 415</u>	<u>199</u>	<u>2 106</u>

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**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 diluted earnings per share is presented in the table below.

	Three months ended 30 June		Six months ended 30 June	
	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)
<b>Weighted average number of ordinary shares (pieces)</b>	<b>39 609 130 249</b>	<b>39 609 130 249</b>	<b>39 609 130 249</b>	<b>39 609 130 249</b>
Profit attributable to the owners of Mosenergo PJSC (in Russian Roubles)	3 166 428 237	1 814 762 440	14 528 201 318	10 020 817 000
<b>Profit per ordinary share (basic and diluted) (in Russian Roubles)</b>	<b>0,0799</b>	<b>0,0458</b>	<b>0,3668</b>	<b>0,2530</b>

There were 39 609 million and 39 609 million weighted average shares outstanding for the six months ended 30 June 2017 and 30 June 2016, respectively.

There are no dilutive financial instruments outstanding in the Group.

**27 Subsidiaries**

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

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

No preference shares are held by the Group.

## **28 Acquisition and disposal of subsidiaries**

### **28.1 Acquisition of subsidiaries**

In January 2017 the Group acquired 100% of share capital of LLC “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. The final estimate of the fair values will be reported in the consolidated financial statements within the period of 12 months from the date of acquisition. All fair value adjustments will be shown retrospectively from the date of acquisition.

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

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

### **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:

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



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**29 Related parties**

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the six months ended 30 June 2017 and 30 June 2016, or had significant balances outstanding at 30 June 2017 and at 31 December 2016 are detailed below. PJSC “GAZPROM” is an ultimate parent company of PJSC “Mosenergo” during the current and prior reporting periods. The Russian Federation is the ultimate controlling party of the Group during the current and prior reporting periods.

**29.1 Transactions with Gazprom Group and its associates**

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

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
<b>Revenue</b>	<b>12 933</b>	<b>10 118</b>	<b>43 122</b>	<b>37 738</b>
Heat	11 234	8 564	39 250	34 667
Electricity	1 370	1 094	2 999	2 273
Other revenue	330	461	873	798
<b>Expenses</b>	<b>(8 848)</b>	<b>(8 799)</b>	<b>(42 703)</b>	<b>(42 472)</b>
Fuel expenses	(6 845)	(6 605)	(38 137)	(36 963)
Heat transmission	(292)	(423)	(1 488)	(2 516)
Maintenance and repair expenses	(1 097)	(935)	(1 694)	(1 350)
Purchased heat and electricity	(148)	(160)	(437)	(484)
Rent payments	(77)	(114)	(153)	(240)
Agency fee	(49)	(80)	(92)	(139)
Cleaning services	(69)	(63)	(135)	(129)
Transport services	(77)	(67)	(154)	(129)
Insurance expenses, except voluntary medical insurance expenses	(53)	(54)	(105)	(110)
Security services	(36)	(36)	(73)	(50)
Voluntary medical insurance expenses	(50)	(48)	(99)	(92)
Voluntary medical insurance expenses	(15)	(144)	(15)	(144)
Other professional services	(78)	(28)	(163)	(84)
Other operating income (loss)	38	(42)	42	(42)
<b>Gains from disposal of subsidiaries and associates</b>	<b>38</b>	<b>(42)</b>	<b>-</b>	<b>101</b>
<b>Financial income and expenses</b>	<b>474</b>	<b>907</b>	<b>1 046</b>	<b>1 247</b>
Financial income	478	953	1 054	1 401
Financial expense	(4)	(46)	(8)	(154)

	30 June 2017	31 December 2016
<b>Outstanding balance</b>		
Cash and cash equivalents	3	7 163
Trade and other receivables	44 849	47 242
Advances for acquisition of property, plant and equipment	86	92
<b>Total assets</b>	<b>44 938</b>	<b>54 497</b>
Current borrowings	(202)	(205)
Trade and other payables	(1 777)	(3 980)
<b>Total liabilities</b>	<b>(1 980)</b>	<b>(4 185)</b>

In the first half 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).

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**29.2 Transactions with key management and headquarter**

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

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Wages and salaries	(5)	-	(11)	(3)
Social taxes and contributions	(1)	-	(2)	-
Termination benefits	-	-	-	-
<b>Total</b>	<b>(6)</b>	<b>-</b>	<b>(13)</b>	<b>(3)</b>

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

Remuneration to management organization LLC “Gazprom energoholding” for the six months ended 30 June 2017 was in the amount of RR 73 million (for the six months ended 30 June 2016: RR 73 million).

**29.3 Transactions with other state-controlled entities**

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

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

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
<b>Revenue</b>	<b>18 845</b>	<b>17 655</b>	<b>45 979</b>	<b>43 207</b>
Heat	193	482	1 310	2 568
Electricity	18 583	17 099	44 527	40 496
Other revenue	70	74	142	142
<b>Expenses</b>	<b>(2 747)</b>	<b>(3 119)</b>	<b>(6 202)</b>	<b>(6 796)</b>
Purchased heat and electricity	(2 043)	(1 880)	(4 512)	(4 389)
Electricity market administration fees	(363)	(386)	(736)	(739)
Rent payments	(192)	(256)	(345)	(589)
Water usage expenses	(299)	(351)	(618)	(678)
Security services	(118)	(106)	(232)	(211)
Fuel expenses	(18)	(16)	(60)	(58)
Heat transmission	(2)	(2)	(12)	(13)
Other professional services	(35)	(73)	(65)	(104)
Other operating income (loss)	323	(49)	378	(15)
<b>Net financial expense</b>	<b>72</b>	<b>(526)</b>	<b>(489)</b>	<b>(1 059)</b>
Financial income	363	146	468	284
Financial expense	(291)	(672)	(957)	(1 343)

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	<b>30 June 2017</b>	<b>31 December 2016</b>
<b>Outstanding balance</b>		
Cash and equivalents	18 801	2 601
Investments	-	57
Trade and other receivables	17 871	11 251
Advances for acquisition of property, plant and equipment	21	7
Other non-current assets	523	523
<b>Total assets</b>	<b>37 216</b>	<b>14 439</b>
Non-current borrowings	(12 000)	(12 000)
Current borrowings	-	(19 750)
Trade and other payables	(1 706)	(1 300)
<b>Total liabilities</b>	<b>(13 706)</b>	<b>(33 050)</b>

### 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 six months ended June 30, 2017, operating lease expenses in amounts of RR 523 million were recognized in profit or loss (for the six months ended June 30, 2016, RR 401 million, respectively)

Non-cancellable operating lease rentals are payable as follows:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Less than one year	696	652
Between one and five years	2 858	2 654
More than five years	16 568	15 702
<b>Total</b>	<b>20 122</b>	<b>19 008</b>

#### 30.2 Capital commitments

As of 30 June 2017, the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RR 5 239 million (as of 31 December 2016: 4 687 million).

The amount includes Capacity Supply Contracts capital commitments for amount of RR 100 million (as of 31 December 2016: RR 43 million).

#### 30.3 Taxation environment

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

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

Management believes that as at 30 June 2017 its interpretation of the relevant legislation was appropriate and the Group's tax position would be sustained.

The transfer pricing rules that became effective from 1 January 2012 appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the

Organisation for Economic Cooperation and Development. This new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

### **30.4 Environmental liabilities**

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

### **30.5 Insurance**

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

### **30.6 Guarantees**

The Group has issued direct guarantees to third parties which require the Group to make contingent payments based on the occurrence of certain events consisting primarily of guarantees for mortgages of Group employees amounting to RR 3 million at 30 June 2017 (at 31 December 2016: RR 3 million).

### **31 Financial risk factors**

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

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

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

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

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

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

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**31.1 Market risk**

**31.1.1 Foreign exchange risk**

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

	Note	Euro	
		30 June 2017	31 December 2016
Unsecured bank loans	15	(11 386)	(11 570)
Deposits	6	-	57
Cash and cash equivalents		9	-
Trade and other payables	16	(227)	-
<b>Net liabilities</b>		<b>(11 604)</b>	<b>(11 513)</b>

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 June 2017	31 December 2016
<b>Decrease in profit</b>	<b>(2 321)</b>	<b>(2 303)</b>

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

	30 June 2017	31 December 2016
<b>Fixed rate instruments</b>		
Financial assets	74 069	88 984
Financial liabilities	(18 486)	(40 990)
<b>Total</b>	<b>55 584</b>	<b>47 994</b>
<b>Variable rate instruments</b>		
Financial liabilities	(11 386)	(11 570)
<b>Total</b>	<b>(11 386)</b>	<b>(11 570)</b>

**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 June 2017 and 31 December 2016.

	<b>30 June 2017</b>	<b>31 December 2016</b>
<b>Decrease in profit</b>	<b>(114)</b>	<b>(116)</b>

**31.2 Credit risk**

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

**Trade and other receivables**

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

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

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

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

	<b>30 June 2017</b>	<b>31 December 2016</b>
Trade and other receivables	40 067	48 230
Loans issued	11 832	11 760
<b>Total</b>	<b>51 899</b>	<b>59 990</b>

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

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

**Impairment losses**

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

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

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	<b>30 June 2017</b>		<b>31 December 2016</b>	
	<b>Carrying amount</b>	<b>Impairment</b>	<b>Carrying amount</b>	<b>Impairment</b>
Not past due	43 602	-	52 499	-
Past due 0-30 days	420	(0)	1 117	-
Past due 31-120 days	2 891	553	3 421	326
Past due 121-365 days	5 562	1 631	3 696	1 711
More than one year	12 716	11 108	11 433	10 139
<b>Total</b>	<b>65 192</b>	<b>13 292</b>	<b>72 166</b>	<b>12 176</b>

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

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

	<b>2017</b>	<b>2016</b>
<b>Balance at 1 January</b>	12 176	7 832
Impairment loss recognised during the period	1 173	242
Allowance used and written off	(57)	(30)
<b>Balance at 30 June</b>	<b>13 292</b>	<b>8 044</b>

The impairment allowance at 30 June 2017 of RR 13 292 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”.



### 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.

	<b>Carrying amount</b>	<b>Contractual cash flow</b>	<b>Less than 6 months</b>	<b>Between 6 and 12 months</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
<b>Balance at 30 June 2017</b>							
Debt finance	23 615	26 393	1 537	1 519	14 388	5 937	3 012
Trade and other payables	6 257	6 257	6 108	-	149	-	-
Other liabilities	-	-	-	-	-	-	-
<b>Total</b>	<b>29 872</b>	<b>32 650</b>	<b>7 644</b>	<b>1 519</b>	<b>14 537</b>	<b>5 937</b>	<b>3 012</b>
<b>Balance at 31 December 2016</b>							
Debt finance	43 586	47 473	21 754	1 481	14 782	5 670	3 786
Trade and other payables	8 974	8 974	8 880	-	94	-	-
Other liabilities	-	-	-	-	-	-	-
<b>Total</b>	<b>52 560</b>	<b>56 447</b>	<b>30 634</b>	<b>1 481</b>	<b>14 876</b>	<b>5 670</b>	<b>3 786</b>

### **31.4 Capital risk management**

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

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

At 30 June 2017 and 31 December 2016 the Group was in compliance with the above share capital requirements.

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

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

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

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

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

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

	<b>30 June 2017</b>	<b>31 December 2016</b>
Total debt	23 615	43 586
Less: cash and cash equivalents	(18 999)	(10 097)
Net debt	4 616	33 489
Adjusted EBITDA	8 602	4 718
<b>Net debt / Adjusted EBITDA ratio</b>	<b>0,54</b>	<b>7,10</b>

### **32 Fair value of financial instruments**

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

#### *Financial instruments in Level 1*

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

#### *Financial instruments in Level 2*

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

#### *Financial instruments in Level 3*

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

As of 30 June 2017 and 31 December 2016 the Group had the following assets and liabilities that are measured at fair value:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Balance at 30 June 2017</b>				
Available -for-sale financial assets	-	-	3 171	3 171
<b>Balance at 31 December 2016</b>				
Available -for-sale financial assets	-	-	3 171	3 171

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