

PJSC MOSENERGO

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

**30 September 2018
Moscow | 2018**

Contents

Report on review of interim consolidated financial statements	3
Interim consolidated statement of financial position	4
Interim consolidated statement of comprehensive income	5
Interim consolidated statement of cash flows	6
Interim consolidated statement of changes in equity	7

Notes to the interim consolidated financial statements:

1 The Group and its operations.....	7
2 Basis of preparation	9
3 Significant accounting policies.....	11
4 Segment information	24
5 Cash and cash equivalents	26
6 Financial assets	26
7 Trade and other receivables	27
8 Inventories	27
9 Other current and non-current assets	28
10 Assets held for sale	28
11 Property, plant and equipment.....	29
12 Investment property	31
13 Intangible assets.....	32
14 Investments in associates.....	33
15 Borrowings	34
16 Trade and other payables	35
17 Taxes receivable and payable	36
18 Provisions	36
19 Profit tax	36
20 Employee benefits	38
21 Equity	39
22 Revenue	40
23 Operating expenses.....	40
24 Charge for impairments and other provisions	41
25 Finance income and expense	41
26 Basic and diluted earnings per share, attributable to PJSC Mosenergo.....	42
27 Subsidiaries.....	42
28 Acquisition and sale of subsidiaries	43
29 Related parties	45
30 Commitments and contingencies	48
31 Financial risk factors	50
32 Fair value of financial instruments	56
33 Events after the reporting period	56

PJSC MOSENERGO
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS OF 30 SEPTEMBER 2018
(in millions of Russian Rubles)

	Notes	30 September 2018	31 December 2017
Assets			
Current assets			
Cash and cash equivalents	5	33 450	20 627
Trade and other receivables	7	30 612	51 630
Inventories	8	13 004	13 499
Income tax receivable	17	568	-
Other current assets	9	2 143	1 455
		<u>79 777</u>	<u>87 211</u>
Assets held for sale	10	38	43
Total current assets		79 815	87 254
Non-current assets			
Property, plant and equipment	11	210 284	215 994
Investment property	12	1 516	2 359
Goodwill	13.1	187	187
Other intangible assets	13.2	336	306
Investments in associates	14	10	314
Long-term financial assets	6	1 490	3 154
Trade and other receivables	7	18 289	12 582
Advances for assets under construction		4 330	3 804
Other non-current assets	9	9 722	8 893
		<u>246 164</u>	<u>247 593</u>
Total non-current assets		246 164	247 593
Total assets		325 979	334 847
Equity and liabilities			
Current liabilities			
Short-term borrowings	15	2 332	14 561
Trade and other payables	16	8 006	8 674
Profit tax payable	17	420	64
Other taxes payable	17	1 591	2 775
Provisions	18	3 323	3 078
		<u>15 672</u>	<u>29 152</u>
Total current liabilities		15 672	29 152
Non-current liabilities			
Long-term borrowings	15	9 030	9 027
Deferred tax liabilities	19	28 941	29 810
Employee benefits	20	362	352
Trade and other payables	16	179	154
		<u>38 512</u>	<u>39 343</u>
Total non-current liabilities		38 512	39 343
Total liabilities		54 184	68 495
Equity			
Share capital	21	166 124	166 124
Treasury shares	21	(871)	(871)
Share premium	21	49 213	49 213
Revaluation reserve	21	106 376	107 206
Accumulated loss and other reserves		(49 047)	(55 320)
		<u>271 795</u>	<u>266 352</u>
Total equity		271 795	266 352
Total equity and liabilities		325 979	334 847

A.A. Butko
 Managing director

«09» November 2018

E.Y. Novenkova
 Chief Accountant

«09» November 2018

The accompanying notes on the pages 7 to 56 are an integral part of these interim consolidated financial statements.

PJSC MOSENERGO
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE NINEMONTHS ENDED 30 SEPTEMBER 2018
(in millions of Russian Rubles)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2018	2017	2018	2017
Revenue	22	28 320	31 164	135 988	135 345
Operating expenses	23	(29 432)	(29 626)	(117 923)	(114 667)
Impairment (loss) profit on financial assets	24	(421)	27	(1 046)	(1 200)
Operating profit (loss)		(1 533)	1 565	17 019	19 478
Share of loss of associates	14	(172)	(212)	(305)	(231)
Profit (loss) before finance income (expense) and profit tax		(1 705)	1 353	16 714	19 247
Finance income	25	1 394	1 287	3 817	4 008
Finance expense	25	(1 114)	(812)	(2 803)	(3 334)
Profit (loss) before profit tax		(1 425)	1 828	17 728	19 921
Profit tax (expense) economy	19	223	466	(3 683)	(3 101)
Profit (loss) for the period		(1 202)	2 294	14 045	16 820
Other comprehensive income (loss):					
Effect of acquisition under common control	28,29	-	(329)	-	(514)
Total items that will not be reclassified subsequently		-	(329)	-	(514)
Other comprehensive loss for the period, net of tax		-	(329)	-	(514)
Total comprehensive income (loss) for the period		(1 202)	1 965	14 045	16 306
Profit (loss) attributable to:					
Owners of PJSC Mosenergo		(1 202)	2 294	14 045	16 820
		(1 202)	2 294	14 045	16 820
Total comprehensive income (loss) attributable to:					
Owners of PJSC Mosenergo		(1 202)	1 965	14 045	16 306
		(1 202)	1 965	14 045	16 306
Basic and diluted earnings (loss) per share for profit attributable to the owners of PJSC Mosenergo (in Russian Rubles)					
	26	(0,03)	0,06	0,35	0,42

A.A. Butko
 Managing director

«09» November 2018

E.Y. Novenkova
 Chief Accountant

«09» November 2018

The accompanying notes on the pages 7 to 56 are an integral part of these interim consolidated financial statements.

PJSC MOSENERGO
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018
(in millions of Russian Rubles)

	Notes	Nine months ended 30 September	
		2018	2017
Cash flow from operating activities			
Profit before finance income (expense) and profit tax		16 714	19 247
Adjustments to profit before profit tax for:			
Depreciation and amortisation	23	11 142	11 238
Share of loss of associates	14	305	231
Impairment loss on financial assets	24	1 046	1 200
Change in provisions	24	245	200
Loss on disposal of property, plant and equipment	23	442	461
Total effect of adjustments		13 180	13 330
Cash flows from operations before working capital changes		29 894	32 577
Changes in working capital:			
Change in trade and other receivables		4 241	10 221
Change in inventories		495	(1 636)
Change in other current assets		(689)	(458)
Change in trade and other payables		228	(1 335)
Change in other taxes payables (other than profit tax)		(1 366)	(1 387)
Change in employee benefit liabilities		10	2
Total effect of working capital changes		2 919	5 407
Income tax paid		(4 257)	(5 617)
Interest paid		(528)	(1 361)
Net cash from operating activities		28 028	31 006
Cash flows from investing activities			
Capital expenditures		(8 740)	(6 014)
Net changes in loans issued	7	10 535	(1 047)
Sale of subsidiaries, net of cash disposed	28	500	-
Acquisition of subsidiaries, net of cash acquired		-	(16)
Proceeds from sale of property, plant and equipment		1	4
Interest received		2 121	2 370
Dividend received		-	43
Repayment of short-term deposits		-	15 054
Net cash from investing activities		4 417	10 394
Cash flow from financing activities			
Proceeds from borrowings	15	-	49
Repayment of borrowings	15	(13 030)	(20 680)
Dividend paid		(6 549)	(3 350)
Net cash used in financing activities		(19 579)	(23 981)
Effect of foreign exchange rate changes on cash and cash equivalents		(43)	(17)
Increase in cash and cash equivalents		12 823	17 402
Cash and cash equivalents at the beginning of the period	5	20 627	10 097
Cash and cash equivalents at the end of the period	5	33 450	27 499

A.A. Butko
Managing director
« 09 » November 2018

E.Y. Novenkova
Chief Accountant
« 09 » November 2018

The accompanying notes on the pages 7 to 56 are an integral part of these interim consolidated financial statements.

PJSC MOSENERGO
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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
Nine months ended 30 September 2017							
Balance as of 1 January 2017		166 124	(871)	49 213	107 442	(76 475)	245 433
Profit for the period		-	-	-	-	16 820	16 820
Other comprehensive income (loss):							
Effect of acquisition under common control		-	-	-	-	(514)	(514)
Transfers from revaluation surplus on property, plant and equipment to accumulated loss and other reserves		-	-	-	(360)	360	-
Total comprehensive income (loss) for the period		-	-	-	(360)	16 666	16 306
Transaction with owners of PJSC Mosenergo							
Dividends declared		-	-	-	-	(3 360)	(3 360)
Balance as of 30 September 2017		166 124	(871)	49 213	107 082	(63 169)	258 379
Nine months ended 30 September 2018							
Balance as of 1 January 2018		166 124	(871)	49 213	107 206	(55 320)	266 352
Effect of changes in accounting policies	3.21	-	-	-	-	(2 036)	(2 036)
Balance as of 1 January 2018 (restated)		166 124	(871)	49 213	107 206	(57 356)	264 316
Profit for the period		-	-	-	-	14 045	14 045
Other comprehensive income (loss):							
Transfers from revaluation surplus of property, plant and equipment to accumulated loss and other reserves		-	-	-	(830)	830	-
Total comprehensive income (loss) for the period		-	-	-	(830)	14 875	14 045
Transaction with owners of PJSC Mosenergo							
Dividends declared		-	-	-	-	(6 566)	(6 566)
Balance as of 30 September 2018		166 124	(871)	49 213	106 376	(49 047)	271 795

A.A. Butko
Managing director

«09» November 2018

E.Y. Novenkoya
Chief Accountant

«09» November 2018

The accompanying notes on the pages 7 to 56 are an integral part of these interim consolidated financial statements.

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 43 136 GCal/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 September 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 favour 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 labour 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 nine months ended 30 September 2018 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 interim 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 interim 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 interim consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (“IFRS”).

2.2 Basis of measurement

The interim consolidated financial statements are prepared on the historical cost basis except for property, plant and equipment revalued periodically; investment property and assets held for sale 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 interim 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 interim 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 interim 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 interim 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 interim 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 interim 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;
- Notes 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

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 6 – Financial assets;
- Note 10 – Assets 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 is 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 interim 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 within other comprehensive income.

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 gains and losses arising from intra-group transactions, are eliminated in preparing the interim 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 into the functional currency of the Group entities at exchange rates effective at the dates of their commission. Monetary items in foreign currency are translated at the exchange rate at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated at the exchange rate at the date of the fair value measurement.

Foreign exchange differences arising on translation are recognized in profit or loss, except for exchange differences arising from the translation of the value of financial assets that are subsequently measured at fair value, the changes of which are recognized in other comprehensive income. Such exchange differences are recognized in other comprehensive income.

3.3 Financial instruments

3.3.1 Classification and measurement of financial assets

Financial assets and financial liabilities admit when the Group becomes party to the contractual provisions of the instrument.

The Group derecognises a financial asset when, and only when the contractual rights to the cash flows from the financial asset expire, or when the entity transfers substantially all the risks and rewards of ownership of the financial asset.

The Group derecognises a financial liability when and only when, it is extinguished when the obligation specified in the contract is discharged or cancelled or expires.

Except for trade receivables do not contain a significant financing component in accordance with IFRS 15 Revenue from Contracts with Customers at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability

The Group classifies financial assets into three measurement categories:

- those measured subsequently at amortised cost,
- those measured subsequently at fair value with changes recognised in other comprehensive income,
- and those measured subsequently at fair value with changes recognised in profit or loss.

Classification of financial assets one or another category takes place on the basis of the business model used by Group for management of the financial assets connected with the cash flows provided by the contract.

Financial assets measured subsequently at amortised cost

Such category of financial assets includes assets held to obtain contractual cash flows and it is expected that they will result in cash flows being payments of principal and interest.

The loans issued, receivables, deposits, cash and cash equivalents belong to this category of financial assets of the Group. The loans issued and receivables include financial assets with the fixed or determinable payments that are not quoted in an active market. After initial recognition the loans issued and receivables are estimated at the amortised cost using the effective interest method.

Cash and cash equivalents include cash on hand, banks accounts and highly liquid financial assets with original maturity no more than three months.

Financial assets measured subsequently at fair value with changes recognised in other comprehensive income

Such category of financial assets includes debt-type assets held within business models whose objective is achieved by both collecting contractual cash flows and selling financial assets and it is expected that they will result in cash flows being payments of principal and interest. Gains and losses associated with this category of financial assets are recognised in other comprehensive income, except for impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When a financial asset is disposed of, cumulative previous gain or loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss in the consolidated statement of comprehensive income. Interest income from these financial assets is calculated using the effective interest method and included in financial income.

The Group's management has made a decision to recognise changes in fair value of equity instruments in other comprehensive income as such assets are considered to be long-term strategic investments which are not expected to be sold in the short and medium term. Other comprehensive income (loss) from changes in fair value of such instruments shall not be subsequently reclassified to profit or loss in the consolidated statement of comprehensive income.

Financial assets measured subsequently at fair value with changes recognised through profit or loss

Financial assets that do not meet the criteria of recognition as financial assets measured at amortised cost or measured at fair value through other comprehensive income are measured at fair value through profit or loss.

3.3.2 Impairment of financial assets

The Group applies the expected credit loss model to financial assets measured at amortised cost or at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets.

The allowance for expected credit losses for a financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition.

If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the allowance for expected credit losses for that financial asset is measured at an amount equal to 12-month expected credit losses.

For trade receivables or contract assets, whether they contain a significant financing component or not, measurement based on lifetime expected credit losses are applied.

The applying of the new model resulted in insignificant increase in the amount of the allowance for expected credit losses.

The expected credit losses represent calculation appraisal of the credit losses throughout the expected period of validity of a financial instrument measured on degree of probability of approach of a default. As the expected credit losses consider the amount and date of disbursement, the credit loss also arises if the Group expects to receive all amounts in full, than it is provided by the contract.

The Group estimates the expected credit losses in this way:

- the impartial and measured based on probability amount determined by the analysis of range of possible results,
- time value of money,
- and the proved and confirmed information on previous events, the current conditions and the predicted future business environment available for reporting date without excessive costs.

3.3.3 Classification and measurement of financial liabilities

The Group classifies all financial liabilities as measured subsequently at amortised cost. The Group's financial liabilities include trade and other payables and borrowings.

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 is made at cost.

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 retained earnings (accumulated loss).

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 “Change in revaluation reserve”, unless the decrease of the reserve was previously recognised in profit or loss. Decrease in the carrying amount shall be debited to other comprehensive income to the extent of any credit balance existing in the revaluation reserve. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the 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

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

revaluation is transferred from the revaluation surplus to retained earnings (accumulated loss) 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 of 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.

Assets held for sale

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 cannot 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 line "Liabilities held for sale" of 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 Provisions, Contingent Liabilities and Contingent Assets 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

Revenue is recognized when the Group fulfils the obligation to perform by transferring the promised product or service to the customer. An asset is transferred when the buyer receives control of such an asset.

Revenues are recognized in the amount of reimbursement that the Group expects to receive in return for the transfer of the promised goods or services to the customer.

Revenue from the sale of electricity and heat is recognized at the time the electricity and heat are supplied to consumers.

Revenue under contracts for the provision of services and performance of work is recognized in profit or loss in the part that relates to the completed stage of services and works under the contract as of the reporting date. The stage of completeness is defined as the share of expenses under the contract incurred in connection with the performance of services and works completed at the reporting date in the total planned amount of the contract costs.

The proceeds from the leasing of property are recognized evenly throughout the term of the lease in profit or loss.

Revenue from the sale of goods other than electrical and heat energy is recognized at the time of delivery. The ordinary conditions for settlements with customers include payment upon delivery.

3.15 Government subsidies

Government subsidies are assistance by the Government in the form of transfers of resources to PJSC Mosenergo 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 the 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 under the line “Operating expenses”.

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, dividend income and gains on the disposal of financial assets at fair value through other comprehensive income. 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.

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

Gains and losses on exchange differences on operating items are reflected in the operating expenses on net basis, and others – are separately in financial income and expenses.

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 30 September 2018 and 31 December 2017.

3.21 Adoption of new or revised standards and interpretations

3.21.1 Application of new IFRSs

IFRS 9 Financial Instruments

Application of this standard resulted in an increase in the allowance for impairment loss on financial assets (see Note 7), as well as a decrease in the fair value of the investment in equity instruments (see Note 6), so the opening balance of the accumulated loss and other reserves as of 1 January 2018 was restated.

	Balance as of 1 January 2018	Effect of application of IFRS 9	Adjusted balance as of 1 January 2018
Accumulated loss and other reserves	(55 320)	(2 036)	(57 356)
Accumulated loss and other reserves	266 352	(2 036)	264 316

IFRS 15 Revenue from Contracts with Customers

Application of this standard has not had a significant impact on the Group's interim consolidated financial statements. Accordingly, the comparative data and the opening balance of the accumulated loss and other reserves as of 1 January 2018 have not been restated.

3.21.2 Application of Interpretations and Amendments to existing Standards

A number of interpretations and amendments to current IFRSs became effective for the periods beginning on or after 1 January 2018:

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016) provides requirements for recognising a non-monetary asset or a non-monetary obligation arising from a result of committing or receiving prepayment until the recognition of the related asset, income or expense.
- The amendments to IFRS 2 Share-based Payment (issued in September 2016). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IAS 40 Investment Property (issued in December 2016). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property.

The Group has reviewed these interpretations and amendments to standards while preparing interim consolidated financial information. The interpretations and amendments to standards have no significant impact on the Group's interim consolidated financial information.

3.21.3 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 on or after 1 January 2019. In particular, the Group has not early adopted the standards and amendments:

- 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.
- IFRIC 23 Uncertainty over Income Tax Treatments (issued in September 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 amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify which borrowing costs are eligible for capitalisation in particular circumstances.
- Amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). The changes specify how control (or joint control) should be taken into account for a business that is a joint operation if the organization already participates in this business.

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 interim 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 cannot 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.

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

4.1 Financial results of segments

The segment information for the three and nine months ended 30 September 2018 and 30 September 2017 is as follows:

	Notes	Electric energy	Heat energy	All other segments	Total	Intra-group transactions	Total
<u>Nine months ended 30 September 2018</u>							
Segment revenue		83 261	51 009	2 196	136 466	(478)	135 988
Revenue from external customers	22	83 261	50 999	1 728	135 988	-	135 988
Intra-group revenue		-	10	468	478	(478)	-
Segment result		19 064	(1 059)	(778)	17 227	-	17 227
Depreciation and amortisation	23	(5 840)	(4 320)	(982)	(11 142)	-	(11 142)
Impairment gain (loss) on financial assets	24	(1 599)	695	(142)	(1 046)	-	(1 046)
<u>Nine months ended 30 September 2017</u>							
Segment revenue		84 631	48 793	2 274	135 698	(353)	135 345
Revenue from external customers	22	84 631	48 784	1 930	135 345	-	135 345
Intra-group revenue		-	9	344	353	(353)	-
Segment result		22 910	(2 739)	(574)	19 597	-	19 597
Depreciation and amortisation	23	(5 889)	(4 407)	(942)	(11 238)	-	(11 238)
Impairment loss on financial assets	24	(599)	(384)	(217)	(1 200)	-	(1 200)
<u>Three months ended 30 September 2018</u>							
Segment revenue		22 672	5 110	714	28 496	(176)	28 320
Revenue from external customers	22	22 672	5 110	538	28 320	-	28 320
Intra-group revenue		-	-	176	176	(176)	-
Segment result		1 090	(2 251)	(309)	(1 470)	-	(1 470)
Depreciation and amortisation	23	(2 387)	(987)	(325)	(3 699)	-	(3 699)
Impairment gain (loss) on financial assets	24	(481)	122	(62)	(421)	-	(421)
<u>Three months ended 30 September 2017</u>							
Segment revenue		25 163	5 278	867	31 308	(144)	31 164
Revenue from external customers	22	25 163	5 279	722	31 164	-	31 164
Intra-group revenue		-	(1)	145	144	(144)	-
Segment result		3 992	(2 203)	64	1 853	-	1 853
Depreciation and amortisation	23	(2 597)	(1 077)	(175)	(3 849)	-	(3 849)
Impairment loss on financial assets	24	(99)	143	(16)	27	-	27

Reconciliation of the segment result to consolidated profit (loss) before income tax in the consolidated statement of comprehensive income for the three and nine months ended 30 September 2018 and 30 September 2017 is provided as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2018	2017	2018	2017
Segment result for reportable segments		(1 161)	1 789	18 005	20 171
Segment result for other segments		(309)	64	(778)	(574)
Segment result		(1 470)	1 853	17 227	19 597
Change in provisions	24	(69)	(80)	(245)	(200)
Net financial income	25	280	475	1 014	674
Share of loss of associates	14	(172)	(212)	(305)	(231)
Other items		6	(208)	37	81
Profit (loss) before profit tax		(1 425)	1 828	17 728	19 921

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

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 for three and nine months ended 30 September 2018 and amounting to RUB 4 842 million and RUB 47 688 million, respectively (for three and nine months ended 30 September 2017: the revenue of the same customer exceeded 10% of the Group's revenue and amounted to RUB 4 861 million and RUB 42 746 million, respectively).

The revenue presented within the electric energy segment includes two customers with the total revenue exceeding 10% of the Group's revenue for three the nine months ended 30 September 2018 and amounting to RUB 12 273 million and RUB 48 618million, respectively (for three and the nine months ended 30 September 2017: the total revenue of the same two customers exceeded 10% of the Group's revenue and amounted to RUB 16 303 million and RUB 56 386 million, respectively).

5 Cash and cash equivalents

	30 September 2018	31 December 2017
Cash on hand and bank balances payable on demand	586	391
Deposits with original maturity of three months or less	32 864	20 236
Total cash and cash equivalents	33 450	20 627

6 Financial assets

	30 September 2018	31 December 2017 (restated)	Effect of IFRS 9	31 December 2017
Financial assets at fair value through other comprehensive income:				
Equity securities	1 490	1 490	(1 664)	3 154
Total long-term financial assets	1 490	1 490	(1 664)	3 154

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

Financial assets at fair value through other comprehensive income include investment in LLC GAZEKS-Management in the amount of RUB 1 485 million as of 30 September 2018 that was received in settlement for accounts receivable in October 2013 (as of 31 December 2017: RUB 3 149 million).

In connection with the entry into force of the new IFRS 9, the investment in LLC GAZEKS-Management was impaired in the amount of RUB 1 664 million based on an analysis of net assets and the present value of future cash flows.

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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

7 Trade and other receivables

	30 September 2018	31 December 2017
Current assets		
Trade receivables	38 416	41 413
Loans issued	1 614	11 358
Advances to suppliers and prepaid expenses	2 808	2 324
VAT recoverable	166	61
Tax prepayments other than income tax	241	164
Accounts receivable on investments	865	6 965
Accounts receivable on disposal of property, plant and equipment	2 692	2 078
Other receivables	808	2 411
	47 610	66 774
Allowance for impairment loss on financial and non-financial assets	(16 998)	(15 144)
Total	30 612	51 630
Non-current assets		
Loans issued	9 294	10 494
Advances to suppliers and prepaid expenses	195	139
Accounts receivable from sale of property, plant and equipment	1 528	1 781
Accounts receivable on investments	5 600	-
Other receivables	1 672	168
Total	18 289	12 582

Allowance for impairment loss on financial and non-financial assets includes allowance for impairment loss on trade receivables (as of 30 September 2018: RUB 15 835 million, as of 31 December 2017: RUB 13 936 million), other receivables (as of 30 September 2018: RUB 283 million; as of 31 December 2017: RUB 330 million) and advances paid to suppliers (as of 30 September 2018: RUB 880 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

	30 September 2018	31 December 2017
Materials and supplies	13 462	13 995
Other inventories	97	59
	13 559	14 054
Allowance for inventory obsolescence	(555)	(555)
Total	13 004	13 499

The Group does not have pledged inventories.

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

9 Other current and non-current assets

	30 September 2018	31 December 2017
Other current assets		
Service contracts and other assets	1 510	822
Grid connection	633	633
Total	2 143	1 455
Other non-current assets		
Grid connection	6 806	7 276
Service contracts and other assets	2 916	1 617
Total	9 722	8 893

10 Assets held for sale

	2018	2017
Balance as of 1 January	43	445
Transfer to (from) assets classified as held for sale	(4)	(130)
Sale	-	(4)
Other disposals	(1)	(219)
Balance as of 30 September	38	92

As of 30 September 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 until the end of 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

11 Property, plant and equipment

	Buildings and construc- tions	Machinery and equipment	Transmis- sion networks	Other	Construc- tion in progress	Total
Revalued amount						
Balance as of 1 January 2017	123 548	129 718	1 234	16 823	27 853	299 176
Additions	10	-	2	7	4 122	4 141
Disposals and other	(43)	(44)	-	(49)	(313)	(449)
Transfers	1 415	4 148	53	1 102	(6 718)	-
Transfer from (to) other accounts	233	43	(54)	556	4	782
Acquisition of subsidiaries	451	9	-	24	-	484
Balance as of 30 September 2017	125 614	133 874	1 235	18 463	24 948	304 134
Balance as of 1 January 2018	126 485	138 621	4 986	21 531	15 850	307 473
Additions	154	16	-	122	4 640	4 932
Disposals and other	(28)	(686)	(7)	(33)	(53)	(807)
Transfers	1 439	2 435	63	732	(4 669)	-
Transfer from (to) other accounts	(65)	7	869	-	-	811
Balance as of 30 September 2018	127 985	140 393	5 911	22 352	15 768	312 409
Depreciation and impairment						
Balance as of 1 January 2017	(27 202)	(38 895)	(322)	(6 425)	(3 673)	(76 517)
Depreciation charge	(3 651)	(6 067)	(45)	(1 330)	-	(11 093)
Transfers	(162)	(621)	(10)	(106)	899	-
Disposals and other	18	29	-	6	-	53
Transfer from (to) other accounts	(19)	(49)	1	(104)	(1)	(172)
Acquisition of subsidiaries	(4)	(2)	-	(2)	-	(8)
Balance as of 30 September 2017	(31 020)	(45 605)	(376)	(7 961)	(2 775)	(87 737)
Balance as of 1 January 2017	(32 339)	(47 975)	(1 044)	(8 873)	(1 248)	(91 479)
Depreciation charge	(3 567)	(5 725)	(460)	(1 216)	-	(10 968)
Transfers	(22)	(34)	(5)	(13)	74	-
Disposals and other	21	276	3	17	-	317
Transfer from (to) other accounts	8	(3)	-	-	-	5
Balance as of 30 September 2018	(35 899)	(53 461)	(1 506)	(10 085)	(1 174)	(102 125)
Net book value						
Balance as of 1 January 2017	96 346	90 823	912	10 398	24 180	222 659
Balance as of 30 September 2017	94 594	88 269	859	10 502	22 173	216 397
Balance as of 1 January 2018	94 146	90 646	3 942	12 658	14 602	215 994
Balance as of 30 September 2018	92 086	86 932	4 405	12 267	14 594	210 284
Net book value of property, plant and equipment had no revaluation taken place						
Balance as of 1 January 2017	52 835	64 578	610	8 319	23 517	149 859
Balance as of 30 September 2017	52 622	62 540	586	8 448	22 406	146 600
Balance as of 1 January 2018	52 685	66 322	3 625	10 928	13 773	147 333
Balance as of 30 September 2018	52 151	64 765	3 730	10 680	13 789	145 115

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 30 September 2018 and of 31 December 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 interim 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 30 September 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 31 December 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 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 at the end of lease term (Note 15).

As of 30 September 2018 the net carrying amount of leased buildings and equipment was RUB 46 million (as of 31 December 2017: RUB 53 million).

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

12 Investment property

	2018	2017
Balance as of 1 January	2 359	3 180
Transfer to (from) property, plant and equipment	(812)	(237)
Disposals	(31)	(10)
Balance as of 30 September	1 516	2 933

The fair value of investment property as of 30 September 2018 amounted to RUB 1 516 million (as of 31 December 2017: RUB 2 359 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 and nine months ended 30 September 2018 amounted to RUB 75 million and RUB 230 million (for the three and nine months ended 30 September 2017 amounted to RUB 133 million and RUB 417 million), was recognised in other revenue in the interim 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:

	2018	2017
As of 30 September		
Less than one year	12	30
Later than one year but not later than 5 years	16	16
Later than 5 years	184	294
Total	212	340

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

13 Intangible assets

13.1 Goodwill

Goodwill relates to the acquisition of LLC Mosenergoproject (Note 28).

	2018	2017
Balance as of 1 January	187	-
Acquisition of Mosenergoproject LLC	-	187
Balance as of 30 June (31 December)	187	187

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 December 2017 no impairment of goodwill from the acquisition of Mosenergoproject LLC was detected.

13.2 Other intangible assets

	Software	Other intan- gible assets	Total
Cost			
Balance as of 1 January 2017	-	-	-
Reclassification from other non-current assets	807	3	810
Additions	44	19	63
Balance as of 30 September 2017	851	22	873
Balance as of 1 January 2018	973	66	1 039
Additions	174	33	207
Balance as of 30 September 2018	1 147	95	1 243
Amortisation			
Balance as of 1 January 2017	-	-	-
Reclassification from other non-current assets	(535)	(2)	(537)
Amortisation charge	(145)	-	(145)
Balance as of 30 September 2017	(680)	(2)	(682)
Balance as of 1 January 2018	(731)	(2)	(733)
Amortisation charge	(163)	(10)	(173)
Balance as of 30 September 2018	(894)	(12)	(907)
Net book value			
Balance as of 1 January 2017	-	-	-
Balance as of 30 September 2017	171	20	191
Balance as of 1 January 2018	242	64	306
Balance as of 30 September 2018	253	83	336

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

14 Investments in associates

	<u>2018</u>	<u>2017</u>
Balance as of 1 January	314	669
Share of loss of associates	(304)	(231)
Balance as of 30 September	10	438

The Group`s investments in associates are as follows:

	<u>TSK Mosenergo Group</u>	
	<u>2018</u>	<u>2017</u>
Ownership interest	22,51%	22,51%
Balance as of 30 June (31 December)		
Current assets	10 631	8 352
Non-current assets	8 929	8 282
Current liabilities	15 840	11 859
Non-current liabilities	1 377	1 079
For nine months ended 30 September		
Revenue	8 285	6 356
Loss for the period	(1 354)	(1 028)
Total comprehensive loss for the period	(1 354)	(1 028)
For three months ended 30 September		
Revenue	1 202	893
Loss for the period	(765)	(943)
Total comprehensive loss for the period	(765)	(943)

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 Group	Russia	Production, transmission and distribution of heat and hot water (heat energy)

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

15 Borrowings

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

	September 2018	31 December 2017
Short-term borrowings		
Bank borrowings	2 101	13 899
Finance lease liability	6	1
Interest payable	112	277
Other debt financing	113	384
Total short-term borrowings	2 332	14 561
Long - term borrowings		
Bank borrowings	8 834	8 830
Finance lease liability	196	197
Total long-term borrowings	9 030	9 027
Total borrowings	11 362	23 588

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

	Cur- rency	Nominal interest rate	Year of matu- rity	30 September 2018		31 December 2017	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bank financing							
Credit Agricole Bank CIB	EUR	EURIBOR 6M+1,95%	2024	5 695	5 576	5 541	5 395
BNP Paribas S.A.	EUR	EURIBOR 6M+2,00%	2022	5 517	5 359	5 538	5 334
				11 212	10 935	11 079	10 729
PJSC Sberbank	RUB	8,14%	2018	-	-	3 750	3 750
PJSC VTB Bank	RUB	8,14%	2018	-	-	8 250	8 250
				-	-	12 000	12 000
Total unsecured bank financing				11 212	10 935	23 079	22 729
Other financing							
LLC TER	RUB	6,53%-12%	2018	-	-	271	271
JSC Gazprom energoremont	RUB	14,00%	2018	103	103	103	103
PJSC TGC-1	RUB	5,82%	2018	10	10	10	10
Total other financing				113	113	384	384
Interest payable				112	112	277	277
Finance lease liability		8,14%	2048	202	202	198	198
Total				11 639	11 362	23 938	23 588

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

The lease payments are due as follows:

	Less than one year	Between one and five years	More than five years	Total
30 September 2018				
Future minimum lease payments	22	72	447	541
Interests	(16)	(64)	(259)	(339)
Present value of minimum lease payments	6	8	188	202
31 December 2017				
Future minimum lease payments	17	72	461	550
Interests	(16)	(65)	(271)	(352)
Present value of minimum lease payments	1	7	190	198

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:

	Borrowings	Dividends payable	Total
As of 31 December 2017	23 588	13	23 601
Cash-flows changes			
Repayment of borrowings	(13 030)	-	(13 030)
Dividend paid	-	(6 549)	(6 549)
Net cash used in financing activities	(13 030)	(6 549)	(19 579)
Interest paid	(528)	-	(528)
Total cash-flows changes	(13 558)	(6 549)	(20 107)
Foreing exchange result	1 219	-	1 219
Interest accrued	431	-	431
Dividends declared	-	6 566	6 566
Other changes	(318)	(30)	(348)
As of 30 September 2018	11 362	-	11 362

16 Trade and other payables

	30 September 2018	31 December 2017
Current liabilities		
Trade payables	4 550	4 594
Advances received	760	911
Accounts payable for acquisition of property, plant and equipment	1 098	1 669
Other payables	1 598	1 500
Total	8 006	8 674
Non-current liabilities		
Advances received	1	1
Accounts payable for acquisition of property, plant and equipment	178	153
Total	179	154

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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

17 Taxes receivable and payable

	30 September 2018	31 December 2017
Income tax receivable	568	-
Income tax payable	420	64
Other taxes payable		
VAT payable	789	2 087
Property tax payable	568	540
Social contributions payable	155	144
Other taxes payable	79	4
Total other taxes payable	1 591	2 775
Total taxes payable (net)	1 443	2 839

18 Provisions

	Income tax	Property tax	Litigations and claims	Total
Balance as of 1 January 2017	1 407	1 376	9	2 792
Provisions made during the period	-	200	-	200
Balance as of 30 September 2017	1 407	1 576	9	2 992
Balance as of 1 January 2018	1 407	1 664	7	3 078
Provisions made during the period	-	252	-	252
Provisions used during the period	-	-	-	-
Provision released during the period	-	-	(7)	(7)
Balance as of 30 September 2018	1 407	1 916	-	3 323

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:

	2018	2017
Nine months ended 30 September		
Profit before profit tax	17 728	19 921
Theoretical tax expense calculated at applicable tax rates	(3 546)	(3 984)
Adjustments to current profit tax of previous periods	-	831
Tax effect on other non-taxable expenses	(137)	52
Profit tax expense	(3 683)	(3 101)
Current profit tax expense	(4 043)	(1 510)
Deffered profit tax (expense) income	360	(1 591)
Three months ended 30 September		
Profit (loss) before profit tax	(1 425)	1 828
Theoretical tax (expense) income calculated at applicable tax rates	285	(366)
Adjustments to current profit tax of previous periods	-	82
Tax effect on other non-taxable expenses	(62)	750
Profit tax benefit	223	466
Current profit tax expense	(370)	(86)
Deffered profit tax income	593	552

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 in the Russian Federation.

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 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 nine months ended 30 September 2018 and 30 September 2017 are as follows:

	Opening balance	Effect of IFRS 9	Recog- nised in P/L¹⁾	Recog- nised in OCI²⁾	Acquisi- tion of subsi- diaries	Closing balance
Nine months ended 30 September 2018						
Property, plant and equipment	(28 070)	-	79	-	-	(27 991)
Investment property	(257)	-	122	-	-	(135)
Trade and other receivables	(401)	176	(265)	-	-	(490)
Assets held for sale	43	-	(7)	-	-	36
Trade and other payables	119	-	691	-	-	810
Employee benefit liabilities	70	-	2	-	-	72
Tax losses carried forward	135	-	25	-	-	160
Provisions	631	-	(1)	-	-	630
Borrowings	(30)	-	15	-	-	(15)
Other assets	(2 050)	333	(301)	-	-	(2 018)
Total	(29 810)	509	360	-	-	(28 941)
Nine months ended 30 September 2017						
Property, plant and equipment	(29 340)	-	975	-	-	(28 365)
Investment property	71	-	(354)	-	-	(283)
Investments in associates	141	-	(141)	-	-	-
Trade and other receivables	2 135	-	(2 402)	-	(8)	(275)
Assets held for sale	(13)	-	62	-	-	49
Trade and other payables	105	-	396	47	-	548
Employee benefit liabilities	73	-	-	-	-	73
Tax losses carried forward	30	-	20	-	93	143
Provisions	598	-	24	-	1	623
Borrowings	(90)	-	18	-	-	(72)
Other assets	(1 748)	-	(189)	-	-	(1 937)
Total	(28 038)	-	(1 591)	47	86	(29 496)

¹⁾P/L – profit or loss, ²⁾OCI – other comprehensive income.

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

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.

	Post employ- ment benefits	Other long-term benefits	Total
Nine months ended 30 September 2018			
Balance as of 1 January	266	86	352
Current service cost	13	5	18
Net interest expense	15	5	20
Total included in operating and finance expenses	28	10	38
Total recognised in other comprehensive income	-	-	-
Benefits paid	(28)	-	(28)
As of 30 September	266	96	362
Nine months ended 30 September 2017			
Balance as of 1 January	278	90	368
Current service cost	7	5	12
Net interest expense	17	6	23
Total included in operational and financial expenses	24	11	35
Total recognised in other comprehensive income	-	-	-
Benefits paid	(32)	(1)	(33)
As of 30 September	270	100	370

	September 2018	31 December 2017
Financial assumptions		
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
Demographic assumptions		
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 30 September 2018 and 31 December 2017 the declared share capital comprised 39 749 359 700 ordinary shares of RUB 1 par value each. All issued ordinary shares are fully paid.

The share capital includes the translation of the interim 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 30 September 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.

On 31 May 2018 the Annual General Shareholders' Meeting of the PJSC Mosenergo made the decision to pay dividends for the results of Group's activity for 2017. The amount of declared dividends on the issuer shares was RUB 0,16595 per share, total amount of dividends is RUB 6 573 million. The amount of unclaimed dividends for the result of financial years 2012 to 2013 is RUB 7 million.

21.4 Revaluation reserve

As of 30 September 2018 in the line "Revaluation reserve" there were disclosed revaluation reserve for property, plant and equipment in the amount of RUB 106 376 million (as of 31 December 2017: RUB 107 206 million). In 2017 the reserve deficit for remeasurement of post-employment benefit obligations was transferred to accumulated loss.

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

22 Revenue

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Electricity	22 672	25 163	83 261	84 631
Heat	5 110	5 279	50 999	48 784
Other revenue	538	722	1 728	1 930
Total	28 320	31 164	135 988	135 345

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

23 Operating expenses

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Materials				
Fuel	15 896	16 070	77 200	73 965
Purchased electricity and capacity	1 854	1 926	7 049	6 906
Other materials	586	600	1 550	1 708
	18 336	18 596	85 799	82 579
Services				
Heat transmission	17	62	497	1 562
Electricity market administration fees	374	363	1 106	1 102
Rent	259	261	774	783
Security and fire safety	226	224	686	667
Grid connection	158	158	475	475
Legal, consulting and data processing services	19	38	70	175
Transportation services	106	102	280	352
Cleaning services	81	89	283	269
Agency fee	40	45	120	137
Insurance expenses, excluding medical insurance	52	53	156	158
Communication services	22	24	68	68
Other professional services	438	453	1 086	1 006
	1 792	1 872	5 601	6 754
Depreciation and amortisation	3 699	3 849	11 142	11 238
Staff costs	2 677	2 561	8 266	8 023
Maintenance and repairs expenses	2 237	1 864	5 277	4 265
Taxes other than profit tax	604	577	1 628	1 672
Other expenses on ordinary activities	24	20	3	20
Total of production, selling and administration expenses	29 369	29 339	117 716	114 551
Change in provisions	69	80	245	200
Other operating expenses (income)				
(Gain) loss on disposal of property, plant and equipment	30	179	442	461
Expense (income) on fines and penalties	(49)	17	(488)	(452)
Other operating expense (income)	13	11	8	(93)
Total other operating expense (income)	(6)	207	(38)	(84)
Total operating expenses	29 432	29 626	117 923	114 667

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

For the nine months ended 30 September 2018 the average number of employees of the Group was 8 356 (for the nine months ended 30 September 2017: 8 441).

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

24 Charge for impairments and other provisions

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Impairment loss on financial assets				
Charge for allowance for accounts receivable	(421)	27	(1 046)	(1 200)
	(421)	27	(1 046)	(1 200)
Change in provisions				
Change in tax provision	(75)	(80)	(252)	(200)
Change in provisions on claims	6	-	7	-
	(69)	(80)	(245)	(200)
Charge for impairment and other provisions, net	(490)	(53)	(1 291)	(1 400)

25 Finance income and expense

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Finance income				
Interest income on bank deposits	463	461	1 285	1 423
Interest income on loans issued	336	407	1 148	1 224
Foreign exchange gain	521	308	1 083	1 059
Other interest income	74	111	301	302
Total finance income	1 394	1 287	3 817	4 008
Finance expense				
Foreign exchange loss	(1 023)	(473)	(2 278)	(1 841)
Interest expense on borrowings	(56)	(300)	(419)	(1 360)
Lease expense	(4)	(4)	(12)	(12)
Other interest expense	(31)	(35)	(94)	(121)
Total finance expense	(1 114)	(812)	(2 803)	(3 334)
Total net finance income (expense)	280	475	1 014	674

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 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.

	2018	2017
Three months ended 30 September		
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)	39 609 130	39 609 130
Profit attributable to the owners of PJSC Mosenergo (in RUB mln)	(1 202)	2 294
Profit per ordinary share (basic and diluted) (in Russian Roubles)	(0,03)	0,06
Nine months ended 30 September		
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)	39 609 130	39 609 130
Profit attributable to the owners of PJSC Mosenergo (in RUB mln)	14 045	16 820
Profit per ordinary share (basic and diluted) (in Russian Roubles)	0,35	0,42

There are no dilutive financial instruments outstanding in the Group.

27 Subsidiaries

PJSC Mosenergo and its following subsidiaries form the Mosenergo Group:

	Nature of business	Percentage of ownership	
		30 September 2018	31 December 2017
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%

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, and 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 considerations 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. Financial result of the acquired entity was included from the date of acquisition in the consolidated financial statement for the year ended 31 December 2017.

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

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

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

28.2 Sale of subsidiaries

In October 2014 PJSC Mosenergo sold TER Group LLC GER. In October 2018 accounts receivables have been repaid in the amount of RUB 500 million.

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 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 and nine months ended 30 September 2018 and 30 September 2017, or had significant balances outstanding as of 30 September 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:

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
Revenue	6 548	6 735	53 320	48 825
Heat	4 935	4 930	48 138	43 166
Electricity	989	1 268	3 855	4 267
Other revenue	624	537	1 327	1 392
Operating expenses	(5 106)	(4 865)	(49 381)	(47 567)
Fuel	(3 431)	(3 212)	(44 322)	(41 349)
Maintenance and repair expenses	(1 070)	(1 243)	(2 587)	(2 937)
Heat transmission	(16)	(62)	(471)	(1 550)
Purchased electricity and capacity	(39)	(46)	(473)	(483)
Rent	(85)	(83)	(242)	(236)
Transportation services	(85)	(77)	(223)	(231)
Cleaning services	(51)	(62)	(209)	(197)
Insurance expenses, excluding medical insurance	(53)	(53)	(156)	(158)
Medical insurance including in staff costs	(50)	(49)	(150)	(148)
Agency fee	(39)	(45)	(120)	(137)
Security and fire safety	(5)	(4)	(83)	(77)
Legal, consulting and data processing services	(6)	(6)	(17)	(21)
Other external services and works	(195)	(300)	(419)	(462)
Other operating income (expenses)	19	377	91	419
Impairment gain on financial assets	80	-	254	-
Finance income and expense	401	420	1 432	1 459
Finance income	433	424	1 473	1 471
Finance expense	(32)	(4)	(41)	(12)
Purchase of assets	1 029	816	3 474	3 315
Purchase of property, plant and equipment	961	581	2 228	1 197
Purchase of other assets	68	235	1 246	2 118

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

	30 September 2018	31 December 2017
Outstanding balance		
Cash and cash equivalents	280	303
Trade and other receivables	40 100	51 753
Allowance for impairment of receivables	(626)	-
Advances for assets under construction	3 936	3 433
Total assets	43 690	55 489
Short-term borrowings	(165)	(464)
Long-term borrowings	(196)	(197)
Trade and other payables	(2 053)	(3 006)
Total liabilities	(2 414)	(3 667)

As of 30 September 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 5 821 million (31 December 2017: RUB 6 484 million).

29.2 Transactions with associates

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
Revenue	119	203	1 141	1 234
Heat	103	193	1 092	1 206
Other revenue	16	10	49	28
Operating expenses	-	-	(16)	-
Heat transmission	-	-	(16)	-
Impairment gain on financial assets	3	-	198	-
Finance income and expense	9	-	26	7
Finance income	9	-	26	7
			30 September 2018	31 December 2017
Outstanding balance				
Trade and other receivables			1 907	2 202
Allowance for impairment of receivables			(197)	(395)
Total assets			1 710	1 807

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 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:

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
Wages and salaries	(43)	(38)	(57)	(49)
Social taxes and contributions	(8)	(7)	(10)	(9)
Total	(51)	(45)	(67)	(58)

There are no outstanding balances as of 30 September 2018 and as of 31 December 2017 as for transactions with key management.

Remuneration to management organisation LLC Gazprom energoholding for the three and nine months ended 30 September 2018 was in the amount of RUB 32 million and RUB 99 million respectively (for the three and nine months ended 30 September 2017: RUB 35 million and RUB 108 million respectively).

29.4 Transactions with other state-controlled entities

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

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
Revenue	4 741	6 292	16 956	21 070
Electricity	4 620	5 870	15 866	19 196
Heat	48	251	873	1 561
Other revenue	73	171	217	313
Operating expenses	(1 055)	(1 176)	(3 081)	(2 905)
Electricity market administration fees	(369)	(362)	(1 089)	(1 098)
Other materials	(354)	(338)	(911)	(956)
Rent	(168)	(169)	(501)	(514)
Security and fire safety	(116)	(115)	(352)	(347)
Fuel	(7)	(8)	(73)	(68)
Purchased electricity and capacity	(3)	(11)	(66)	(50)
Other external services and works	(43)	(33)	(132)	(110)
Other operating income (expenses)	5	(140)	43	238
Impairment loss on financial assets	(188)	(18)	(951)	(754)
Finance income and expense	391	71	858	(418)
Finance income	391	317	1 102	785
Finance expense	-	(246)	(244)	(1 203)

	30 September 2018	31 December 2017
Outstanding balance		
Cash and equivalents	32 881	14 394
Trade and other receivables	13 644	14 947
Allowance for impairment of receivables	(10 094)	(10 011)
Advances for assets under construction	6	9
Total assets	36 437	19 339
Short-term borrowings	-	(12 180)
Trade and other payables	(1 422)	(1 429)
Total liabilities	(1 422)	(13 610)

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

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 Centre (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:

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Revenue	12 273	12 452	44 346	43 653
Electricity	12 273	12 452	44 346	43 653
Expenses	(1 807)	(1 858)	(6 466)	(6 330)
Purchased electricity and capacity	(1 807)	(1 858)	(6 466)	(6 330)
			30 September 2018	31 December 2017
Outstanding balance				
Trade and other receivables			2 052	2 579
Total assets			2 052	2 579
Trade and other payables			(307)	(470)
Total liabilities			(307)	(470)

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 and the nine months ended 30 September 2018, operating lease expenses in amounts of RUB 259 million and RUB 774 million, respectively, were recognised in profit or loss (for the three and the nine months ended 30 September 2017: RUB 261 million and RUB 783 million, respectively) (Note 23).

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

	30 September 2018	31 December 2017
Less than one year	693	637
Between one and five years	2 322	2 372
More than five years	21 954	21 753
Total	24 969	24 762

30.2 Capital commitments

As of 30 September 2018 the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RUB 7 388 million excluding VAT (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 30 September 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 30 September 2018 (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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 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 Euro.

	Note	Euro	
		30 September 2018	31 December 2017
Financial assets			
Current assets			
Cash and cash equivalents	5	1	1
Total financial assets		1	1
Financial liabilities			
Current liabilities			
Current borrowings	15	(2 167)	(1 916)
Trade and other payables	16	(79)	(234)
Non-current liabilities			
Long-term borrowings	15	(8 834)	(8 830)
Total financial liabilities		(11 080)	(10 980)
Net financial liabilities		(11 079)	(10 979)

The table below provides information on the Group's sensitivity to strengthening the Euro against the Russian Ruble by 20%. 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 analysed.

	Euro impact	
	30 September 2018	31 December 2017
Decrease in profit	(2 216)	(2 196)

The weakening of the currencies considered above by 20% relative to the functional currency as of 30 September 2018 would have the same effect, but with the opposite sign, on the basis that all other variables remain constant.

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

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 borrowings the management uses its judgment to decide that a fixed or variable rate would be more favourable 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:

	30 September 2018	31 December 2017
Fixed rate instruments		
Financial assets	81 305	86 136
Financial liabilities	<u>(6 188)</u>	<u>(19 379)</u>
Total	<u>75 117</u>	<u>66 757</u>
Variable rate instruments		
Financial liabilities	<u>(11 001)</u>	<u>(10 746)</u>
Total	<u>(11 001)</u>	<u>(10 746)</u>

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 30 September 2018 and 31 December 2017.

	30 September 2018	31 December 2017
Decrease in profit	<u>(110)</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.

31.2.1 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:

	30 September 2018	31 December 2017
Trade and other receivables	35 447	40 503
Loans issued	10 908	21 852
Total	46 355	62 355

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.

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

	30 September 2018		31 December 2017			
	Carrying amount	Impair- ment	Carrying amount	Impairment (restated)	Effect of IFRS 9	Impair- ment
Not past due	40 958	537	49 284	614	614	-
Past due 0-30 days	289	77	8 267	256	256	-
Past due 31-120 days	2 291	602	1 487	546	(50)	596
Past due 121-365 days	4 185	2 307	3 572	1 667	(148)	1 815
More than one year	14 467	12 312	13 681	11 733	208	11 525
Total	62 190	15 835	76 291	14 816	880	13 936

PJSC MOSENERGO
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - 30 SEPTEMBER 2018
(in millions of Russian Rubles)

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

	2018	2017
Balance as of 1 January	13 936	12 176
Effect of application of IFRS 9	880	-
Balance as of 1 January (restated)	14 816	12 176
Allowance for impairment loss accrued during the period	2 490	1 169
Allowance used and written off	(1 471)	(103)
Balance as of 30 September	15 835	13 242

31.2.2 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.

	Carrying amount	Contractual cash flow	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of 30 September 2018							
Borrowings	11 362	13 452	1 320	1 148	2 269	6 492	2 223
Trade and other payables	5 826	5 826	5 648	-	178	-	-
Total	17 188	19 278	6 968	1 148	2 447	6 492	2 223
Balance as of 31 December 2017							
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	-	-
Total	30 125	32 235	8 385	13 539	2 221	6 011	2 079

31.4 Capital risk management

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 joint stock 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 30 September 2018 and 31 December 2017 PJSC Mosenergo 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 adjusted for depreciation and amortization, impairment losses on non-financial assets and change in provisions.

The net debt to adjusted EBITDA ratios as of 30 September 2018 and 30 September 2017 were as follows:

	30 September 2018	30 September 2017
Total debt	11 362	24 300
Less: cash and cash equivalents	<u>(33 450)</u>	<u>(27 499)</u>
Net (cash) debt	(22 088)	(3 199)
Adjusted EBITDA	28 406	30 916
Net debt / Adjusted EBITDA ratio	(0,78)	(0,10)

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 nine months ended 30 September 2018 (31 December 2017: there was no change). There were no transfers between levels for the nine months ended 30 September 2018 (31 December 2017: there were no transfers).

As of 30 September 2018 and 31 December 2017 the Group had the following assets and liabilities that are measured at fair value:

	Level 1	Level 2	Level 3	Total
Balance as of 30 September 2018				
Financial assets at fair value through other comprehensive income (Note 6)	-	-	1 490	1 490
Balance as of 31 December 2017				
Financial assets at fair value through other comprehensive income (Note 6)	-	-	3 154	3 154

33 Events after the reporting period

On 8 October 2018 the Board of Director LLC “TSK Mosenergo” approved disposal of interest in LLC “TSK Novaya Moskva”. The transaction was completed on 24 October 2018.