

**PJSC MOSENERGO**

**IFRS CONSOLIDATED  
FINANCIAL STATEMENTS  
(UNAUDITED)**

**31 March 2018  
Moscow | 2018**

## Contents

Consolidated statement of financial position .....	3
Consolidated statement of comprehensive income .....	4
Consolidated statement of cash flows .....	5
Consolidated statement of changes in equity .....	6

### Notes to the consolidated financial statements:

1 The Group and its operations.....	7
2 Basis of preparation .....	9
3 Significant accounting policies.....	11
4 Segment information .....	22
5 Cash and cash equivalents .....	23
6 Financial assets .....	23
7 Trade and other receivables .....	24
8 Inventories .....	24
9 Other current and non-current assets .....	24
10 Assets held for sale .....	25
11 Property, plant and equipment.....	26
12 Investment property .....	28
13 Intangible assets.....	29
14 Investment in associates .....	30
15 Borrowings .....	31
16 Trade and other payables .....	32
17 Taxes receivable and payable .....	33
18 Provisions .....	33
19 Profit tax .....	33
20 Employee benefits .....	35
21 Equity .....	35
22 Revenue .....	36
23 Operating expenses.....	37
24 Charge for impairment and other provisions .....	37
25 Finance income and expense .....	38
26 Basic and diluted earnings per share, attributable to PJSC Mosenergo.....	39
27 Subsidiaries.....	39
28 Acquisition and sale of subsidiaries .....	40
29 Related parties .....	42
30 Commitments and contingencies .....	45
31 Financial risk factors .....	47
32 Fair value of financial instruments .....	53

**PJSC MOSENERGO**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF 31 MARCH 2018**  
**(in millions of Russian Rubles)**

	Notes	31 March 2018	31 December 2017
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	26 836	20 627
Trade and other receivables	7	48 723	51 630
Inventories	8	13 848	13 499
Other current assets	9	1 457	1 455
		<u>90 864</u>	<u>87 211</u>
Assets held for sale	10	43	43
<b>Total current assets</b>		<b>90 907</b>	<b>87 254</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	213 457	215 994
Investment property	12	2 322	2 359
Goodwill	13.1	187	187
Other intangible assets	13.2	302	306
Investments in associates	14	296	314
Long-term financial assets	6	3 154	3 154
Trade and other receivables	7	19 496	12 582
Advances for assets under construction		3 480	3 804
Other non-current assets	9	9 036	8 893
<b>Total non-current assets</b>		<b>251 730</b>	<b>247 593</b>
<b>Total assets</b>		<b>342 637</b>	<b>334 847</b>
<b>Equity and liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	15	6 992	14 561
Trade and other payables	16	8 676	8 674
Profit tax payable	17	637	64
Other taxes payable	17	4 591	2 775
Provisions	18	3 078	3 078
<b>Total current liabilities</b>		<b>23 974</b>	<b>29 152</b>
<b>Non-current liabilities</b>			
Long-term borrowings	15	9 278	9 027
Deferred tax liabilities	19	29 765	29 810
Employee benefits	20	359	352
Trade and other payables	16	167	154
<b>Total non-current liabilities</b>		<b>39 569</b>	<b>39 343</b>
<b>Total liabilities</b>		<b>63 543</b>	<b>68 495</b>
<b>Equity</b>			
Share capital	21	166 124	166 124
Treasury shares	21	(871)	(871)
Share premium	21	49 213	49 213
Revaluation reserve	21	106 652	107 206
Accumulated loss and other reserves		(42 024)	(55 320)
<b>Total equity</b>		<b>279 094</b>	<b>266 352</b>
<b>Total equity and liabilities</b>		<b>342 637</b>	<b>334 847</b>

A.A. Butko  
 Managing director

«11» May 2018

E.Y. Novenkova  
 Chief Accountant

«11» May 2018

The accompanying notes on the pages 7 to 53 are an integral part of these consolidated financial statements.

**PJSC MOSENERGO**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS ENDED 31 MARCH 2018**  
(in millions of Russian Rubles)

	Notes	Three months ended 31 March	
		2018	2017
Revenue	22	72 197	66 056
Operating expenses	23	(56 157)	(52 073)
Charge for impairment and other provisions, net	24	(495)	(693)
<b>Operating profit</b>		<b>15 545</b>	<b>13 290</b>
Share of loss of associates	14	(18)	33
<b>Profit before finance income (expense) and profit tax</b>		<b>15 527</b>	<b>13 323</b>
Finance income	25	1 168	1 770
Finance expense	25	(750)	(892)
<b>Profit before profit tax</b>		<b>15 945</b>	<b>14 201</b>
Profit tax expense	19	(3 203)	(2 839)
<b>Profit for the period</b>		<b>12 742</b>	<b>11 362</b>
<b>Total comprehensive income for the period</b>		<b>12 742</b>	<b>11 362</b>
<b>Profit attributable to:</b>			
Owners of PJSC Mosenergo		12 742	11 362
<b>Total comprehensive income attributable to:</b>			
Owners of PJSC Mosenergo		12 742	11 362
<b>Basic and diluted earnings per share for profit attributable to the owners of PJSC Mosenergo (in Russian Rubles)</b>	26	<b>0,32</b>	<b>0,29</b>

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«11» May 2018



E.Y. Novenkoya  
Chief Accountant  
«11» May 2018



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**PJSC MOSENERGO**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED 31 MARCH 2018**  
**(in millions of Russian Rubles)**

	Notes	Three months ended 31 March	
		2018	2017
<b>Cash flow from operating activities</b>			
<b>Profit before finance income (expense) and profit tax</b>		15 527	13 323
<b>Adjustments to profit before profit tax for:</b>			
Depreciation and amortisation	23	3 641	3 532
Share of loss of associates	14	18	(33)
Charge for impairment and other provisions, net	24	495	1 013
Loss on sale and other disposal of property, plant and equipment	23	405	273
<b>Total effect of adjustments</b>		<b>4 559</b>	<b>4 785</b>
<b>Cash flows from operations before working capital changes</b>		<b>20 086</b>	<b>18 108</b>
<b>Changes in working capital:</b>			
Change in trade and other receivables		(14 156)	(3 638)
Change in inventories		(349)	(576)
Change in other current assets		(2)	23
Change in trade and other payables		738	(2 021)
Change in other taxes payables (other than profit tax)		1 794	1 155
Change in employee benefit liabilities		7	5
<b>Total effect of working capital changes</b>		<b>(11 968)</b>	<b>(5 052)</b>
Income tax paid		(2 675)	(5 442)
Interest paid		(418)	(708)
<b>Net cash from operating activities</b>		<b>5 025</b>	<b>6 906</b>
<b>Cash flows from investing activities</b>			
Capital expenditures		(2 295)	(3 036)
Net changes in loans issued	7	10 176	(55)
Proceeds from sale of property, plant and equipment		-	1
Interest received		803	563
<b>Net cash used in investing activities</b>		<b>8 684</b>	<b>(2 527)</b>
<b>Cash flow from financing activities</b>			
Proceeds from borrowings		-	50
Repayment of borrowings		(7 500)	(58)
<b>Net cash used in financing activities</b>		<b>(7 500)</b>	<b>(8)</b>
<b>Increase in cash and cash equivalents</b>		<b>6 209</b>	<b>4 371</b>
Cash and cash equivalents at the beginning of the period	5	20 627	10 098
<b>Cash and cash equivalents at the end of the period</b>	5	<b>26 836</b>	<b>14 469</b>

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 «11» May 2018

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 «11» May 2018

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PJSC MOSENERGO  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE THREE MONTHS ENDED 31 MARCH 2018  
(in millions of Russian Rubles)

	Equity attributable to owners of the PJSC Mosenergo						
	Notes	Share capital	Treasury shares	Share premium	Revaluation reserve	Accumulated loss and other reserves	Total
Balance as of 1 January 2017		166 124	(871)	49 213	107 442	(76 475)	245 433
Profit for the period		-	-	-	-	11 362	11 362
Other comprehensive income (loss):							
Transfers from revaluation surplus on property, plant and equipment to accumulated loss and other reserves		-	-	-	(383)	383	-
<b>Total comprehensive income (loss) for the period</b>		-	-	-	(383)	11 745	11 362
Balance as of 31 March 2017		166 124	(871)	49 213	107 059	(64 730)	256 795
Balance as of 1 January 2018		166 124	(871)	49 213	107 206	(55 320)	266 352
Profit for the period		-	-	-	-	12 742	12 742
Other comprehensive income (loss):							
Transfers from revaluation surplus of property, plant and equipment to accumulated loss and other reserves		-	-	-	(554)	554	-
<b>Total comprehensive income (loss) for the period</b>		-	-	-	(554)	13 296	12 742
<b>Balance as of 31 March 2018</b>		<b>166 124</b>	<b>(871)</b>	<b>49 213</b>	<b>106 652</b>	<b>(42 024)</b>	<b>279 094</b>

A.A. Butko  
Managing director

«11» May 2018

E.Y. Novenkova  
Chief Accountant

«11» May 2018

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## **1 The Group and its operations**

### **1.1 Organisation and operations**

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

The Group’s electric and heat generation base includes 15 power plants with operational electricity and heat capacity of 12 798 MW and 42 836 Gkal/h, respectively.

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

PJSC Mosenergo registered office is located at 101/3, Prospekt Vernadskogo, Moscow, 119526, the Russian Federation.

### **1.2 Group formation**

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

The 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, the Extraordinary General Shareholder’s Meeting of RAO UES of Russia on 26 October 2007 approved the spin-off of several holding companies to which shares in electricity generation companies, including PJSC Mosenergo, held by RAO UES of Russia, were transferred. Holdings separated from RAO UES of Russia were merged with generation companies by means of shares conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in generation companies after reorganisation. Accordingly, upon spin-off from RAO UES of Russia OJSC Mosenergo Holding received the share in PJSC Mosenergo held by RAO UES of Russia. Simultaneously with the spin-off OJSC Mosenergo Holding was merged with PJSC Mosenergo and its shares were converted into the shares of PJSC Mosenergo.

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

In April 2009 PJSC Gazprom transferred its 53.49% share in PJSC Mosenergo to its 100% subsidiary LLC Gazprom energoholding which became the parent company of PJSC Mosenergo.

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

### **1.3 Business environment**

The economy of the Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation of the Russian Federation continues to develop and are a subject to varying interpretations (Note 30). During the year ended 31 December 2017 the Russian Federation economy was impacted by a fluctuation in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

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

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

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

### **1.4 Relations with the Government and influence on the Group activities**

At the date of consolidated financial statements the Russian Federation owned (both directly and indirectly) over 50% in PJSC Gazprom, which holds 53.49% of PJSC Mosenergo through its 100% subsidiary LLC Gazprom energoholding (immediate parent company). Thus PJSC Gazprom is the 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 the Department of economic policy and development of Moscow and the Committee on the prices and tariffs of the Moscow region. JSC 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 Government.

The Government's economic, social and other policies could materially affect operations of the Group.

### **1.5 Industry restructuring**

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

Starting from 2007 the volumes of electricity and capacity traded in the wholesale market applying regulated prices are to be substantially reduced pursuant to the 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) has 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



FAS. 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 Government of the Russian Federation.

## **2 Basis of preparation**

### **2.1 Statement of compliance**

These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (“IFRS”).

### **2.2 Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis except for property, plant and equipment revalued periodically; investment property and available-for-sale financial assets are measured at fair value; and the carrying amounts of equity items in existence at 31 December 2002 included 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. The economy of the Russian Federation ceased to be hyperinflationary for purposes of preparing the consolidated financial statements at 1 January 2003.

The methods used to measure fair values are described below (Note 2.4).

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

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

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

In the preparation of the consolidated financial statements the management applied a number of judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, recognised in the consolidated financial statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed by the management on an ongoing basis. Changes in accounting estimates are recognised in the period in which the estimates were revised and in each subsequent period such changes have an impact on the consolidated financial statements.

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

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

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

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
**(in millions of Russian Rubles)**

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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 or indirectly;

Level 3 – unobservable inputs for the asset or liability.

If the inputs used to measure the fair value 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.

Information about the assumptions made in measuring fair values is disclosed in the following Notes:

- Note 10 – Assets classified as held for sale;
- Note 11 – Property, plant and equipment;
- Note 12 – Investment property;
- Note 32 – Fair value 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. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases.

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

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

##### **3.1.2 Acquisition of subsidiaries under common control**

Acquisition 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 consolidated financial statements incorporate the acquired entity's results from the acquisition date. The corresponding figures of the previous period are not restated. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's 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 the consolidated financial statements as an adjustment within equity.

##### **3.1.3 Associates**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method and are recognised initially at cost. The Group's investment in associates 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 period as share of income (loss) 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 income (loss) of associates. When the Group's share of losses of associates 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 associates 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 the Group 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 exchange gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. 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 instruments.

### **3.3 Financial instruments**

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 of the Group 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 highly liquid short-term financial assets and have an original maturity of three months or less.

**Loans and receivables** consist of financial assets with fixed or exactly determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognised within the profit and loss section of the consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortization process.

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

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

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

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

### **3.4 Share capital**

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

Evaluation of own repurchased shares made in accordance with 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 consolidated statement of financial position in the line "treasury shares" in the amount of the consideration paid, including the costs directly related to this transaction.

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

### **3.5 Property, plant and equipment**

#### **3.5.1 Recognition and measurement**

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

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the reporting 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 "Charge for impairment and other provisions, net", 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 revalued 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, staff costs and any other expenses 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 funding cost of PJSC Mosenergo (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 the line “other operating expenses (income)” in profit or loss. Increase in the carrying amount as a result of revaluation is transferred from the revaluation surplus to retained earnings when the assets are disposed.

### **3.5.2 Reclassification to investment property**

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

### **3.5.3 Subsequent costs**

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

### **3.5.4 Depreciation**

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each 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 as of 31 December 2013 useful lives of certain classes of property, plant and equipment were revised and were as follows:

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

### **3.6 Intangible assets**

#### **3.6.1 Goodwill**

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

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

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

#### **3.6.2 Other intangible assets**

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

#### **3.6.3 Subsequent expenditures**

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

#### **3.6.4 Amortisation**

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

### **3.7 Investment property**

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

### **3.8 Leased assets**

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

### **3.9 Inventories**

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

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

### **3.10 Impairment**

#### **3.10.1 Financial assets**

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

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

Each significant financial asset is tested for impairment on an individual basis. The remaining financial assets are tested for impairment collectively as a part of a group of assets with similar credit risk characteristics.

All impairment losses are recognised in profit or loss for the period. 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 reporting period 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 expenses in the statement of comprehensive income for the period. Impairment loss on equity instruments is 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 previously recognised impairment loss is reversed through profit or loss of the current period.



### **3.10.2 Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("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 (groups of units) on a pro rata basis.

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

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. 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 of assets is allocated to remaining assets and liabilities on a 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 losses are 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. Revaluation gains can not exceed accumulated impairment loss.

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

## **3.11 Employee benefits**

### **3.11.1 Defined contribution pension plans**

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

### **3.11.2 Defined benefit plans**

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

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

The net 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 in other comprehensive income in the period in which they arise.

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

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

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

### **3.11.4 Termination benefits**

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

### **3.11.5 Short-term benefits**

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

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

## **3.12 Provisions**

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

## **3.13 Segment reporting**

Operating segments are reported in the consolidated financial statements 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.

### **3.14 Revenues**

#### **3.14.1 Sales of goods**

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

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

#### **3.14.2 Services**

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

#### **3.14.3 Rental income**

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

### **3.15 Government subsidies**

Government subsidies are assistance by the 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 the Group will comply with the conditions associated with the subsidy. Subsidies that compensate the Group for expenses incurred are recognised in consolidated statement of comprehensive income 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 in 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 in other operating income.

### **3.16 Lease payments**

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

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

### **3.17 Finance income and expense**

Finance 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.

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

Foreign currency gains and losses are reported in the consolidated statement of comprehensive income on net basis.

### **3.18 Income tax expense**

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

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

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 profit or loss, and differences relating to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

### **3.19 Uncertain tax positions**

The Group's uncertain tax positions are reassessed by the Management of the Group at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by the 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 the Management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

### **3.20 Earnings per share**

The Group presents basic and diluted earnings (loss) per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit (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 (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 in the Group as of 31 March 2018 and 31 December 2017.

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

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

Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning after 1 January 2019 and that have not yet been adopted by the Group.

***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. The Group is currently assessing the impact of the adoption of the standard on the consolidated financial statements.

***IFRIC 23 Uncertainty over Income Tax Treatments*** (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.

***The amendments to IAS 28 Investments in Associates and Joint Ventures*** (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify that long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments.

The Group is currently assessing the impact of the amendments on its financial position and results of operations.

#### 4 Segment information

The Board of Directors and Managing Director is the Chief operating decision-maker. The decision-maker reviews the Group's internal management report in order to assess performance of the Group and allocate resources.

The operating segments are aggregated into two primary reportable segments - electric and heat energy, that generate revenue from manufacturing and sale of electric and heat energy respectively. The other segments consist of services and products sold by the Group such as rental services, feed water sales and maintenance services. All reportable segments are located in the Russian Federation.

The segment information is prepared 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 (such as financial income and expense, share of income (loss) of associates, income tax) that can not be directly allocated to identifiable reportable segments as these are managed on an overall group basis.

Considering that the management responsible for decision-making does not review assets and liabilities by each reportable segment not least because of the lack of technical capabilities to present such information, the Group does not disclose assets and liabilities by segments.

##### 4.1 Financial results of segments

The segment information for the three months ended 31 March 2018 and March 2017 is as follows:

	Notes	Electric energy	Heat energy	All other segments	Total	Intra-group transactions	Total
<b>Three months ended 31 March 2018</b>							
<b>Segment revenue</b>	22	<b>35 622</b>	<b>35 963</b>	<b>749</b>	<b>72 334</b>	<b>(137)</b>	<b>72 197</b>
Revenue from external customers		35 622	35 953	622	72 197	-	72 197
Intra-group revenue		-	10	127	137	(137)	-
<b>Segment result</b>		<b>12 532</b>	<b>3 028</b>	<b>(175)</b>	<b>15 385</b>	<b>-</b>	<b>15 385</b>
Depreciation and amortisation	23	(1 370)	(1 947)	(324)	(3 641)	-	(3 641)
Allowance for impairment of receivables	24	(622)	137	(14)	(499)	-	(499)
<b>Three months ended 31 March 2017</b>							
<b>Segment revenue</b>	22	<b>33 873</b>	<b>31 502</b>	<b>771</b>	<b>66 146</b>	<b>(90)</b>	<b>66 056</b>
Revenue from external customers		33 873	31 495	689	66 056	-	66 056
Intra-group revenue		-	8	82	90	(90)	-
<b>Segment result</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	(1 362)	(1 825)	(345)	(3 532)	-	(3 532)
Allowance for impairment of receivables	24	(332)	(206)	(156)	(694)	-	(694)

Reconciliation of the segment result to consolidated profit (loss) before income tax in the consolidated statement of comprehensive income for the three months ended 31 March 2018 and March 2017 is provided as follows:

	Notes	Three months ended 31 March	
		2018	2017
Segment result for reportable segments		15 560	13 739
Other segments' loss		(175)	(329)
<b>Segment profit</b>		<b>15 385</b>	<b>13 411</b>
Net financial income	25	419	878
Share of loss of associates	14	(18)	33
Other items		159	(121)
<b>Profit before profit tax</b>		<b>15 945</b>	<b>14 201</b>

#### **4.2 Core customers**

The revenue presented within the heat energy segment includes the customer with the revenue exceeding 10% of the Group`s revenue and amounting to RUB 33 503 million for the three months ended 31 March 2018 (for the three months ended 31 March 2017: the revenue of the same customer exceeded 10% of the Group`s revenue and amounted to RUB 27 185 million).

The revenue presented within the electric energy segment includes two customers with the total revenue exceeding 10% of the Group`s revenue and amounting to RUB 23 083 million for the three months ended 31 March 2018 (for the three months ended 31 March 2017: the total revenue of the same two customers exceeded 10% of the Group`s revenue and amounted to RUB 23 602 million).

#### **5 Cash and cash equivalents**

	<b>31 March 2018</b>	<b>31 December 2017</b>
Cash on hand and bank balances payable on demand	195	391
Deposits with original maturity of three months or less	26 641	20 236
<b>Total cash and cash equivalents</b>	<b>26 836</b>	<b>20 627</b>

#### **6 Financial assets**

	<b>31 March 2018</b>	<b>31 December 2017</b>
<b>Available-for-sale financial assets</b>		
Equity securities	3 154	3 154
<b>Total long-term financial assets</b>	<b>3 154</b>	<b>3 154</b>

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

Available-for-sale financial assets include investment in LLC GAZEKS-Management in the amount of RUB 3 149 million as of 31 March 2018 that was received in settlement for accounts receivable in October 2013 (as of 31 December 2017: RUB 3 149 million).

The management assessed the level of the Group`s influence on LLC GAZEKS-Management, and concluded that despite holding 33.3% of shares the Group has no significant influence due to the following factors:

- The Group does not have any representative in the LLC GAZEKS-Management Board of Directors and does not have a right to appoint them;
- The Group does not participate in LLC GAZEKS-Management policy-making decisions including participate in managerial decisions;
- The Group does not enter into significant transactions with LLC GAZEKS-Management, there is no interchange of managing personnel between the PJSC Mosenergo and LLC GAZEKS-Management and there is no sharing of technical information between the companies.

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

**7 Trade and other receivables**

	<b>31 March 2018</b>	<b>31 December 2017</b>
<b>Current assets</b>		
Trade receivables	55 885	41 413
Loans issued	1 182	11 358
Advances to suppliers and prepaid expenses	1 790	2 324
VAT recoverable	79	61
Tax prepayments other than income tax	186	164
Accounts receivable on investments	1 365	6 965
Accounts receivable on disposal of property, plant and equipment	2 315	2 078
Other receivables	1 545	2 411
<b>Total</b>	<b>64 347</b>	<b>66 774</b>
Allowance for impairment of receivables	(15 624)	(15 144)
<b>Total</b>	<b>48 723</b>	<b>51 630</b>
<b>Non-current assets</b>		
Loans issued	10 494	10 494
Advances to suppliers and prepaid expenses	138	139
Accounts receivable from sale of property, plant and equipment	1 738	1 781
Accounts receivable on investments	5 600	-
Other receivables	1 526	168
<b>Total</b>	<b>19 496</b>	<b>12 582</b>

Allowance for impairment of receivables includes provision for trade receivables impairment (as of 31 March 2018: RUB 14 453 million, as of 31 December 2017: RUB 13 936 million), allowance for other receivables impairment (as of 31 March 2018: RUB 293 million; as of 31 December 2017: RUB 330 million) and allowance for advances (as of 31 March 2018: RUB 878 million; as of 31 December 2017: RUB 878 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>31 March 2018</b>	<b>31 December 2017</b>
Materials and supplies	14 284	13 995
Other inventories	119	59
	<b>14 403</b>	<b>14 054</b>
Allowance for inventory obsolescence	(555)	(555)
<b>Total</b>	<b>13 848</b>	<b>13 499</b>

The Group does not have pledged inventories.

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

	<b>31 March 2018</b>	<b>31 December 2017</b>
<b>Other current assets</b>		
Service contracts and other assets	824	822
Grid connection	633	633
<b>Total</b>	<b>1 457</b>	<b>1 455</b>
<b>Other non-current assets</b>		
Grid connection	7 121	7 276
Service contracts and other assets	1 915	1 617
<b>Total</b>	<b>9 036</b>	<b>8 893</b>



**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

**10 Assets held for sale**

<b>Balance as of 1 January</b>	<b>43</b>	<b>459</b>
Transfer to (from) assets classified as held for sale	-	(123)
Sale	-	(4)
Other disposals	-	(256)
<b>Balance as of 31 March</b>	<b>43</b>	<b>76</b>

As of 31 March 2018 and as of 31 December 2017 the Group was in the process of disposing of non-core assets, comprising property, plant and equipment and investment property classified as held for sale.

The Group expects to sale these items during 2018.

The fair value measurement for assets held for sale is categorised as a Level 3 fair value (Note 2).

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

Valuation method	Observable indicators
Cost approach	Replacement cost and index method
Income approach	Forecast profit and loss, and cash flows

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

**11 Property, plant and equipment**

	<b>Buildings and construc- tions</b>	<b>Machinery and equipment</b>	<b>Transmis- sion networks</b>	<b>Other</b>	<b>Construc- tion in progress</b>	<b>Total</b>
<b>Revalued amount</b>						
<b>Balance as of 1 January 2017</b>	<b>123 548</b>	<b>129 718</b>	<b>1 234</b>	<b>16 823</b>	<b>27 853</b>	<b>299 176</b>
Reclassification	(3)	(45)	(5)	53	-	-
Additions	-	-	2	-	1 262	1 264
Disposals and other	143	86	(100)	287	-	416
Transfers	632	855	49	305	(1 841)	-
Acquisition of subsidiaries	479	-	-	-	-	479
<b>Balance as of 31 March 2017</b>	<b>124 799</b>	<b>130 614</b>	<b>1 180</b>	<b>17 468</b>	<b>27 274</b>	<b>301 335</b>
<b>Balance as of 1 January 2018</b>	<b>126 485</b>	<b>138 621</b>	<b>4 986</b>	<b>21 531</b>	<b>15 850</b>	<b>307 473</b>
Additions	147	6	-	120	1 179	1 452
Disposals and other	(50)	(506)	(7)	(22)	(10)	(595)
Transfers	88	472	-	785	(1 345)	-
Transfer from (to) other accounts	38	-	-	-	-	38
<b>Balance as of 31 March 2018</b>	<b>126 708</b>	<b>138 593</b>	<b>4 979</b>	<b>22 414</b>	<b>15 674</b>	<b>308 368</b>
<b>Depreciation and impairment</b>						
<b>Balance as of 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>
Depreciation charge	(1 207)	(1 906)	(15)	(357)	-	(3 485)
Transfers	(16)	(48)	19	(70)	-	(115)
Charge for impairment allowance	(127)	(55)	(6)	(38)	226	-
Acquisition of subsidiaries	(5)	-	-	-	-	(5)
<b>Balance as of 31 March 2017</b>	<b>(28 557)</b>	<b>(40 904)</b>	<b>(324)</b>	<b>(6 890)</b>	<b>(3 447)</b>	<b>(80 122)</b>
<b>Balance as of 1 January 2017</b>	<b>(32 339)</b>	<b>(47 975)</b>	<b>(1 044)</b>	<b>(8 873)</b>	<b>(1 248)</b>	<b>(91 479)</b>
Depreciation charge	(1 202)	(1 894)	(91)	(398)	-	(3 585)
Transfers	(4)	(1)	-	(14)	20	-
Disposals and other	20	123	3	8	-	155
Transfer from (to) other accounts	(1)	-	-	-	-	(1)
<b>Balance as of 31 March 2018</b>	<b>(33 526)</b>	<b>(49 747)</b>	<b>(1 132)</b>	<b>(9 278)</b>	<b>(1 228)</b>	<b>(94 911)</b>
<b>Net book value</b>						
Balance as of 1 January 2017	<b>96 346</b>	<b>90 823</b>	<b>912</b>	<b>10 398</b>	<b>24 180</b>	<b>222 659</b>
Balance as of 31 March 2017	<b>96 242</b>	<b>89 710</b>	<b>856</b>	<b>10 578</b>	<b>23 827</b>	<b>221 213</b>
Balance as of 1 January 2018	<b>94 146</b>	<b>90 646</b>	<b>3 942</b>	<b>12 658</b>	<b>14 602</b>	<b>215 994</b>
Balance as of 31 March 2018	<b>93 181</b>	<b>88 846</b>	<b>3 848</b>	<b>13 137</b>	<b>14 445</b>	<b>213 457</b>
<b>Net book value of property, plant and equipment had no revaluation taken place</b>						
Balance as of 1 January 2018	<b>52 685</b>	<b>66 322</b>	<b>3 625</b>	<b>10 928</b>	<b>13 773</b>	<b>147 333</b>
Balance as of 31 March 2018	<b>52 172</b>	<b>64 632</b>	<b>3 541</b>	<b>11 404</b>	<b>13 626</b>	<b>145 375</b>

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

There were no properties pledged as security for the Group's bank borrowings as of 31 March 2018 and of 31 March 2017.

### **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 consolidated 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 as of 31 December 2013. The fair value of property, plant and equipment was determined to be RUB 273 766 million.

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

Net increase in the carrying value of property, plant and equipment amounted to RUB 57 562 million consisting of increase in the amount of RUB 67 597 million related to revaluation recognised within the equity and decrease of RUB 10 035 million related to impairment charge out of which RUB 9 133 million were recognised within the equity and RUB 902 million were recognised in the profit or loss.

No revaluations were performed as of 31 March 2018 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 of property, plant and equipment was categorised as a Level 3 of fair value (Note 2).

### **11.2 Impairment**

As of December 31, 2017, the Group performed a test for impairment of property, plant and equipment at the cash-generating unit level of individual stations. The recoverable amount of each cash-generating unit was determined on the basis of the value in use indicator. The value of use in use was determined by discounting future cash flows that would result from the continued use of the unit. In determining the recoverable amount of future cash flows, the following key assumptions were used:

- These calculations used cash flow projections based on the organization's budgets for a three-year period. Cash flows beyond the three-year period have been extrapolated to account for projected growth rates. The growth rate does not exceed the long-term average growth rates projected for the energy sector.
- The forecast of gas prices was based on the approved tariffs by the Federal Tariff Service and the growth rate forecasted by the parent company Gazpromenergoholding. Power generation of PJSC Mosenergo is carried out at generating facilities, the main type of fuel is gas, in connection with which the increase in gas prices affects the growth of electricity prices.
- The forecast of generation volumes was based on forecast calculations in industry reports.
- A post-tax discount rate of 10.66% was applied for the purpose of determining the value of use. The discount rate was calculated on the basis of the industry average weighted average cost of capital.

As of 31 December 2017 and 31 March 2018, there was no impairment of property, plant and equipment.

### **11.3 Leased assets**

The Group leases operating buildings 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 (Note 15). As of 31 March 2018 the net carrying amount of leased buildings and equipment was RUB 53 million (as of 31 March 2017: RUB 59 million).

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

**12 Investment property**

	<b>2018</b>	<b>2017</b>
<b>Balance as of 1 January</b>	<b>2 359</b>	<b>3 180</b>
Transfer to (from) property, plant and equipment	(36)	(233)
Disposals	(1)	(3)
<b>Balance as of 31 March</b>	<b>2 321</b>	<b>2 944</b>

The fair value of investment property as of 31 March 2018 amounted to RUB 2 359 million (as of 31 March 2017: RUB 2 944 million). The calculation of the fair value was based on the trends in the commercial real estate market in 2018.

The fair value measurement for investment property was categorised as a Level 3 fair value (Note 2).

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

Method of evaluation	Observable indicators
Income approach	The forecast of income and expenses and cash flows
Market approach	Market prices for identical assets

Rental income for the three months ended 31 March 2018 amounted to RUB 97 million (for the three months ended 31 March 2017 amounted to RUB 291 million), was recognised in other revenue 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>2018</b>	<b>2017</b>
<b>As of 31 March</b>		
Less than one year	17	578
Later than one year but not later than 5 years	14	-
Later than 5 years	374	-
<b>Total</b>	<b>405</b>	<b>578</b>

### 13 Intangible assets

#### 13.1 Goodwill

Goodwill arised on the acquisition of LLC Mosenergoproject (Note 28).

	<b>2018</b>	<b>2017</b>
<b>Balance as of 1 January</b>	<b>187</b>	-
Acquisition of Mosenergoproject LLC	-	187
<b>Balance as of 31 March (31 December)</b>	<b>187</b>	<b>187</b>

#### *Impairment testing of goodwill of Mosenergoproject LLC*

The recoverable amount of Mosenergoproject LLC was calculated on the basis of the value in use. The value in use was determined by discounting future cash flows that would result from the continued use of the organization. In determining the recoverable amount of future cash flows for the company, the following key assumptions were used:

- Cash flows were determined on the basis of actual operating results for the reporting year by applying consumer price indices.
- To determine cash flows beyond the forecasting period, the Gordon model was used, applying the growth rate of 3,7%, equal to the long-term forecast of the inflation rate.
- A post-tax discount rate of 18,7% was applied for the purpose of determining the value in use. The discount rate was calculated on the basis of the industry average weighted average cost of capital.

As of 31 March 2018 no impairment of goodwill from the acquisition of Mosenergoproject LLC was detected.

#### 13.2 Other intangible assets

	<b>Software</b>	<b>Other intan- gible assets</b>	<b>Total</b>
<b>Cost</b>			
<b>Balance as of 1 January 2017</b>	-	-	-
Реклассификация	807	3	810
Additions	16	-	16
<b>Balance as of 31 March 2017</b>	<b>823</b>	<b>3</b>	<b>826</b>
<b>Balance as of 1 January 2018</b>	<b>973</b>	<b>66</b>	<b>1 039</b>
Additions	52	-	52
<b>Balance as of 31 March 2018</b>	<b>1 025</b>	<b>66</b>	<b>1 091</b>
<b>Amortisation</b>			
<b>Balance as of 1 January 2017</b>	-	-	-
Реклассификация	(535)	(2)	(537)
Amortisation charge	(47)	-	(47)
<b>Balance as of 31 March 2017</b>	<b>(582)</b>	<b>(2)</b>	<b>(584)</b>
<b>Balance as of 1 January 2018</b>	<b>(731)</b>	<b>(2)</b>	<b>(733)</b>
Amortisation charge	(52)	(3)	(55)
<b>Balance as of 31 March 2018</b>	<b>(783)</b>	<b>(6)</b>	<b>(789)</b>
<b>Net book value</b>			
Balance as of 1 January 2017	-	-	-
Balance as of 31 March 2017	<b>241</b>	<b>1</b>	<b>242</b>
Balance as of 1 January 2018	<b>242</b>	<b>64</b>	<b>306</b>
Balance as of 31 March 2018	<b>242</b>	<b>61</b>	<b>302</b>

The carrying amount of other intangible assets as of 31 December 2016 is included in other non-current assets.

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

**14 Investment in associates**

	<u>2018</u>	<u>2017</u>
<b>Balance as of 1 January</b>	<b>314</b>	<b>669</b>
Share of loss of associates	(18)	33
<b>Balance as of 31 March</b>	<b>296</b>	<b>702</b>

The Group`s investments in associates are as follows:

	<b>LLC TSK Mosenergo</b>	
	<u>2018</u>	<u>2017</u>
Ownership interest	22,51%	22,51%
<b>Balance as of 31 March (December)</b>		
Current assets	10 044	8 352
Non-current assets	8 227	8 282
Current liabilities	13 475	11 859
Non-current liabilities	1 151	1 079
<b>For three months ended 31 March (31 March)</b>		
Revenue	5 028	3 652
Loss for the period	(81)	147
Total comprehensive loss for the period	(81)	147

The table below summarises information about country of incorporation and place of business and nature of business of the Group`s investments in associates:

Name of organisation	Country of incorporation	Nature of business
TSK Mosenergo LLC	Russia	Production, transmission and distribution of heat and hot water (heat energy)

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

## 15 Borrowings

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

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Short-term borrowings</b>		
Bank borrowings	13 899	21 453
Finance lease liability	1	-
Interest payable	277	-
Other debt financing	384	-
<b>Total short-term borrowings</b>	<b>14 561</b>	<b>21 453</b>
<b>Long - term borrowings</b>		
Bank borrowings	8 830	21 549
Finance lease liability	197	-
<b>Total long-term borrowings</b>	<b>9 027</b>	<b>21 549</b>
<b>Total borrowings</b>	<b>23 588</b>	<b>43 002</b>

The terms and conditions of outstanding liabilities at the reporting date are as follows:

	Cur- rency	Nominal interest rate	Year of matu- rity	31 March 2018		31 December 2017	
				Face value	Carrying amount	Face value	Carrying amount
<b>Unsecured bank financing</b>							
Credit Agricole Bank CIB	EUR	EURIBOR 6M+1,95%	2024	5 677	5 541	5 541	5 395
BNP Paribas S.A.	EUR	EURIBOR 6M+2,00%	2022	5 674	5 485	5 538	5 334
				<b>11 351</b>	<b>11 026</b>	<b>11 079</b>	<b>10 729</b>
PJSC Sberbank	RUB	8,14%	2018	-	-	3 750	3 750
PJSC VTB Bank	RUB	8,14%	2018	4 500	4 500	8 250	8 250
				<b>4 500</b>	<b>4 500</b>	<b>12 000</b>	<b>12 000</b>
<b>Total unsecured bank financing</b>				<b>15 851</b>	<b>15 526</b>	<b>23 079</b>	<b>22 729</b>
<b>Other financing</b>							
LLC TER	RUB	6,98%-12%	2018	271	271	271	271
JSC Gazprom energoremont	RUB	14,00%	2018	103	103	103	103
PJSC TGC-1	RUB	5,82%	2018	10	10	10	10
<b>Total other financing</b>				<b>384</b>	<b>384</b>	<b>384</b>	<b>384</b>
<b>Interest payable</b>				<b>157</b>	<b>157</b>	<b>277</b>	<b>277</b>
<b>Finance lease liability</b>		8,14%	2048	<b>203</b>	<b>203</b>	<b>198</b>	<b>198</b>
<b>Total</b>				<b>16 595</b>	<b>16 270</b>	<b>23 938</b>	<b>23 588</b>

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

The lease payments are due as follows:

	<b>Less than one year</b>	<b>Between one and five years</b>	<b>More than five years</b>	<b>Total</b>
<b>31 March 2018</b>				
Future minimum lease payments	23	72	456	<b>551</b>
Interests	(16)	(64)	(267)	<b>(348)</b>
<b>Present value of minimum lease payments</b>	<b>7</b>	<b>7</b>	<b>189</b>	<b>203</b>
<b>31 December 2017</b>				
Future minimum lease payments	18	72	460	<b>550</b>
Interests	(16)	(65)	(271)	<b>(352)</b>
<b>Present value of minimum lease payments</b>	<b>1</b>	<b>7</b>	<b>190</b>	<b>198</b>

Finance lease liability as of 31 December 2017 is presented in the line «Trade and other payables» of the consolidated statement of financial position.

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	<b>Borrowings</b>	<b>Dividends payable</b>	<b>Total</b>
<b>As of 31 December 2017</b>	<b>23 588</b>	<b>13</b>	<b>23 601</b>
<b>Cash-flows changes</b>			
Repayment of borrowings	(7 500)	-	(7 500)
<b>Net cash flows from financing activity</b>	<b>(7 500)</b>	<b>-</b>	<b>(7 500)</b>
Interest paid	(418)	-	(418)
<b>Total cash-flows changes</b>	<b>(7 918)</b>	<b>-</b>	<b>(7 918)</b>
<b>Foreing exchange result</b>	<b>299</b>	<b>-</b>	<b>299</b>
<b>Interest accrued</b>	<b>301</b>	<b>-</b>	<b>301</b>
<b>As of 31 March 2018</b>	<b>16 270</b>	<b>13</b>	<b>16 283</b>

## 16 Trade and other payables

	<b>31 March 2018</b>	<b>31 December 2017</b>
<b>Current liabilities</b>		
Trade payables	4 633	4 594
Advances received	836	911
Accounts payable for acquisition of property, plant and equipment	1 257	1 669
Other payables	1 950	1 500
<b>Total</b>	<b>8 676</b>	<b>8 674</b>
<b>Non-current liabilities</b>		
Advances received	1	1
Accounts payable for acquisition of property, plant and equipment	166	153
<b>Total</b>	<b>167</b>	<b>154</b>

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



**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

**17 Taxes receivable and payable**

	<b>31 March 2018</b>	<b>31 December 2017</b>
<b>Income tax receivable</b>	-	-
<b>Income tax payable</b>	<b>637</b>	<b>64</b>
<b>Other taxes payable</b>		
VAT payable	3 749	2 087
Property tax payable	596	540
Social contributions payable	175	144
Other taxes payable	71	4
<b>Total other taxes payable</b>	<b>4 591</b>	<b>2 775</b>
<b>Total taxes payable (net)</b>	<b>5 228</b>	<b>2 839</b>

**18 Provisions**

	<b>Provision for income tax</b>	<b>Provision for other taxes</b>	<b>Provisions for litigations and claims</b>	<b>Total</b>
<b>Balance as of 1 January 2017</b>	<b>1 407</b>	<b>1 376</b>	<b>9</b>	<b>2 792</b>
Provisions made during the period	-	288	6	294
Provision released during the period	-	-	(8)	(8)
<b>Balance as of 31 December 2017</b>	<b>1 407</b>	<b>1 664</b>	<b>7</b>	<b>3 078</b>
<b>Balance as of 1 January 2018</b>	<b>1 407</b>	<b>1 664</b>	<b>7</b>	<b>3 078</b>
Provisions made during the period	-	(0)	-	(0)
<b>Balance as of 31 March 2018</b>	<b>1 407</b>	<b>1 663</b>	<b>7</b>	<b>3 078</b>

**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:

	<b>Three months ended 31 March</b>	
	<b>2018</b>	<b>2017</b>
Profit before profit tax	15 945	14 201
Theoretical tax expense calculated at applicable tax rates	(3 189)	(2 840)
Other non-taxable expenses	(14)	1
<b>Profit tax expense</b>	<b>(3 203)</b>	<b>(2 839)</b>

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

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

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

Tax effects of taxable and deductible temporary differences for the three months ended 31 March 2018 and 31 March 2017 are as follows:

	<b>Opening balance</b>	<b>Recog- nised in P/L<sup>1)</sup></b>	<b>Acquisi- tion of subsi- diaries</b>	<b>Closing balance</b>
<b>Year ended 31 December 2017</b>				
Property, plant and equipment	(28 070)	(86)	-	(28 156)
Investment property	(257)	(1)	-	(258)
Trade and other receivables	(401)	156	-	(245)
Assets held for sale	43	(5)	-	38
Trade and other payables	119	(2)	-	117
Employee benefit liabilities	70	2	-	72
Tax losses carried forward	135	2	-	137
Provisions	631	-	-	631
Borrowings	(30)	5	-	(25)
Other assets	(2 050)	(26)	-	(2 076)
<b>Total</b>	<b>(29 810)</b>	<b>45</b>	<b>-</b>	<b>(29 765)</b>
<b>Year ended 31 December 2016</b>				
Property, plant and equipment	(29 340)	34	-	(29 306)
Investment property	71	(12)	-	59
Investments in associates	141	-	-	141
Trade and other receivables	2 224	(1 137)	-	1 087
Assets held for sale	(13)	55	-	42
Trade and other payables	118	(83)	-	35
Employee benefit liabilities	74	1	-	75
Tax losses carried forward	30	14	19	63
Provisions	598	-	-	598
Borrowings	(90)	3	-	(87)
Other assets	(1 849)	44	-	(1 805)
<b>Total</b>	<b>(28 036)</b>	<b>(1 081)</b>	<b>19</b>	<b>(29 098)</b>

<sup>1)</sup>P/L – profit or loss.

## 20 Employee benefits

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

The post-employment benefit plan is 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 became effective from 1 January 2016. The agreement does not provide for any significant changes in comparison with the previous agreement.

	<b>Post employ- ment benefits</b>	<b>Other long-term benefits</b>	<b>Total</b>
<b>Three months ended 31 March 2018</b>			
<b>Balance as of 1 January</b>	<b>264</b>	<b>88</b>	<b>352</b>
Current service cost	2	2	4
Net interest expense	5	2	7
<b>Total included in operating and finance expenses</b>	<b>7</b>	<b>4</b>	<b>11</b>
<b>Total recognised in other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>
Benefits paid	(4)	-	(4)
<b>As of 31 March</b>	<b>267</b>	<b>92</b>	<b>359</b>
<b>Three months ended 31 March 2017</b>			
<b>Balance as of 1 January</b>	<b>278</b>	<b>90</b>	<b>368</b>
Current service cost	2	1	3
Net interest expense	6	2	8
<b>Total included in operational and financial expenses</b>	<b>8</b>	<b>3</b>	<b>11</b>
<b>Total recognised in other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>
Benefits paid	(6)	-	(6)
<b>As of 31 March</b>	<b>280</b>	<b>93</b>	<b>373</b>

	<b>31 March 2018</b>	<b>31 December 2017</b>
<b>Financial assumptions</b>		
Discount rate	7,5%	7,5%
Inflation rate	4,0%	4,0%
Salaries increase	6,0%	6,0%
Duration of liabilities, years	5,4	5,4
<b>Demographic assumptions</b>		
Withdrawal rates for employees with 1 year of past service	21,0%	21,0%
Withdrawal rates for employees who have 20 or more years of service	5,0%	5,0%
Retirement ages for men	62	62
Retirement ages for women	59	59

## 21 Equity

### 21.1 Share capital and share premium

As of 31 March 2018 and 31 December 2016 the declared share capital comprised 39 749 359 700 ordinary shares of RUB 1.00 par value each. All issued ordinary shares are fully paid.

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

The share capital includes the translation of the consolidated financial statements to bring it equal to the purchasing power of the Russian Ruble as of 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 Shareholders 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 RUB 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 RUB 7 million.

## 21.2 Treasury shares

Treasury shares as of 31 March 2018 and as of 31 December 2017 amounted to RUB 871 million. No decisions regarding further operations with treasury shares were made by the PJSC Mosenergo's management.

## 21.3 Dividends

On 31 May 2017 the Annual General Shareholders' Meeting of the PJSC Mosenergo made the decision to pay dividends for the results of Group's activity for 2016. The amount of declared dividends on the issuer shares was RUB 0.08482 per share, total amount of dividends is RUB 3 360 million.

The decision related to dividends for fiscal year 2017 is scheduled at the general shareholders's meeting in 31 May 2018.

## 21.4 Revaluation reserve

As of 31 March 2018 in the line "Revaluation reserve" there were disclosed revaluation reserve for property, plant and equipment in the amount of RUB 106 652 million (as of 31 December 2017:107 206 million). In 2017 the reserve deficit for remeasurement of post-employment benefit obligations was transferred to accumulated loss.

## 22 Revenue

	<b>Three months ended 31 March</b>	
	<b>2018</b>	<b>2017</b>
Electricity	35 622	33 873
Heat	35 953	31 495
Other revenue	622	688
<b>Total</b>	<b>72 197</b>	<b>66 056</b>

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

For the three months ended 31 March 2018 and 31 March 2017 approximately 2% of sales of electricity relates to resale of purchased electricity on the wholesale market OREM.

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

**23 Operating expenses**

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2018</b>	<b>2017</b>
<b>Materials</b>		
Fuel	42 890	38 005
Purchased electricity and capacity	3 122	2 775
Other materials	491	582
	<b>46 503</b>	<b>41 362</b>
<b>External services and works</b>		
Heat transmission	405	1 206
Electricity market administration fees	371	374
Rent	267	240
Security and fire safety	228	234
Grid connection	158	158
Legal, consulting and data processing services	26	58
Transportation services	84	123
Cleaning services	81	85
Agency fee	40	43
Insurance expenses, excluding medical insurance	51	52
Communication services	23	21
Other external services and works	210	208
	<b>1 944</b>	<b>2 802</b>
<b>Depreciation and amortisation</b>	3 641	3 532
<b>Staff costs</b>	2 853	2 800
<b>Maintenance and repairs expenses</b>	1 004	790
<b>Taxes other than profit tax</b>	380	600
<b>Other expenses on ordinary activities</b>	(13)	(1)
<b>Total of production, administration and selling expenses</b>	<b>56 312</b>	<b>51 885</b>
<b>Other operating expenses (income)</b>		
Loss on disposal of property, plant and equipment	406	297
Income (expense) on fines and penalties on business contracts	(574)	(70)
Other operating income	13	(39)
<b>Total other operating expenses</b>	<b>(155)</b>	<b>188</b>
<b>Total operating expenses</b>	<b>56 157</b>	<b>52 073</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.

For the three months ended 31 March 2018 the average number of employees of the Group was 8 348 (for the three months ended 31 March 2017: 8 479).

**24 Charge for impairment and other provisions**

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2018</b>	<b>2017</b>
<b>Impairment of assets</b>		
Charge for allowance for accounts receivable	(499)	(694)
	<b>(499)</b>	<b>(694)</b>
<b>Provisions</b>		
Change in other provisions	4	1
	<b>4</b>	<b>1</b>
<b>Charge for impairment and other provisions, net</b>	<b>(495)</b>	<b>(693)</b>

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

**25 Finance income and expense**

	<b>Three months ended 31 March</b>	
	<b>2018</b>	<b>2017</b>
<b>Finance income</b>		
Interest income on bank deposits	398	550
Interest income on loans issued	474	408
Foreign exchange gain	142	726
Other interest income	154	86
<b>Total finance income</b>	<b>1 168</b>	<b>1 770</b>
<b>Finance expense</b>		
Foreign exchange loss	(416)	(121)
Interest expense on borrowings	(297)	(718)
Lease expense	(4)	(4)
Other interest expense	(33)	(49)
<b>Total finance expense</b>	<b>(750)</b>	<b>(892)</b>
<b>Total net finance income</b>	<b>418</b>	<b>878</b>

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

**26 Basic and diluted earnings per share, attributable to PJSC Mosenergo**

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 (Note 21.2). The calculation of basic and diluted earnings per share is presented in the table below.

	<b>Three months ended</b>	
	<b>2018</b>	<b>2017</b>
Issued shares (thousand of pieces)	39 749 360	39 749 360
Effect of treasury shares (thousand of pieces)	(140 229)	(140 229)
Weighted average number of ordinary shares (thousand of pieces)	<b>39 609 130</b>	<b>39 609 130</b>
Profit attributable to the owners of PJSC Mosenergo (in RUB mln)	12 742	11 362
Profit per ordinary share (basic and diluted) (in Russian Roubles)	<b>0,32</b>	<b>0,29</b>

There are no dilutive financial instruments outstanding in the Group.

**27 Subsidiaries**

PJSC Mosenergo and its following subsidiaries form the Mosenergo Group:

	<b>Nature of business</b>	<b>Percentage of ownership</b>	
		<b>31 March 2018</b>	<b>31 December 2017</b>
LLC Centralny remontno-mekhanicheskiy zavod	Repair and reconstruction services	100,00%	100,00%
LLC Mosenergoproject	Design	100,00%	100,00%
LLC Remontproject	Design	99,00%	99,00%
LLC TEC-17 Stupino	Power generation	100,00%	100,00%

No preference shares are held by the Group.

## **28 Acquisition and sale of subsidiaries**

### **28.1 Acquisition of subsidiaries**

#### *Acquisition of LLC Mosenergoproject*

In January 2017 the Group acquired 100% of share capital of LLC Mosenergoproject for cash consideration of RUB 650 million.

According to IFRS 3 Business combinations the Group recognized the acquired assets and liabilities assumed based upon their provisional fair values that equal their carrying amounts as of the date of acquisition.

The goodwill of RUB 187 million represents the fair value of the expected synergies from combining the operations of the Group and LLC Mosenergoproject.

The gross contractual amount for trade and other receivables due is RUB 20 million. The trade and other receivables were not impaired and are expected to be collectible in full amounts.

#### *Acquisition of LLC Remontproject*

On 28 September 2017 the Group acquired 80% of share capital of LLC Remontproject for cash consideration of RUB 15 million, then in 4 October 2017 the additional 19% of share capital was acquired for cash consideration of RUB 4 million. Therefore the total share in LLC Remontproject amounted to 99%. The Group accounted for the acquisition as a transfer of subsidiary between entities under common control. According to the accounting policy of the Group, the assets and liabilities of LLC Remontproject transferred between entities under common control were recognised at the predecessor entity's carrying amounts. The difference between the consideration for acquisition and the carrying amounts of assets and liabilities was accounted for as an adjustment within equity in the line "Accumulated loss and other reserves" in the amount of RUB 328 million. Comparative information was not restated for the previous year and the financial result of the acquired entity was included from the date of acquisition in the present consolidated financial statement.



**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

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

	<b>LLC Mosenergo- project</b>	<b>LLC Remont- project</b>
	<u>                    </u>	<u>                    </u>
<b>Current assets</b>		
Cash and cash equivalents	1	2
Trade and other receivables	20	243
Other current assets	-	5
<b>Total current assets</b>	<u>21</u>	<u>250</u>
<b>Non-current assets</b>		
Property, plant and equipment	470	1
Deferred tax assets	19	67
<b>Total non-current assets</b>	<u>489</u>	<u>68</u>
<b>Total assets</b>	<b>510</b>	<b>318</b>
<b>Current liabilities</b>		
Short-term borrowings	8	437
Trade and other payables	23	187
Other taxes payables (other than profit tax)	16	2
<b>Total current liabilities</b>	<u>47</u>	<u>626</u>
<b>Total liabilities</b>	<b>47</b>	<b>626</b>
Net assets at the acquisition date	463	(308)
Share of net assets at the acquisition date	463	(308)
Consideration paid	650	19
<b>Goodwill</b>	<u>187</u>	<u>-</u>
<b>Effect of acquisition under common control</b>	<u>-</u>	<u>327</u>

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

## 29 Related parties

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

PJSC Gazprom is an ultimate parent company of PJSC Mosenergo. The Russian Federation is the ultimate controlling party of the Group.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the three months ended 31 December 2017 and 31 December 2016, or had significant balances outstanding as of 31 March 2018 and as of 31 December 2017 are detailed below.

### 29.1 Transactions with Gazprom Group and its associates

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

	<b>Three months ended 31 March</b>	
	<b>2018</b>	<b>2017</b>
<b>Revenue</b>	<b>35 805</b>	<b>29 593</b>
Heat	33 755	27 430
Electricity	1 544	1 629
Other revenue	507	534
<b>Operating expenses</b>	<b>(36 560)</b>	<b>(33 855)</b>
Fuel	(34 867)	(31 292)
Maintenance and repair expenses	(549)	(597)
Heat transmission	(383)	(1 196)
Purchased electricity and capacity	(316)	(289)
Rent	(78)	(76)
Transportation services	(76)	(77)
Cleaning services	(60)	(66)
Insurance expenses, excluding medical insurance	(51)	(52)
Medical insurance including in staff costs	(50)	(49)
Agency fee	(40)	(43)
Security and fire safety	(28)	(37)
Legal, consulting and data processing services	(6)	-
Other external services and works	(138)	(85)
Other operating income (expenses)	82	4
<b>Finance income and expense</b>	<b>613</b>	<b>569</b>
Finance income	617	573
Finance expense	(4)	(4)
<b>Purchase of assets</b>	<b>1 347</b>	<b>598</b>
Purchase of property, plant and equipment	586	598
Purchase of other assets	762	0
	<b>31 March 2018</b>	<b>31 December 2017</b>
<b>Outstanding balance</b>		
Cash and cash equivalents	5 003	303
Trade and other receivables	57 194	51 753
Advances for assets under construction	3 191	3 433
<b>Total assets</b>	<b>65 388</b>	<b>55 489</b>
Short-term borrowings	(479)	(464)
Long-term borrowings	(197)	(197)
Trade and other payables	(2 270)	(3 006)
<b>Total liabilities</b>	<b>(2 946)</b>	<b>(3 667)</b>

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

As of 31 March 2018, Gazprom Group and its associated companies entered into contracts for the construction and acquisition of property, plant and equipment in the amount of RUB 5 931 million (31 December 2016: RUB 6 484 million).

**29.2 Transactions with associates**

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

	<b>Three months ended 31 March</b>	
	<b>2018</b>	<b>2017</b>
<b>Revenue</b>	<b>807</b>	<b>595</b>
Heat	799	586
Other revenue	8	9
<b>Operating expenses</b>	<b>(13)</b>	<b>-</b>
Heat transmission	(13)	-
Charge for allowance for accounts receivable	35	-
<b>Finance income and expense</b>	<b>9</b>	<b>3</b>
Finance income	9	3
	<b>31 March 2018</b>	<b>31 December 2017</b>
<b>Outstanding balance</b>		
Trade and other receivables	2 330	2 202
Allowance for impairment of receivables	(360)	(395)
<b>Total assets</b>	<b>1 970</b>	<b>1 807</b>

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

**29.3 Transactions with key management and management organisation**

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

	<b>Three months ended 31 March</b>	
	<b>2018</b>	<b>2017</b>
Wages and salaries	(6)	(6)
Social taxes and contributions	(1)	(1)
<b>Total</b>	<b>(7)</b>	<b>(7)</b>

There are no outstanding balances as of 31 March 2018 and as of 31 December 2017 as for transactions with key management.

Remuneration to management organisation LLC Gazprom energoholding for the three months ended 31 March 2018 was in the amount of RUB 37 million (for the three months ended 31 March 2017: RUB 37 million).

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

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

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

	<b>Three months ended 31 March</b>	
	<b>2018</b>	<b>2017</b>
<b>Revenue</b>	<b>7 209</b>	<b>8 647</b>
Electricity	6 471	7 458
Heat	668	1 117
Other revenue	70	72
<b>Operating expenses</b>	<b>(1 103)</b>	<b>(1 005)</b>
Electricity market administration fees	(370)	(373)
Other materials	(333)	(319)
Rent	(175)	(153)
Security and fire safety	(116)	(114)
Fuel	(47)	(42)
Purchased electricity and capacity	(52)	(19)
Other external services and works	(43)	(40)
Other operating income (expenses)	33	55
<b>Charge for allowance for accounts receivable</b>	<b>(583)</b>	<b>(469)</b>
<b>Finance income and expense</b>	<b>81</b>	<b>(561)</b>
Finance income	320	105
Finance expense	(239)	(666)

	<b>31 March 2018</b>	<b>31 December 2017</b>
<b>Outstanding balance</b>		
Cash and equivalents	19 076	14 394
Trade and other receivables	14 594	14 947
Allowance for impairment of receivables	(10 591)	(10 011)
Advances for assets under construction	8	9
<b>Total assets</b>	<b>(4 501)</b>	<b>(12 180)</b>
Short-term borrowings	(4 501)	(12 180)
Trade and other payables	(1 429)	(1 429)
<b>Total liabilities</b>	<b>(5 930)</b>	<b>(13 610)</b>

## 29.5 Transactions with JSC FSC

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

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

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2018</b>	<b>2017</b>
<b>Revenue</b>	<b>19 756</b>	<b>18 487</b>
Electricity	19 756	18 487
<b>Expenses</b>	<b>(2 723)</b>	<b>(2 450)</b>
Purchased electricity and capacity	(2 723)	(2 450)
	<b>31 March</b>	<b>31 December</b>
	<b>2018</b>	<b>2017</b>
<b>Outstanding balance</b>		
Trade and other receivables	2 488	2 579
<b>Total assets</b>	<b>2 488</b>	<b>2 579</b>
Trade and other payables	(388)	(470)
<b>Total liabilities</b>	<b>(388)</b>	<b>(470)</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 prolong the lease. For the three months ended 31 March 2018, operating lease expenses in amounts of RUB 267 million were recognised in profit or loss (for the three months ended 31 March 2017: RUB 240 million) (Note 23).

Non-cancellable operating lease liabilities are presented in the table below:

	<b>31 March</b>	<b>31 December</b>
	<b>2018</b>	<b>2017</b>
Less than one year	693	637
Between one and five years	2 358	2 372
More than five years	22 308	21 753
<b>Total</b>	<b>25 359</b>	<b>24 762</b>

### 30.2 Capital commitments

As of 31 March 2018, the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RUB 7 042 million excluding VAT (as of 31 December 2017: RUB 8 031 million).

### **30.3 Taxation**

The Russian Federation tax legislation is subject to varying interpretation and changes, which can occur frequently. The management's interpretation of 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 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.

In the Russian Federation 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 of 31 March 2018 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, 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. The 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. The 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 significant. However, the management believes that under existing legislation there are no significant unrecorded liabilities or contingencies, which could have a significant adverse effect on the operating results or financial position of the Group.

### **30.5 Insurance**

The insurance industry in the Russian Federation is in the process of development and many forms of insurance protection common in other countries are not generally available. The 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 significant 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 the Group employees amounting to RUB 2 million as of 31 March 2018 (as of 31 December 2017: RUB 3 million).

### **31 Financial risk factors**

The use of financial instruments exposes the Group to the following types of risk: market risk 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 system. The Audit Committee as part of the 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 system in relation to the risks faced by the Group. The Department of Internal Audit undertakes both regular and unscheduled reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The risk management functions are performed by the department of the Group 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 the Group. Liquidity risk is considered by the Efficiency and Control department.

The Group's risk management policies are summarised in the Group's Regulations on Risk Management which are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and control mechanisms 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 Group'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 and others.

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

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

**31.1 Market risk**

**31.1.1 Foreign exchange risk**

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

	Note	Euro	
		31 March 2018	31 December 2017
<b>Financial assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	1	1
<b>Total financial assets</b>		<b>1</b>	<b>1</b>
<b>Financial liabilities</b>			
<b>Current liabilities</b>			
Current borrowings	15	(2 012)	(1 916)
Trade and other payables	16	(327)	(234)
<b>Non-current liabilities</b>			
Long-term borrowings	15	(9 081)	(8 830)
<b>Total financial liabilities</b>		<b>(11 419)</b>	<b>(10 980)</b>
<b>Net financial liabilities</b>		<b>(11 418)</b>	<b>(10 979)</b>

The table below provides information on the Group's sensitivity to strengthening the Euro against the Russian Ruble by 20% (20% in 2017). This analysis is based on changes in the foreign exchange rate that the Group applies at the end of the reporting period. For this purpose, the monetary items available at the balance sheet date, expressed in the respective currencies, were analyzed.

	Euro impact	
	31 March 2018	31 December 2017
<b>Decrease in profit</b>	<b>(2 284)</b>	<b>(2 196)</b>

The weakening of the currencies considered above by 20% relative to the functional currency as of 31 March 2018 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). The 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 the management uses its judgment to decide 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 and 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:

	<b>31 March 2018</b>	<b>31 December 2017</b>
<b>Fixed rate instruments</b>		
Financial assets	96 423	86 136
Financial liabilities	<u>(11 365)</u>	<u>(19 379)</u>
<b>Total</b>	<b>85 058</b>	<b>66 757</b>
<b>Variable rate instruments</b>		-
Financial liabilities	<u>(11 093)</u>	<u>(10 746)</u>
<b>Total</b>	<b>(11 093)</b>	<b>(10 746)</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 any change in interest rates at the reporting date would not affect profit or loss.

#### Cash flow sensitivity analysis for variable rate instruments

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

	<b>31 March 2018</b>	<b>31 December 2017</b>
<b>Decrease in profit</b>	<u>(111)</u>	<u>(107)</u>

### 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.

#### Loans and 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 Federation legislation on Power industry for some heat consumers such as state companies, housing organisations and entities, which may not be limited or refused energy supply because it can lead to casualties or other harmful aftermath (hospitals, schools etc.). Currently no upper limits for debt due from each customer are established. The Group is working on minimising the number of contracts with advance payment conditions, if advance payment is necessary, 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>31 March 2018</b>	<b>31 December 2017</b>
Trade and other receivables	54 757	40 502
Loans issued	11 676	21 852
<b>Total</b>	<b>66 433</b>	<b>62 354</b>

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

The account receivables are primarily comprised of a few large reputed customers who purchase electric and heat energy. Historical data, including payment history during the recent credit crisis, would suggest that the risk of default of 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 three major groups, which are current, overdue, and irrecoverable accounts receivable. As soon as an account receivable is classified as overdue measures are taken on collection of debt due, which include oral and written notices, instituting a claim, putting in a late payment penalty etc.

Loans issued and accounts receivables as of reporting date fall due as follows:

	<b>31 March 2018</b>		<b>31 December 2017</b>	
	<b>Carrying amount</b>	<b>Impairment</b>	<b>Carrying amount</b>	<b>Impairment</b>
Not past due	59 978	-	49 284	-
Past due 0-30 days	1 106	-	8 267	-
Past due 31-120 days	2 918	1 234	1 487	596
Past due 121-365 days	2 374	1 354	3 572	1 815
More than one year	14 510	11 865	13 681	11 525
<b>Total</b>	<b>80 886</b>	<b>14 453</b>	<b>76 291</b>	<b>13 936</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 individually significant exposures, and a collective loss component established for groups of similar assets (portfolio) in respect of losses that have been incurred but not yet identified. The estimated collective loss allowance is determined based on historical data of payment statistics for similar financial assets in the past periods.

**PJSC MOSENERGO**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 MARCH 2018**  
(in millions of Russian Rubles)

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

	<b>2018</b>	<b>2017</b>
<b>Balance as of 1 January</b>	<b>13 936</b>	<b>12 176</b>
Allowance for impairment loss accrued during the period	927	652
Allowance used and written off	(410)	(57)
<b>Balance as of 31 March</b>	<b>14 453</b>	<b>12 771</b>

The impairment allowance as of 31 March 2018 of RUB 14 453 million (as of 31 December 2017: RUB 13 936 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 respective financial asset.

**Cash in banks and on-demand deposits**

All bank balances and on-demand 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 risk management is incorporated in the overall financial model of the Group. 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 Group.

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>As of 31 March 2018</b>							
Loans and borrowings	16 270	13 301	6 040	1 063	2 100	2 066	2 032
Trade and other payables	6 188	6 188	6 022	-	166	-	-
<b>Total</b>	<b>22 458</b>	<b>19 489</b>	<b>12 062</b>	<b>1 063</b>	<b>2 266</b>	<b>2 066</b>	<b>2 032</b>
<b>Balance as of 31 December 2017</b>							
Loans and borrowings	23 588	25 698	2 001	13 539	2 068	6 011	2 079
Trade and other payables	6 537	6 537	6 384	-	153	-	-
<b>Total</b>	<b>30 125</b>	<b>32 235</b>	<b>8 385</b>	<b>13 539</b>	<b>2 221</b>	<b>6 011</b>	<b>2 079</b>

### **31.4 Capital risk management**

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

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

As of 31 March 2018 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 of Directors' 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 controls the level of dividends attributable to ordinary shareholders.

On the Group level capital is monitored on the basis of the net debt to adjusted EBITDA ratio. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt (borrowings, finance lease liabilities) less cash and cash equivalents and balances of restricted cash and cash equivalents under the terms of certain borrowings and other contractual obligations.

Adjusted EBITDA is calculated as operating profit less depreciation and less impairment allowance of assets and other provisions (excluding change in trade and other receivables allowance).

The net debt to adjusted EBITDA ratios as of 31 March 2018 and 31 December 2016 were as follows:

	<b>31 March 2018</b>	<b>31 December 2017</b>
Total debt	16 270	23 588
Less: cash and cash equivalents	<u>(26 836)</u>	<u>(20 627)</u>
Net (cash) debt	(10 566)	2 961
Adjusted EBITDA	19 182	16 821
<b>Net debt / Adjusted EBITDA ratio</b>	<b>(0,55)</b>	<b>0,18</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.

There was no change in the fair value measurement methods attributed to Level 2 and Level 3 for the three months ended 31 March 2018 (31 December 2016: there was no change). There were no transfers between levels for the three months ended 31 March 2018 (31 December 2016: there were no transfers).

As of 31 March 2018 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 as of 31 March 2018</b>				
Available -for-sale financial assets (Note 6)	-	-	3 154	3 154
<b>Balance as of 31 December 2017</b>				
Available -for-sale financial assets (Note 6)	-	-	3 154	3 154