PJSC MOSENERGO

IFRS CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

31 December 2017
Moscow | 2017

Contents

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Independent Auditor's Report

To the Shareholders

of PJCS Mosenergo

Opinion

We have audited the accompanying consolidated financial statements of PJSC Mosenergo and its subsidiaries (hereinafter – the Group), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2017, and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2017 in accordance with International Financial Reporting Standards (hereinafter – IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter – ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with Independence Rules for Auditors and Audit Firms and Code of Professional Ethics of Auditors, that correspond to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revaluation of property, plant and equipment

This matter is one of most significance in our audit in view of high significance of the balances of property, plant and equipment. The Group performs regular revaluation of property, plant and equipment to ensure that the carrying value does not differ materially from that which would be determined using fair value at the end of the reporting period.

As of 31 December 2017 revaluation of property, plant and equipment was considered unreasonable due to the fact that the carrying value of property, plant and equipment at which they were reflected in the consolidated financial statements as of that date did not differ materially from that which would be determined using fair value as of that date.

We engaged our valuation experts to make a conclusion on the assumptions applied to test the need of property, plant and equipment revaluation. Our audit procedures in respect of such testing included sample checking of test models and methods for accuracy.

Based on the results of the audit procedures we believe that the significant assumptions applied to test the need of property, plant and equipment revaluation are acceptable and are well in line with current economic environment.

Information about the non-current assets and the conducted revaluations is disclosed in Note 11 Property, plant and equipment.

Provisions for taxes

Evaluation and recognition of provisions as well as their classification require plenty of professional judgement. We consider this area to be one of most significance in our audit in view of essential difficulties associated with the assessment issue.

The Group is currently contesting in court the results of the on-site tax audit for the periods from 2011 to 2013, which resulted in payment of charged taxes and the respective penalties. Provisions for taxes for the periods from 2014 to 2017 were recognised based on the analysis of legal precedents related to tax disputes, including those involving the Group.

We assessed assumptions and professional judgements applied by the Group's management, including critical assessment of information by the Group's management, to estimate potential tax liabilities and determine their maturity. We engaged our tax experts to make a conclusion on the assumptions applied to evaluate provisions.

Based on the results of the procedures applied, we found the position of the Group's management related to recognition, evaluation and classification of estimated liabilities in respect of taxes to be appropriate.

Information about the provisions for taxes is disclosed in Note 18 Provisions to the consolidated financial statements. Information about correction of comparative information on provisions for taxes is disclosed in Note 2.5 Adjustments of comparative information to the consolidated financial statements.

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Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report of PJSC Mosenergo for 2017 and the Quarterly issuer's report for the first quarter of 2018, which are expected to be made available to us after the date of this auditor's report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the Annual report of PJSC Mosenergo for 2017 and the Quarterly issuer's report of PJSC Mosenergo for the first quarter of 2018 we conclude that there is a material misstatement of this other information, we are required to report that fact to the Board of Directors.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2016 were audited by another auditor (JSC ACG RBS) who expressed an unmodified opinion on those consolidated financial statements in their report dated 6 March 2017.

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's consolidated financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease its ability to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with the Board of Directors we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Partner of FBK, LLC

A.O. Birin
(on the ground of power of attorney
№ 66/14, dated 1 June 2017,
audit qualification certificate
01-000696, ORNZ 21606043318)

Engagement partner

P.V. Sungurova,
(audit qualification certificate
01-001300, ORNZ 21606047673)

Date of Independent auditor's report
7 March 2018

Audited entity

Name:

Public Joint Stock Company Mosenergo (PJSC Mosenergo).

Address of the legal entity within its location:

101/3 Vernadskogo Pr., Moscow, 119526, Russian Federation

Official registration:

State Registration Certificate No. 012.473, issued by Moscow Registration Chamber on 06 April 1993. The registration entry was made in the Unified State Register of Legal Entities on 11 October 2002 under principal state registration (OGRN) number 1027700302420.

Auditor

Name:

Limited Liability Company "Accountants and business advisors" (FBK, LLC).

Address of the legal entity within its location:

44/1, 2AB, Myasnitskaya St., Moscow, 101990, Russian Federation.

Official registration:

State Registration Certificate series YZ 3 No. 484.583 RP issued by Moscow Registration Chamber on 15 November 1993. The registration entry was made in the Unified State Register of Legal Entities on 24 July 2002 under primary state registration number (OGRN) 1027700058286.

Membership in self-regulatory organization of auditors:

Self-regulatory organization of auditors Association "Sodruzhestvo".

Number in the register of self-regulatory organization of auditors:

Certificate of membership in the self-regulatory organization of auditors Association "Sodruzhestvo" No. 7198, number in the register – 11506030481.

PJSC MOSENERGO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2017
(in millions of Russian Rubles)

	Notes	31 December 2017	31 December 2016 (restated)
Assets			
Current assets			
Cash and cash equivalents	5	20 627	10 097
Short-term financial assets	6	-	15 057
Trade and other receivables	7	51 630	45 016
Inventories	8	13 499	9 552
Income tax receivable	17	-	143
Other current assets	9	1 455	893
		87 211	80 758
Assets held for sale	10	43	445
Total current assets		**87 254**	**81 203**
Non-current assets			
Property, plant and equipment	11	215 994	222 659
Investment property	12	2 359	3 180
Goodwill	13.1	187	-
Other intangible assets	13.2	306	-
Investments in associates	14	314	669
Long-term financial assets	6	3 154	3 171
Trade and other receivables	7	12 582	17 507
Advances for assets under construction		3 804	1 012
Other non-current assets	9	8 893	9 258
Total non-current assets		**247 593**	**257 456**
Total assets		**334 847**	**338 659**
Equity and liabilities			
Current liabilities			
Short-term borrowings	15	14 561	21 453
Trade and other payables	16	8 674	11 164
Profit tax payable	17	64	3 985
Other taxes payable	17	2 775	3 351
Provisions	18	3 078	2 792
Total current liabilities		**29 152**	**42 745**
Non-current liabilities			
Long-term borrowings	15	9 027	21 549
Deferred tax liabilities	19	29 810	28 025
Employee benefits	20	352	368
Trade and other payables	16	154	539
Total non-current liabilities		**39 343**	**50 481**
Total liabilities		**68 495**	**93 226**
Equity			
Share capital	21	166 124	166 124
Treasury shares	21	(871)	(871)
Share premium	21	49 213	49 213
Revaluation reserve	21	107 206	107 442
Accumulated loss and other reserves		(55 320)	(76 475)
Total equity		**266 352**	**245 433**
Total equity and liabilities		**334 847**	**338 659**

A.A. Butko
Managing director
« 7 » March 2018

E.Y. Novenkova
Chief Accountant
« 7 » March 2018

The accompanying notes on the pages 12 to 60 are an integral part of these consolidated financial statements.

(in millions of Russian Rubles)

	Notes	Year ended 31 December 2017	2016
Revenue	22	196 056	190 656
Operating expenses	23	(163 622)	(167 467)
Charge for impairment and other provisions, net	24	(3 224)	(7 553)
Operating profit		**29 210**	**15 636**
Gain on disposal of subsidiaries and associates	14, 28	-	922
Share of loss of associates	14	(355)	(494)
Profit before finance income (expense) and profit tax		**28 855**	**16 064**
Finance income	25	5 271	8 312
Finance expense	25	(4 014)	(3 927)
Profit before profit tax		**30 112**	**20 449**
Profit tax expense	19	(5 310)	(7 011)
Profit for the period		**24 802**	**13 438**
Other comprehensive income (loss):			
Remeasurement of post-employment benefit obligations	20	8	2
Effect of acquisition under common control	28, 29	(515)	2 335
Total items that will not be reclassified subsequently to profit or loss		**(507)**	**2 337**
Loss arising from change in fair value of available-for-sale financial assets		(16)	(3)
Total items that may be reclassified subsequently to profit or loss		**(16)**	**(3)**
Other comprehensive income (loss) for the period, net of tax		**(523)**	**2 334**
Total comprehensive income for the period		**24 279**	**15 772**
Profit attributable to:			
Owners of PJSC Mosenergo		24 802	13 438
Total comprehensive income attributable to:			
Owners of PJSC Mosenergo		24 279	15 772
Basic and diluted earnings per share for profit attributable to the owners of PJSC Mosenergo (in Russian Rubles)	26	**0,63**	**0,34**

A.A. Butko
Managing director
« 7 » March 2018

E.Y. Novenkova
Chief Accountant
« 7 » March 2018

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(in millions of Russian Rubles)

	Notes	Year ended 31 December 2017	2016 (restated)
Cash flow from operating activities			
Profit before finance income (expense) and profit tax		**28 855**	**16 064**
Adjustments to profit before profit tax for:			
Depreciation and amortisation	23	15 117	15 067
Share of loss of associates	14	355	494
Gain on disposal of subsidiaries and associates	14, 28.2	-	(922)
Charge for impairment and other provisions, net	24	3 224	7 553
Loss on sale and other disposal of property, plant and equipment	23	1 644	297
Other		-	(79)
Total effect of adjustments		**20 340**	**22 410**
Cash flows from operations before working capital changes		**49 195**	**38 474**
Changes in working capital:			
Change in trade and other receivables		7 486	(3 180)
Change in inventories		(3 966)	(1 721)
Change in other current assets		(566)	(364)
Change in trade and other payables		(776)	(1 449)
Change in other taxes payables (other than profit tax)		(569)	2 304
Change in employee benefit liabilities		(17)	(35)
Total effect of working capital changes		**1 592**	**(4 445)**
Income tax paid		(7 178)	(2 259)
Interest paid		(1 542)	(80)
Net cash from operating activities		**42 067**	**31 690**
Cash flows from investing activities			
Capital expenditures		(15 239)	(6 339)
Interested paid and capitalised		-	(2 919)
Net changes in loans issued	7	(10 092)	198
Sale of subsidiaries, net of cash disposed	28	-	(504)
Acquisition of subsidiaries, net of cash acquired		(16)	-
Proceeds from sale of property, plant and equipment		452	213
Interest received		3 182	118
Dividend received		76	78
Placement of short-term deposits		-	(14 513)
Repayment of short-term deposits		15 057	-
Net cash used in investing activities		**(6 580)**	**(23 668)**
Cash flow from financing activities			
Proceeds from borrowings		54	868
Repayment of borrowings		(21 629)	(2 239)
Dividend paid		(3 346)	(2 210)
Net cash used in financing activities		**(24 921)**	**(3 581)**
Effect of foreign exchange rate changes on cash and cash equivalents		(36)	(10)
Increase in cash and cash equivalents		**10 530**	**4 431**
Cash and cash equivalents at the beginning of the period	5	10 097	5 666
Cash and cash equivalents at the end of the period	5	**20 627**	**10 097**

A.A. Butko
Managing director
« 7 » March 2018

E.Y. Novenkova
Chief Accountant
« 7» March 2018

The accompanying notes on the pages 12 to 60 are an integral part of these consolidated financial statements.

(in millions of Russian Rubles)

		Equity attributable to owners of the PJSC Mosenergo					
	Notes	Share capital	Treasury shares	Share premium	Revaluation reserve	Accumulated loss and other reserves	Total
Balance as of 1 January 2016		**166 124**	**(871)**	**49 213**	**107 803**	**(90 400)**	**231 869**
Profit for the period		-	-	-	-	13 438	13 438
Other comprehensive income (loss):							
Remeasurement of post-employment benefit obligations	20	-	-	-	2	-	2
Effect of acquisition under common control		-	-	-	-	2 335	2 335
Change in fair value of available-for-sale financial assets		-	-	-	(3)	-	(3)
Transfers from revaluation surplus on property, plant and equipment to accumulated loss and other reserves		-	-	-	(360)	360	-
Total comprehensive income (loss) for the period		-	-	-	**(361)**	**16 133**	**15 772**
Transaction with owners of PJSC Mosenergo							
Change of controlling interest in subsidiaries		-	-	-	-	2	2
Dividends declared		-	-	-	-	(2 210)	(2 210)
Balance as of 31 December 2016		**166 124**	**(871)**	**49 213**	**107 442**	**(76 475)**	**245 433**
Balance as of 1 January 2017		**166 124**	**(871)**	**49 213**	**107 442**	**(76 475)**	**245 433**
Profit for the period		-	-	-	-	24 802	24 802
Other comprehensive income (loss):							
Remeasurement of post-employment benefit obligations	20	-	-	-	-	8	8
Effect of acquisition under common control	28,29		-	-	-	(515)	(515)
Change in fair value of available-for-sale financial assets		-	-	-	-	(16)	(16)
Transfers from revaluation surplus of property, plant and equipment to accumulated loss and other reserves		-	-	-	(327)	327	-
Other		-	-	-	91	(91)	-
Total comprehensive income (loss) for the period		-	-	-	**(236)**	**24 515**	**24 279**
Transaction with owners of PJSC Mosenergo							
Dividends declared		-	-	-	-	(3 360)	(3 360)
Balance as of 31 December 2017		**166 124**	**(871)**	**49 213**	**107 206**	**(55 320)**	**266 352**

A.A. Butko
Managing director
« 7 » March 2018

E.Y. Novenkova
Chief Accountant
« 7 » March 2018

The accompanying notes on the pages 12 to 60 are an integral part of these 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 12 873 MW and 42 760 Gkal/h, respectively.

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

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

1.2 Group formation

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

The General Shareholders' Meeting held on 20 December 2006 approved a closed subscription for the additional shares issued in favor of PJSC Gazprom and its affiliates (together referred to as the "Gazprom Group"). As a result the majority shareholder of PJSC Mosenergo changed from RAO UES of Russia to Gazprom Group holding 53.49% of ordinary shares. Following the reorganisation process, the Extraordinary General Shareholder's Meeting of RAO UES of Russia on 26 October 2007 approved the spin-off of several holding companies to which shares in electricity generation companies, including PJSC Mosenergo, held by RAO UES of Russia, were transferred. Holdings separated from RAO UES of Russia were merged with generation companies by means of shares conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in generation companies after reorganisation. Accordingly, upon spin-off from RAO UES of Russia OJSC Mosenergo Holding received the share in PJSC Mosenergo held by RAO UES of Russia. Simultaneously with the spin-off OJSC Mosenergo Holding was merged with PJSC Mosenergo and its shares were converted into the shares of PJSC Mosenergo.

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

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

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

1.3 Business environment

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

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

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

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

1.4 Relations with the Government and influence on the Group activities

At the date of consolidated financial statements the Russian Federation owned (both directly and indirectly) over 50% in PJSC Gazprom, which holds 53.49% of PJSC Mosenergo through its 100% subsidiary LLC Gazprom energoholding (immediate parent company). Thus PJSC Gazprom is the parent company of the Group and the Russian Federation is the ultimate controlling party of the Group.

The Government of the Russian Federation directly affects the Group’s operations through regulations of wholesale and retail sales of electricity and heat exercised by the Federal Antimonopoly Service (the “FAS”) and the Department of economic policy and development of Moscow and the Committee on the prices and tariffs of the Moscow region. JSC SO UPS, which is controlled by the Russian Federation, regulates operations of generating assets of the Group.

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

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

1.5 Industry restructuring

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

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

Electricity volumes produced, not covered by the regulated contracts are traded at unregulated prices on the basis of free bilateral contracts or on a day-ahead market.

Under free bilateral contracts market participants have the right to choose contracting parties, prices and volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers the day before the electricity is supplied.

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

FAS. Non-regulated bilateral contracts for supply of electricity and capacity may be also concluded. Agreements for the provision of facilities provide on the one hand the obligations for suppliers to implement approved investment programs, and on the other hand give a guarantee of payment capacity of the new (upgraded) generating facilities from the Government of the Russian Federation.

2 Basis of preparation

2.1 Statement of compliance

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

2.2 Basis of measurement

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

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgment

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

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

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

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

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

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 – unobservable inputs for the asset or liability.

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

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

- Note 10 – Assets classified as held for sale;
- Note 11 – Property, plant and equipment;
- Note 12 – Investment property;
- Note 32 – Fair value of financial instruments.

(in millions of Russian Rubles)

2.5 Adjustments of comparative information

Consolidated statement of financial position

The data for the column 31 December 2016 of the consolidated statement of financial position as of 31 December 2017 was formed by adjusting the consolidated statement of financial position as of 31 December 2016, namely Trade and other receivables and Provisions for the amount of taxes paid accrued on the basis of the results of the tax audit. Paid taxes include property tax, penalties and fines for 2011-2013.

The effect of the changes in the consolidated statement of financial position as of 31 December 2016 is set out below.

	31 December 2016		
	Amount before adjustment	Adjustment	Amount after adjustment
Trade and other receivables	47 631	(2 615)	45 016
Total current assets	**83 818**	**(2 615)**	**81 203**
Total assets	**341 274**	**(2 615)**	**338 659**
Provisions	5 407	(2 615)	2 792
Current liabilities	**45 360**	**(2 615)**	**42 745**
Total liabilities	**95 841**	**(2 615)**	**93 226**
Total equity and liabilities	**341 274**	**(2 615)**	**338 659**

Consolidated statement of cash flows

Data on the column For the year ended 31 December 2016 of the consolidated statement of cash flows for the year ended 31 December 2017 was formed by adjusting the consolidated statement of cash flows for the year ended 31 December 2016. According economical substance of expenses on grid connections it was reclassify from item Grid connections in the item Capital expenditure. Item Acquisition of property, plant and equipment and intangibles was renamed in Capital expenditure.

	Year ended 31 December 2016		
	Amount before correction	Correction	Amount after correction
Cash flows from investing activities			
Capital expenditures	(8 192)	1 853	(6 339)
Grid connections	1 853	(1 853)	-

3 Significant accounting policies

3.1 Basis of consolidation

3.1.1 Subsidiaries

Subsidiaries are those investees that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity.

For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases.

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

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

3.1.2 Acquisition of subsidiaries under common control

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

3.1.3 Associates

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

3.1.4 Transactions eliminated on consolidation

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

3.2 Foreign currency transactions

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

3.3 Financial instruments

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

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

Cash and cash equivalents comprise cash on hand and balances with banks. Cash equivalents comprise highly luiquid short-term financial assets and have an original maturity of three months or less.

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

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

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

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

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

3.4 Share capital

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

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

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

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

3.5 Property, plant and equipment

3.5.1 Recognition and measurement

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

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

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

Cost of acquired assets includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, 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.

(in millions of Russian Rubles)

Gains and losses on disposal of an item of property, plant and equipment are recognised net in the line "other operating expenses (income)" in profit or loss. Increase in the carrying amount as a result of revaluation is transferred from the revaluation surplus to retained earnings when the assets are disposed.

3.5.2 Reclassification to investment property

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

3.5.3 Subsequent costs

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

3.5.4 Depreciation

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

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

As part of revaluation as of 31 December 2013 useful lives of certain classes of property, plant and equipment were revised and were as follows:

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

3.6 Intangible assets

3.6.1 Goodwill

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

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

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

3.6.2 Other intangible assets

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

3.6.3 Subsequent expenditures

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

3.6.4 Amortisation

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

3.7 Investment property

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

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

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

3.8 Leased assets

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

3.9 Inventories

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

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

3.10 Impairment

3.10.1 Financial assets

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

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

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

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

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

3.10.2 Non-financial assets

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

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

3.10.3 Non-current assets held for sale

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

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

3.11 Employee benefits

3.11.1 Defined contribution pension plans

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

3.11.2 Defined benefit plans

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

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

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

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

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

3.11.3 Other long-term employee benefits

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

3.11.4 Termination benefits

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

3.11.5 Short-term benefits

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

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

3.12 Provisions

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

3.13 Segment reporting

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

3.14 Revenues

3.14.1 Sales of goods

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

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

3.14.2 Services

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

3.14.3 Rental income

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

3.15 Government subsidies

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

Government subsidies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the subsidy. Subsidies that compensate the Group for expenses incurred are recognised in consolidated statement of comprehensive income on a systematic basis in the same periods in which the expenses are recognised. Government subsidies that compensate PJSC Mosenergo for the cost of an asset are 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.

3.16 Lease payments

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

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

3.17 Finance income and expense

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

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

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

3.18 Income tax expense

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

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

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

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

3.19 Uncertain tax positions

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

3.20 Earnings per share

The Group presents basic and diluted earnings (loss) per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit (loss) attributable to ordinary shareholders of PJSC Mosenergo by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting profit (loss) attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees. There are no dilutive potential ordinary shares in the Group as of 31 December 2017 and 31 December 2016.

3.21 Adoption of new or revised standards and interpretations

3.21.1 Application of new IFRSs

A number of amendments to current IFRSs became effective for the periods beginning on or after 1 January 2017:

- The amendments to IAS 7 Cash Flow Statements (issued in January 2016) that require disclosing a reconciliation of movements for obligations arising from financing activities. The Group provided this information both for the reporting and past period in Note 15.
- The amendments to IAS 12 Income Taxes in the recognition of deferred tax assets for unrealised losses (issued in January 2016. The adoption of amendments to the current standard has no significant impact on the Group's consolidated financial information.

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

Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning after 1 January 2018 and that have not yet been adopted by the Group.

IFRS 9 Financial Instruments (IFRS 9) (issued in November 2009 and effective for annual periods beginning on or after 1 January 2018). The standard describes the revised principles for the classification, recognition and measurement of financial assets and liabilities, and hedge accounting. The main effect of the transition to the new standard is associated with a change in the classification of financial assets, as well as the introduction of a model of expected credit losses that is more prudent than the current model of losses incurred and may lead to earlier recognition of losses.

The Group plans to apply the new standard from the required effective date and will not recalculate comparative information. In 2017, the Group carried out a detailed assessment of the impact of IFRS 9. This estimate is based on currently available information and can be changed due to the receipt of additional substantiated and verifiable information that will become available in 2018 when the Group starts applying IFRS 9. In general, the Group does not expect any significant impact of the new requirements on the consolidated statement of financial position and equity except for the application of IFRS 9 for impairment. The Group expects an increase in the provision, which will have a negative impact on equity as described below.

(a) Classification and evaluation

There have been no changes in the classification of the Group's equity instruments, as they are classified as available-for-sale and comply with the terms of the classification as measured at fair value through other comprehensive income.

The Group plans to retain unlisted equity instruments in the foreseeable future. In respect of these investments in previous periods, impairment losses have not been recognized in profit or loss. The Group intends to take the opportunity to recognise changes in the fair value of such investments in other comprehensive income, and thus the adoption of IFRS 9 will not have a significant impact on its consolidated financial statements.

While determining the fair value of equity instruments, the Group expects a decrease in the carrying amount of such investments. For the purposes of the consolidated financial statements prepared under IFRS for the year 2018, a decision to engage an independent appraiser to determine the fair value of the investment may be made

Borrowings and trade receivables are withheld for contractual cash flows and are expected to result in cash flows that are solely payments to principal and interest. The Group has analysed the characteristics of contractual cash flows for these instruments and concluded that they meet the criteria for valuation at amortised cost under IFRS 9. Consequently, these instruments are not reclassified.

The amendments will not affect the accounting for the Group's financial liabilities, since the new requirements relate to accounting for financial liabilities that are measured through profit or loss and that the Group does not have.

(b) Impairment

The new impairment model requires recognising the allowance for losses based on expected credit losses, rather than on the basis of the losses incurred, as required by IAS 39 Financial Instruments: Recognition and Measurement. These requirements apply to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets recognised in accordance with IFRS 15 Revenue from Contracts with Customers, lease receivables, obligations to provide loans and some financial guarantee contracts. Based on the assessment made to date, the Group does not expect the standard to have a significant impact on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers (IFRS 15) (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Revenue from sales of any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognised as an asset and amortised over the period when the benefits of the contract are consumed.

To assess the impact of IFRS 15 on the consolidated financial statements, the Group reviewed all of the major contracts with customers. Based on the analysis, the Group does not expect the standard to have a significant impact on its consolidated financial statements.

IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. The Group is currently assessing the impact of the adoption of the standard on the consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018) provides requirements for recognising a non-monetary asset or a non-monetary obligation arising from a result of committing or receiving prepayment until the recognition of the related asset, income or expense.

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

The amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.

The amendments to IAS 40 Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property.

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

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

(in millions of Russian Rubles)

4 Segment information

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

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

The segment information is prepared in accordance with IFRS. Differences in items between those reported in the segment information and those reported in the Group`s consolidated financial statements are due to the unallocated items of income and expense (such as financial income and expense, share of income (loss) of associates, income tax) that can not be directly allocated to identifiable reportable segments as these are managed on an overall group basis.

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

4.1 Financial results of segments

The segment information for the year ended 31 December 2017 and 31 December 2016 is as follows:

	Notes	Electric energy	Heat energy	All other segments	Total	Intra-group transactions	Total
Year ended 31 December 2017							
Segment revenue	22	**118 914**	**75 215**	**2 495**	**196 624**	**(568)**	**196 056**
Revenue from external customers		118 914	75 200	1 942	196 056	-	**196 056**
Intra-group revenue		-	15	553	568	(568)	-
Segment result		**34 516**	**(3 390)**	**(1 564)**	**29 562**	-	**29 562**
Depreciation and amortisation	23	(7 491)	(6 345)	(1 281)	(15 117)	-	**(15 117)**
Allowance for impairment of receivables	24	(1 565)	(952)	(376)	(2 893)	-	**(2 893)**
Year ended 31 December 2016							
Segment revenue	22	**110 325**	**77 894**	**2 950**	**191 169**	**(513)**	**190 656**
Revenue from external customers		110 325	77 879	2 452	190 656	-	**190 656**
Intra-group revenue		-	15	498	513	(513)	-
Segment result		**25 437**	**(5 415)**	**(962)**	**19 060**	-	**19 060**
Depreciation and amortisation	23	(7 423)	(6 174)	(1 470)	(15 067)	-	**(15 067)**
Allowance for impairment of receivables	24	(1 986)	(2 268)	(509)	(4 763)	-	**(4 763)**

Reconciliation of the segment result to consolidated profit (loss) before income tax in the consolidated statement of comprehensive income for the year ended 31 December 2017 and 31 December 2016 is provided as follows:

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Segment result for reportable segments		31 126	20 022
Other segments' loss		(1 564)	(962)
Segment profit		**29 562**	**19 060**
Gain on disposal of subsidiaries and associates	14, 28.2	-	922
Tax exposure provision	24	(288)	(2 270)
Allowance for inventory obsolescence	24	(46)	(504)
Net financial income	25	1 257	4 385
Share of loss of associates	14	(355)	(495)
Other items		(18)	(649)
Profit before profit tax		**30 112**	**20 449**

(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 and amounting to RUB 67 350 million for the year ended 31 December 2017 (for the year ended 31 December 2016: the revenue of the same customer exceeded 10% of the Group`s revenue and amounted to RUB 64 123 million).

The revenue presented within the electric energy segment includes two customers with the total revenue exceeding 10% of the Group`s revenue and amounting to RUB 79 605 million for the year ended 31 December 2017 (for the year ended 31 December 2016: the total revenue of the same two customers exceeded 10% of the Group`s revenue and amounted to RUB 78 376 million).

5 Cash and cash equivalents

	31 December 2017	31 December 2016
Cash on hand and bank balances payable on demand	391	306
Deposits with original maturity of three months or less	20 236	9 791
Total cash and cash equivalents	**20 627**	**10 097**

6 Financial assets

	31 December 2017	31 December 2016
Investments held-to-maturity		
Deposits	-	15 057
Total short-term financial assets	**-**	**15 057**
Available-for-sale financial assets		
Equity securities	3 154	3 171
Total long-term financial assets	**3 154**	**3 171**

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

Available-for-sale financial assets include investment in LLC GAZEKS-Management in the amount of RUB 3 149 million as of 31 December 2017 that was received in settlement for accounts receivable in October 2013 (as of 31 December 2016: RUB 3 149 million).

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

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

(in millions of Russian Rubles)

7 Trade and other receivables

	31 December 2017	31 December 2016
Current assets		
Trade receivables	41 413	47 568
Loans issued	11 358	1 200
Advances to suppliers and prepaid expenses	2 324	2 645
VAT recoverable	61	186
Tax prepayments other than income tax	164	23
Accounts receivable on investments	6 965	4 181
Accounts receivable on disposal of property, plant and equipment	2 078	63
Other receivables	2 411	1 535
Total	**66 774**	**57 401**
Allowance for impairment of receivables	(15 144)	(12 385)
Total	**51 630**	**45 016**
Non-current assets		
Loans issued	10 494	10 560
Advances to suppliers and prepaid expenses	139	237
Accounts receivable from sale of property, plant and equipment	1 781	3 723
Accounts receivable on investments	-	2 784
Other receivables	168	203
Total	**12 582**	**17 507**

Allowance for impairment of receivables includes provision for trade receivables impairment (as of 31 December 2017: RUB 13 936 million, as of 31 December 2016: RUB 12 176 million), allowance for other receivables impairment (as of 31 December 2017: RUB 330 million; as of 31 December 2016: RUB 209 million) and allowance for advances (as of 31 December 2017: RUB 878 million; as of 31 December 2016: RUB nil million).

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

8 Inventories

	31 December 2017	31 December 2016
Materials and supplies	13 995	10 054
Other inventories	59	2
	14 054	**10 056**
Allowance for inventory obsolescence	(555)	(504)
Total	**13 499**	**9 552**

The Group does not have pledged inventories.

9 Other current and non-current assets

	31 December 2017	31 December 2016
Other current assets		
Service contracts and other assets	822	260
Grid connection	633	633
Total	**1 455**	**893**
Other non-current assets		
Grid connection	7 276	7 907
Service contracts and other assets	1 617	555
Assets under construction financed by the Government of Moscow	-	523
Other intangibles	-	273
Total	**8 893**	**9 258**

(in millions of Russian Rubles)

10 Assets held for sale

	2017	2016
Balance as of 1 January	**445**	**229**
Transfer to (from) assets classified as held for sale	(56)	216
Sale	(170)	-
Other disposals	(176)	-
Balance as of 31 December	**43**	**445**

As of 31 December 2017 and as of 31 December 2016 the Group was in the process of disposing of non-core assets, comprising property, plant and equipment and investment property classified as held for sale.

The Group expects to sale these items during 2018.

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

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

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

(in millions of Russian Rubles)

11 Property, plant and equipment

	Buildings and constructions	Machinery and equipment	Transmission networks	Other	Construction in progress	Total
Revalued amount						
Balance as of 1 January 2016	**117 513**	**116 388**	**2 968**	**15 088**	**40 480**	**292 437**
Reclassification	200	33	-	(233)	-	-
Additions	881	34	193	47	10 489	11 644
Disposals and other	(465)	(382)	-	(31)	(572)	(1 450)
Transfers	6 128	13 772	110	2 528	(22 538)	-
Transfer to other accounts	(709)	(127)	(2 037)	(576)	(6)	(3 455)
Balance as of 31 December 2016	**123 548**	**129 718**	**1 234**	**16 823**	**27 853**	**299 176**
Balance as of 1 January 2017	**123 548**	**129 718**	**1 234**	**16 823**	**27 853**	**299 176**
Additions	10	70	3	181	8 522	8 786
Disposals and other	(58)	(70)	(82)	(159)	(1 444)	(1 813)
Transfers	2 276	8 806	3 835	4 168	(19 085)	-
Transfer from (to) other accounts	258	88	(4)	499	4	845
Acquisition of subsidiaries	451	9	-	19	-	479
Balance as of 31 December 2017	**126 485**	**138 621**	**4 986**	**21 531**	**15 850**	**307 473**
Depreciation and impairment						
Balance as of 1 January 2016	**(21 654)**	**(29 687)**	**(719)**	**(4 907)**	**(6 122)**	**(63 089)**
Reclassification	(35)	(6)	-	41	-	-
Depreciation charge	(5 176)	(8 001)	(294)	(1 596)	-	(15 067)
Transfers	(813)	(1 522)	(13)	(101)	2 449	-
Disposals and other	127	230	-	14	-	371
Transfer from (to) other accounts	349	91	704	124	-	1 268
Balance as of 31 December 2016	**(27 202)**	**(38 895)**	**(322)**	**(6 425)**	**(3 673)**	**(76 517)**
Balance as of 1 January 2017	**(27 202)**	**(38 895)**	**(322)**	**(6 425)**	**(3 673)**	**(76 517)**
Depreciation charge	(4 838)	(8 259)	(61)	(1 763)	-	(14 921)
Transfers	(278)	(795)	(682)	(627)	2 382	-
Disposals and other	13	25	17	46	44	145
Transfer from (to) other accounts	(30)	(49)	4	(102)	(1)	(178)
Charge for impairment allowance	-	-	-	-	-	-
Acquisition of subsidiaries	(4)	(2)	-	(2)	-	(8)
Balance as of 31 December 2017	**(32 339)**	**(47 975)**	**(1 044)**	**(8 873)**	**(1 248)**	**(91 479)**
Net book value						
As of 1 January 2016	**95 859**	**86 701**	**2 249**	**10 181**	**34 358**	**229 348**
As of 31 December 2016	**96 346**	**90 823**	**912**	**10 398**	**24 180**	**222 659**
As of 1 January 2017	**96 346**	**90 823**	**912**	**10 398**	**24 180**	**222 659**
As of 31 December 2017	**94 146**	**90 646**	**3 942**	**12 658**	**14 602**	**215 994**
Net book value of property, plant and equipment had no revaluation taken place						
As of 1 January 2016	**47 549**	**56 890**	**1 158**	**8 006**	**36 863**	**150 466**
As of 31 December 2016	**52 835**	**64 578**	**610**	**8 319**	**23 517**	**149 859**
As of 1 January 2017	**52 835**	**64 578**	**610**	**8 319**	**23 517**	**149 859**
As of 31 December 2017	**52 685**	**66 322**	**3 625**	**10 928**	**13 773**	**147 333**

The cost of additions includes capitalized borrowing costs in the amount of RUB nil million for the year ended 31 December 2017 (for the year ended 31 December 2016: RUB 1 050 million).

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

There were no properties pledged as security for the Group's bank borrowings as of 31 December 2017 and 31 December 2016.

11.1 Revaluation

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

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

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

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

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

11.2 Impairment

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

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

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

11.3 Leased assets

The Group leases operating buldings and equipment under a number of finance lease agreements. All leases provide the Group with the option to purchase the buildings and equipment at a beneficial price (Note 15). As of 31 December 2017 the net carrying amount of leased buldings and equipment was RUB 53 million (as of 31 December 2016: RUB 61 million).

(in millions of Russian Rubles)

12 Investment property

	2017	2016
Balance as of 1 January	**3 180**	**1 323**
Transfer to (from) property, plant and equipment	(612)	1 862
Disposals	(209)	(5)
Balance as of 31 December	**2 359**	**3 180**

The fair value of investment property as of 31 December 2017 amounted to RUB 2 359 million (as of 31 December 2016: RUB 3 180 million). The calculation of the fair value was based on the trends in the commercial real estate market in 2017.

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 year ended 31 December 2017 amounted to RUB 417 million (for the year ended 31 December 2016 amounted to RUB 195 million), was recognised in other revenue in the consolidated statement of comprehensive income.

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

	2017	2016
As of 30 December		
Less than one year	17	578
Later than one year but not later than 5 years	14	-
Later than 5 years	374	-
Total	**405**	**578**

(in millions of Russian Rubles)

13 Intangible assets

13.1 Goodwill

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

	2017	2016
Balance as of 1 January	-	-
Acquisition of Mosenergoproject LLC	187	-
Balance as of 31 December	**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 intangible assets	Total
Cost			
Balance as of 1 January 2017	-	-	-
Reclassification from other non-current assets	807	3	810
Additions	166	63	229
Balance as of 31 December 2017	**973**	**66**	**1 039**
Amortisation			
Balance as of 1 January 2017	-	-	-
Reclassification from other non-current assets	(535)	(2)	(537)
Amortisation charge	(196)	-	(196)
Balance as of 31 December 2017	**(731)**	**(2)**	**(733)**
Net book value			
As of 1 January 2017	-	-	-
As of 31 December 2017	**242**	**64**	**306**

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

(in millions of Russian Rubles)

14 Investment in associates

	2017	2016
Balance as of 1 January	**669**	**3 978**
Share of loss of associates	(355)	(494)
Dilution loss on investments in associates	-	(130)
Disposal of investments in associates	-	(2 685)
Balance as of 31 December	**314**	**669**

The Group`s investments in associates are as follows:

	LLC TSK Mosenergo		LLC OGK Investproject	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Ownership interest	22,51%	22,51%	-	-
As of 31 December 2017 (31 December 2016)				
Current assets	8 352	8 739	-	-
Non-current assets	8 282	6 974	-	-
Current liabilities	11 859	10 690	-	-
Non-current liabilities	1 079	1 113	-	-
For year ended 31 December 2017 (31 December 2016)				
Revenue	10 539	7 735	-	474
Loss for the period	(1 576)	(1 687)	-	(224)
Total comprehensive loss for the period	(1 576)	(1 687)	-	(224)

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

Name of organisation	Country of incorporation	Nature of business
TSK Mosenergo LLC	Russia	Production, transmission and distribution of heat and hot water (heat energy)
OGK Investproject LLC	Russia	Design and construction management services

In March 2016 the Group sold its 45,0% interest in LLC OGK-Investproject for RUB 2 784 million. Gain on disposal of interest in the amount of RUB 101 million was recognised in profit or loss in the consolidated financial statement of comprehensive income.

In July 2016 the Group’s interest in LLC TSK Mosenergo decreased from 25,6% to 22,51% because of equity dilution. Dilution losses on investments in associates in the amount RUB 130 million has been recognised in the consolidated statement of comphehensive income.

(in millions of Russian Rubles)

15 Borrowings

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

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

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

				31 December 2017		31 December 2016	
	Cur-rency	Nominal interest rate	Year of matu-rity	Face value	Carrying amount	Face value	Carrying amount
Unsecured bank financing							
Credit Agricole Bank CIB	EUR	EURIBOR 6M+1,95%	2024	5 541	5 395	5 615	5 436
BNP Paribas S.A.	EUR	EURIBOR 6M+2,00%	2022	5 538	5 334	6 087	5 816
				11 079	**10 729**	**11 702**	**11 252**
PJSC Sberbank	RUB	8,14%	2018	3 750	3 750	3 750	3 750
PJSC Sberbank	RUB	8,73%	2017	-	-	19 750	19 750
PJSC VTB Bank	RUB	8,14%	2018	8 250	8 250	8 250	8 250
				12 000	**12 000**	**31 750**	**31 750**
Total unsecured bank financing				**23 079**	**22 729**	**43 452**	**43 002**
Other financing							
LLC TER	RUB	6,98%-12%	2018	271	271	-	-
JSC Gazprom energoremont	RUB	14,00%	2018	103	103	-	-
PJSC TGC-1	RUB	5,82%	2018	10	10	-	-
Total other financing				**384**	**384**	**-**	**-**
Interest payable				**277**	**277**	**-**	**-**
Finance lease liability		8,14%	2048	**198**	**198**	**-**	**-**
Total				**23 938**	**23 588**	**43 452**	**43 002**

(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
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**
31 December 2016				
Future minimum lease payments	23	72	479	**573**
Interests	(17)	(65)	(287)	**(368)**
Present value of minimum lease payments	**6**	**7**	**192**	**205**

Finance lease liability as of 31 December 2016 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 2016	**43 002**	**(1)**	**43 001**
Cash-flows changes			
Proceeds from borrowings	54	-	54
Repayment of borrowings	(21 629)	-	(21 629)
Dividends paid	-	(3 346)	(3 346)
Net cash flows from financing activity	**(21 575)**	**(3 346)**	**(24 921)**
Interest paid	(1 542)	-	(1 542)
Total cash-flows changes	**(23 117)**	**(3 346)**	**(26 463)**
Foreing exchange result	876	-	876
Interest accrued	1 808	-	1 808
Acquisition of subsidiaries	445	-	445
Dividends declared	-	3 360	3 360
Other changes	574	-	574
As of 31 December 2017	**23 588**	**13**	**23 601**

16 Trade and other payables

	31 December 2017	31 December 2016
Current liabilities		
Trade payables	4 594	5 597
Advances received	911	1 024
Accounts payable for acquisition of property, plant and equipment	1 669	3 145
Other payables	1 500	1 398
Total	**8 674**	**11 164**
Non-current liabilities		
Advances received	1	1
Accounts payable for acquisition of property, plant and equipment	153	538
Total	**154**	**539**

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

(in millions of Russian Rubles)

17 Taxes receivable and payable

	31 December 2017	31 December 2016
Income tax receivable	-	**(143)**
Income tax payable	**64**	**3 985**
Other taxes payable		
VAT payable	2 087	2 463
Property tax payable	540	566
Social contributions payable	144	302
Other taxes payable	4	20
Total other taxes payable	**2 775**	**3 351**
Total taxes payable (net)	**2 839**	**7 193**

18 Provisions

	Provision for income tax	Provision for other taxes	Provisions for litigations and claims	Total
Balance as of 1 January 2016	**70**	**1 722**	**11**	**1 803**
Provisions made during the period	1 337	(346)	9	1 000
Provision released during the period	-	-	(11)	(11)
Balance as of 31 December 2016	**1 407**	**1 376**	**9**	**2 792**
Balance as of 1 January 2017	**1 407**	**1 376**	**9**	**2 792**
Provisions made during the period	-	288	6	294
Provision released during the period	-	-	(8)	(8)
Balance as of 31 December 2017	**1 407**	**1 664**	**7**	**3 078**

19 Profit tax

19.1 Reconcilation of profit before tax to profit tax

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

	Year ended 31 December	
	2017	2016
Profit before profit tax	30 112	20 449
Theoretical tax expense calculated at applicable tax rates	(6 022)	(4 090)
Adjustments to current profit tax of previous periods	831	(1 123)
Provision on current profit tax	-	(1 337)
Other non-taxable expenses	(119)	(461)
Profit tax expense	**(5 310)**	**(7 011)**

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

(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 year ended 31 December 2017 and 31 December 2016 are as follows:

	Opening balance	Recog-nised in P/L[1]	Recog-nised in OCI[2]	Acquisi-tion of subsi-diaries	Closing balance
Year ended 31 December 2017					
Property, plant and equipment	(29 340)	1 270	-	-	(28 070)
Investment property	71	(328)	-	-	(257)
Investments in associates	141	(141)	-	-	-
Trade and other receivables	2 135	(2 531)	3	(8)	(401)
Assets held for sale	(13)	56	-	-	43
Trade and other payables	105	(33)	47	-	119
Employee benefit liabilities	73	(1)	(2)	-	70
Tax losses carried forward	30	12	-	93	135
Provisions	598	32	-	1	631
Borrowings	(90)	60	-	-	(30)
Other assets	(1 748)	(302)	-	-	(2 050)
Total	**(28 038)**	**(1 906)**	**48**	**86**	**(29 810)**
Year ended 31 December 2016					
Property, plant and equipment	(28 455)	(885)	-	-	(29 340)
Investment property	(124)	195	-	-	71
Investments in associates	-	141	-	-	141
Trade and other receivables	1 166	969	-	-	2 135
Assets held for sale	-	-	-	-	-
Trade and other payables	853	(164)	(584)	-	105
Employee benefit liabilities	74	-	(1)	-	73
Tax losses carried forward	168	69	-	(207)	30
Provisions	360	238	-	-	598
Borrowings	(116)	26	-	-	(90)
Other assets	(1 706)	(42)	-	-	(1 748)
	(27 780)	**547**	**(585)**	**(207)**	**(28 025)**
Assets held for sale	57	(70)	-	-	(13)
Total	**(27 723)**	**477**	**(585)**	**(207)**	**(28 038)**

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

(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.

A new collective bargaining agreement became effective from 1 January 2016. The agreement does not provide for any significant changes in comparison with the previous agreement.

	Post employ-ment benefits	**Other long-term benefits**	**Total**
Year ended 31 December 2017			
Balance as of 1 January	**278**	**90**	**368**
Current service cost	9	6	15
Net interest expense	22	7	29
Actuarial losses arising from changes in financial assumptions	-	(2)	(2)
Actuarial gains arising from changes in demographic assumptions	-	-	-
Actuarial gains - experience	-	(1)	(1)
Total included in operating and finance expenses	**31**	**10**	**41**
Actuarial losses arising from changes in financial assumptions	(2)	-	(2)
Actuarial gains arising from changes in demographic assumptions	-	-	-
Actuarial gains - experience	(6)	-	(6)
Total recognised in other comprehensive income	**(8)**	-	**(8)**
Decrease in liabilities as a result of disposals of subsidiaries	-	1	1
Benefits paid	(35)	(15)	(50)
Balance as of 31 December	**266**	**86**	**352**
Year ended 31 December 2016			
Balance as of 1 January	**286**	**90**	**376**
Current service cost	9	6	15
Net interest expense	25	8	33
Actuarial losses arising from changes in financial assumptions	-	1	1
Actuarial gains arising from changes in demographic assumptions	-	4	4
Actuarial gains - experience	-	(3)	(3)
Total included in operational and financial expenses	**34**	**16**	**50**
Actuarial losses arising from changes in financial assumptions	2	-	2
Actuarial gains arising from changes in demographic assumptions	5	-	5
Actuarial gains - experience	(10)	-	(10)
Total recognised in other comprehensive income	**(3)**	-	**(3)**
Decrease in liabilities as a result of disposals	-	(4)	(4)
Benefits paid	(39)	(12)	(51)
Balance as of 31 December	**278**	**90**	**368**

(in millions of Russian Rubles)

	31 December 2017	31 December 2016
Financial assumptions		
Discount rate	7,5%	8,3%
Inflation rate	4,0%	5,0%
Salaries increase	6,0%	7,0%
Duration of liabilities, years	5,4	6,0
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 31 December 2017 and 31 December 2016 the declared share capital comprised 39 749 359 700 ordinary shares of RUB 1.00 par value each. All issued ordinary shares are fully paid.

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

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

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

21.2 Treasury shares

Treasury shares as of 31 December 2017 and as of 31 December 2016 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 2016 the Annual General Shareholders' Meeting of the PJSC Mosenergo made the decision to pay dividends for the results of Group's activity for 2015. The amount of declared dividends on the issuer shares was RUB 0.05665 per share, total amount of dividends is RUB 2 244 million. The amount of dividends in the consolidated statement of changes in equity was presented net of unclaimed dividends for the result of financial year 2010 amount to RUB 34 million.

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.

21.4 Revalution reserve

As of 31 December 2017 in the line ''Revaluation reserve'' there were disclosed revaluation reserve for property, plant and equipment in the amount of RUB 107 206 million. As of 31 December 2016 in the line ''Revaluation reserve'' there were disclosed revaluation reserve for property, plant and equipment in amount RUB 107 533 million and a reserve deficit for remeasurement of post-employment benefit obligations in amount RUB 91 million. In 2017 the reserve deficit for remeasurement of post-employment benefit obligations was transferred to accumulated loss.

(in millions of Russian Rubles)

22 Revenue

	Year ended 31 December	
	2017	2016
Electricity	118 914	110 325
Heat	75 200	77 879
Other revenue	1 942	2 452
Total	**196 056**	**190 656**

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

For the year ended 31 December 2017 and 31 December 2016 approximately 2% of sales of electricity relates to resale of purchased electricity on the wholesale market OREM.

23 Operating expenses

	Year ended 31 December	
	2017	2016
Materials		
Fuel	107 833	110 213
Purchased electricity and capacity	10 029	9 579
Other materials	2 247	2 491
	120 109	**122 283**
External services and works		
Heat transmission	1 854	3 957
Electricity market administration fees	1 472	1 483
Rent	1 028	1 449
Security and fire safety	895	865
Grid connection	633	633
Legal, consulting and data processing services	212	593
Transportation services	392	504
Cleaning services	350	403
Agency fee	181	246
Insurance expenses, excluding medical insurance	211	220
Communication services	92	104
Other external services and works	1 905	1 040
	9 225	**11 497**
Depreciation and amortisation	15 117	15 067
Staff costs	10 623	10 471
Maintenance and repairs expenses	6 133	5 830
Taxes other than profit tax	2 368	2 227
Other expenses on ordinary activities	27	-
Total of production, administration and selling expenses	**163 602**	**167 375**
Other operating expenses (income)		
Loss on disposal of property, plant and equipment	1 644	297
Income (expense) on fines and penalties on business contracts	(1 220)	11
Other operating income	(404)	(216)
Total other operating expenses	**20**	**92**
Total operating expenses	**163 622**	**167 467**

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 year ended 31 December 2017 the average number of employees of the Group was 8 474 (for the year ended 31 December 2016: 8 167).

(in millions of Russian Rubles)

24 Charge for impairment and other provisions

	Year ended 31 December	
	2017	**2016**
Impairment of assets		
Charge for allowance for accounts receivable	(2 893)	(4 763)
Charge for allowance for inventory obsolescence	(46)	(504)
Change in fair value of assets held for sale	-	(19)
	(2 939)	**(5 286)**
Provisions		
Change in tax provision	(288)	(2 270)
Change in other provisions	3	3
	(285)	**(2 267)**
Charge for impairment and other provisions, net	**(3 224)**	**(7 553)**

25 Finance income and expense

	Year ended 31 December	
	2017	**2016**
Finance income		
Interest income on bank deposits	1 915	1 094
Interest income on loans issued	1 644	1 670
Foreign exchange gain	1 341	4 795
Other interest income	371	753
Total finance income	**5 271**	**8 312**
Finance expense		
Foreign exchange loss	(2 177)	(1 458)
Interest expense on borrowings	(1 667)	(2 363)
Lease expense	(17)	(73)
Other interest expense	(153)	(33)
Total finance expense	**(4 014)**	**(3 927)**
Total net finance income	**1 257**	**4 385**

(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 dilution earnings per share is presented in the table below.

	Year ended 31 December	
	2017	**2016**
Issued shares (pieces)	39 749 359 700	39 749 359 700
Effect of treasury shares (pieces)	(140 229 451)	(140 229 451)
Weighted average number of ordinary shares (pieces)	**39 609 130 249**	**39 609 130 249**
Profit attributable to the owners of PJSC Mosenergo (in RUB mln)	24 802	13 438
Profit per ordinary share (basic and diluted) (in Russian Roubles)	**0,63**	**0,34**

There are no dilutive financial instruments outstanding in the Group.

27 Subsidiaries

PJSC Mosenergo and its following subsidiaries form the Mosenergo Group:

	Nature of business	Percentage of ownership	
		31 December 2017	**31 December 2016**
LLC Centralny remontno-mekhanicheskiy zavod	Repair and reconstruction services	100,00%	100,00%
LLC Mosenergoproject	Design	100,00%	-
LLC Remontproject	Design	99,00%	-
LLC TEC-17 Stupino	Power generation	100,00%	100,00%
LLC GRES-3 Electrogorsk	Power generation	-	100,00%
LLC TEC-29 Electrostal	Power generation	-	100,00%

No preference shares are held by the Group.

28 Acquisition and sale of subsidiaries

28.1 Acquisition of subsidiaries

Acquisition of LLC Mosenergoproject

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

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

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

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

Acquisition of LLC Remontproject

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

(in millions of Russian Rubles)

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

	LLC Mosenergo-project	LLC Remont-project
Current assets		
Cash and cash equivalents	1	2
Trade and other receivables	20	243
Other current assets	-	5
Total current assets	**21**	**250**
Non-current assets		
Property, plant and equipment	470	1
Deferred tax assets	19	67
Total non-current assets	**489**	**68**
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	**47**	**626**
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	**187**	**-**
Effect of acquisition under common control	**-**	**327**

28.2 Sales of subsidiaries

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

	LLC TSK Novaya Moskva
Non-current assets	464
Current assets	1 092
Non-current liabilities	(510)
Current liabilities	(1 997)
Carrying amount of disposed net assets	**(951)**
Consideration receivable	-
Gain on disposal of subsidiary	**951**
Cash and cash equivalents in disposed subsidiary	(504)
Net cash outflow from disposal of subsidiary	**(504)**

(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 year ended 31 December 2017 and 31 December 2016, or had significant balances outstanding as of 31 December 2017 and as of 31 December 2016 are detailed below.

29.1 Transactions with Gazprom Group and its associates

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

	Year ended 31 December	
	2017	2016
Revenue	**74 988**	**71 071**
Heat	67 911	64 675
Electricity	5 845	4 782
Other revenue	1 232	1 614
Operating expenses	**(74 545)**	**(78 635)**
Fuel	(65 971)	(67 989)
Maintenance and repair expenses	(3 913)	(3 635)
Heat transmission	(1 837)	(3 886)
Purchased electricity and capacity	(778)	(832)
Rent	(312)	(482)
Transportation services	(307)	(288)
Cleaning services	(260)	(281)
Insurance expenses, excluding medical insurance	(211)	(219)
Medical insurance including in staff costs	(197)	(189)
Agency fee	(181)	(246)
Security and fire safety	(103)	(72)
Legal, consulting and data processing services	(28)	(273)
Other external services and works	(842)	(163)
Other operating income (expenses)	395	(80)
Gain on disposal of subsidiaries and associates	**-**	**(29)**
Finance income and expense	**1 426**	**2 477**
Finance income	1 449	2 477
Finance expense	(23)	
Purchase of assets	**5 202**	**5 643**
Purchase of property, plant and equipment	2 654	4 612
Purchase of materials	2 002	580
Purchase of other assets	546	451

	31 December 2017	31 December 2016
Outstanding balance		
Cash and cash equivalents	303	7 163
Trade and other receivables	51 753	46 461
Advances for assets under construction	3 433	92
Total assets	**55 489**	**53 716**
Short-term borrowings	(464)	(205)
Long-term borrowings	(197)	-
Trade and other payables	(3 006)	(4 185)
Total liabilities	**(3 667)**	**(4 390)**

(in millions of Russian Rubles)

As of 31 December 2017, Gazprom Group and its associated companies entered into contracts for the construction and acquisition of property, plant and equipment in the amount of RUB 6 484 million (31 December 2016: RUB 1 769 million).

In 2017 there was a recalculation of payments under the lease agreement with the right to repurchase between PJSC MIPC and PJSC Mosenergo: payments from the date of contracting that were not accounted for at the time of redemption. The result of the restatement was recorded in the consolidated statement of changes in equity under line "Effect of acquisition under common control" in amount of RUB 188 million according to the method of the predecessor (net of deferred tax).

Comparative data for 2016 year was adjusted in connection with the disclosure of balances outstanding and transactions with associates in Note 29.2.

For the year ended 31 December 2017 dividends declared to the parent company amounted to RUB 1 804 million (for the year ended 31 December 2016: RUB 1 205 million).

29.2 Transactions with associates

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

	Year ended 31 December	
	2017	**2016**
Revenue	**1 851**	**977**
Heat	1 740	900
Other revenue	111	77
Operating expenses	**-**	**(86)**
Heat transmission	-	(47)
Rent	-	(39)
Charge for allowance for accounts receivable	(395)	-
Gain on disposal of associates	**-**	**951**
Finance income and expense	**19**	**280**
Finance income	19	280

	31 December 2017	**31 December 2016**
Outstanding balance		
Trade and other receivables	2 202	781
Allowance for impairment of receivables	(395)	-
Total assets	**1 807**	**781**

(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:

	Year ended 31 December	
	2017	2016
Wages and salaries	(59)	(49)
Social taxes and contributions	(10)	(2)
Total	**(69)**	**(51)**

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

Remuneration to management organisation LLC Gazprom energoholding for the year ended 31 December 2017 was in the amount of RUB 146 million (for the year ended 31 December 2016: RUB 145 million).

29.4 Transactions with other state-controlled entities

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

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

	Year ended 31 December	
	2017	2016
Revenue	**29 460**	**27 554**
Electricity	26 944	23 310
Heat	2 134	3 954
Other revenue	382	290
Operating expenses	**(3 251)**	**(4 936)**
Electricity market administration fees	(1 467)	(1 478)
Other materials	(1 106)	(1 372)
Rent	(675)	(949)
Security and fire safety	(462)	(429)
Fuel	(111)	(106)
Purchased electricity and capacity	(57)	(204)
Other external services and works	(196)	(305)
Other operating income (expenses)	823	(93)
Charge for allowance for accounts receivable	**(1 869)**	**(3 936)**
Finance income and expense	**(273)**	**(2 398)**
Finance income	1 176	303
Finance expense	(1 449)	(2 701)

	31 December 2017	31 December 2016
Outstanding balance		
Cash and equiavelents	14 394	2 601
Short-term financial assets	-	57
Trade and other receivables	14 947	16 592
Allowance for impairment of receivables	(10 011)	(8 157)
Advances for assets under construction	9	7
Other non-current assets	-	523
Total assets	**19 339**	**11 623**
Short-term borrowings	(12 180)	(19 750)
Long-term borrowings	-	(12 000)
Trade and other payables	(1 429)	(899)
Total liabilities	**(13 610)**	**(32 649)**

(in millions of Russian Rubles)

Comparative data for 2016 year was adjusted in connection with the disclosure of balances outstanding and transactions with JSC FSC in Note 29.5.

29.5 Transactions with JSC FSC

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

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

	Year ended 31 December	
	2017	**2016**
Revenue	**62 334**	**62 507**
Electricity	62 334	62 507
Expenses	**(9 144)**	**(8 494)**
Purchased electricity and capacity	(9 144)	(8 494)

	31 December 2017	31 December 2016
Outstanding balance		
Trade and other receivables	2 579	2 816
Total assets	**2 579**	**2 816**
Trade and other payables	(470)	(401)
Total liabilities	**(470)**	**(401)**

30 Commitments and contingencies

30.1 Operating leases

Operating leases refer mainly to long-term rental agreements for land rent where generation facilities of the Group are located. The leases typically run for periods from 5 to 45 years with an option to prolong the lease. For the year ended 31 December 2017, operating lease expenses in amounts of RUB 1 028 million were recognised in profit or loss (for the year ended 31 December 2016: RUB 1 451 million) (Note 23).

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

	31 December 2017	31 December 2016
Less than one year	637	652
Between one and five years	2 372	2 654
More than five years	21 753	15 702
Total	**24 762**	**19 008**

30.2 Capital commitments

As of 31 December 2017, the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RUB 8 031 million excluding VAT (as of 31 December 2016: RUB 4 687 million).

30.3 Taxation

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

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

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

The transfer pricing rules that became effective from 1 January 2012 appear to be more technically elaborate and, 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 3 million as of 31 December 2017 (as of 31 December 2016: 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 oversights of 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.

(in millions of Russian Rubles)

31.1 Market risk

31.1.1 Foreign exchange risk

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

		Euro	
	Note	31 December 2017	31 December 2016
Financial assets			
Current assets			
Cash and cash equivalents	5	1	-
Short-term financial assets	6	-	57
Total financial assets		**1**	**57**
Financial liabilities			
Current liabilities			
Current borrowings	15	(1 916)	(1 778)
Trade and other payables	16	(234)	-
Non-current liabilities			
Non-current borrowings	15	(8 830)	(9 817)
Total financial liablities		**(10 980)**	**(11 595)**
Net financial liabilities		**(10 979)**	**(11 538)**

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

	Euro impact	
	31 December 2017	31 December 2016
Decrease in profit	**(2 196)**	**(2 308)**

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

(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 loans or borrowings the management uses its judgment to decide that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

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

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

	31 December 2017	31 December 2016
Fixed rate instruments		
Financial assets	86 136	88 984
Financial liabilities	(19 379)	(41 310)
Total	**66 757**	**47 674**
Variable rate instruments		-
Financial liabilities	(10 746)	(11 253)
Total	**(10 746)**	**(11 253)**

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	31 December 2017	31 December 2016
Decrease in profit	**(107)**	**(113)**

(in millions of Russian Rubles)

31.2 Credit risk

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

Loans and receivables

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

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

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

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

	31 December 2017	31 December 2016
Trade and other receivables	40 501	48 230
Loans issued	21 852	11 760
Total	**62 353**	**59 990**

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

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

Impairment losses

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

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

	31 December 2017		31 December 2016	
	Carrying amount	Impairment	Carrying amount	Impairment
Not past due	49 284	-	52 499	-
Past due 0-30 days	8 267	-	1 117	-
Past due 31-120 days	1 487	596	3 421	326
Past due 121-365 days	3 572	1 815	3 696	1 711
More than one year	13 681	11 525	11 433	10 139
Total	**76 291**	**13 936**	**72 166**	**12 176**

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

(in millions of Russian Rubles)

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

	2017	2016
Balance as of 1 January	**12 176**	**7 832**
Allowance for impairment loss accrued during the period	2 418	4 693
Allowance used and written off	(658)	(349)
Balance as of 31 December	**13 936**	**12 176**

The impairment allowance as of 31 December 2017 of RUB 13 936 million (as of 31 December 2016: RUB 12 176 million) relates to the customers that were declared bankrupt or had significant liquidity problems during the reporting period.

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

Cash in banks and on-demand deposits

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

31.3 Liquidity risk

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

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

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

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

	Carrying amount	Contractual cash flow	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<u>Balance as of 31 December 2017</u>							
Loans and borrowings	23 588	25 698	2 001	13 539	2 068	6 011	2 079
Trade and other payables	6 537	6 537	6 384	-	153	-	-
Total	**30 125**	**32 235**	**8 385**	**13 539**	**2 221**	**6 011**	**2 079**
<u>Balance as of 31 December 2016</u>							
Loans and borrowings	43 002	46 906	21 745	1 472	14 765	5 616	3 308
Trade and other payables	9 560	9 925	9 121	9	263	54	478
Total	**52 562**	**56 831**	**30 866**	**1 481**	**15 028**	**5 670**	**3 786**

(in millions of Russian Rubles)

31.4 Capital risk management

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

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

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

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

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

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

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

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

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

	31 December 2017	31 December 2016
Total debt	23 588	43 002
Less: cash and cash equivalents	(20 627)	(10 097)
Net (cash) debt	2 961	32 905
Adjusted EBITDA	44 658	33 493
Net debt / Adjusted EBITDA ratio	**0,07**	**0,98**

(in millions of Russian Rubles)

32 Fair value of financial instruments

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

Financial instruments in Level 1

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

Financial instruments in Level 2

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

Financial instruments in Level 3

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

There was no change in the fair value measurement methods attributed to Level 2 and Level 3 for the year ended 31 December 2017 (31 December 2016: there was no change). There were no transfers between levels for the year ended 31 December 2017 (31 December 2016: there were no transfers).

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

	Level 1	Level 2	Level 3	Total
Balance as of 31 December 2017				
Available -for-sale financial assets (Note 6)	-	-	3 154	3 154
Balance as of 31 December 2016				
Available -for-sale financial assets (Note 6)	-	-	3 171	3 171