PJSC Inter RAO

Interim condensed consolidated financial statements

For the three months ended 31 March 2017 (unaudited)

Contents

Совершенствуя бизнес, улучшаем мир

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Report on review of interim financial information

To the shareholders and Board of Directors of
PJSC Inter RAO

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of PJSC Inter RAO and its subsidiaries, which comprise the interim consolidated statement of financial position as at 31 March 2017 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

I.A. Buyan
Partner
LLC Ernst & Young

30 May 2017

Details of the entity

Name: PJSC Inter RAO
Record made in the State Register of Legal Entities on 1 November 2002, State Registration Number 102230933630.
Address: Russia 119435, Moscow, Bolshaya Pirogovskaya street, 27, building 2.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Interim consolidated statement of financial position

(in millions of RUR)

	Note	31 March 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	6	280,895	280,499
Intangible assets		12,928	9,908
Investments in associates and joint ventures	7	21,176	28,886
Deferred tax assets		6,760	6,527
Available-for-sale financial assets	8	7,704	7,810
Other non-current assets	9	12,587	15,430
Total non-current assets		**342,050**	**349,060**
Current assets			
Inventories		14,996	14,104
Accounts receivable and prepayments	10	118,041	104,105
Income tax prepaid		584	625
Cash and cash equivalents	11	93,273	95,988
Other current assets	12	8,794	4,712
		235,688	**219,534**
Assets classified as held-for-sale		3,000	3,000
Total current assets		**238,688**	**222,534**
Total assets		**580,738**	**571,594**
Equity and liabilities			
Equity			
Share capital	13	293,340	293,340
Treasury shares	13	(58,787)	(58,787)
Share premium		69,312	69,312
Hedge reserve		(3)	16
Actuarial reserve		(184)	(182)
Fair value reserve		2,400	2,485
Foreign currency translation reserve		1,925	2,972
Retained earnings		127,376	107,879
Total equity attributable to shareholders of the Company		**435,379**	**417,035**
Non-controlling interest		1,887	2,191
Total equity		**437,266**	**419,226**
Non-current liabilities			
Loans and borrowings	14	6,023	8,886
Deferred tax liabilities		10,204	10,678
Other non-current liabilities	16	8,891	7,260
Total non-current liabilities		**25,118**	**26,824**
Current liabilities			
Loans and borrowings		12,528	8,738
Accounts payable and accrued liabilities	15	96,441	105,468
Other taxes payable		7,383	9,005
Income tax payable		2,002	2,333
Total current liabilities		**118,354**	**125,544**
Total liabilities		**143,472**	**152,368**
Total equity and liabilities		**580,738**	**571,594**

Chairman of the Management Board Kovalchuk B.Yu.

Member of the Management Board, Chief Financial Officer Miroshnichenko E.N.

30 May 2017

The interim consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out in Notes 1-26.

Interim consolidated statement of comprehensive income

(in millions of RUR)

	Note	For the three months ended 31 March 2017	For the three months ended 31 March 2016 (restated)
Revenue	17	238,580	232,001
Other operating income	18	1,419	1,431
Operating expenses, net	19	(218,481)	(211,955)
Operating income		**21,518**	**21,477**
Finance income	20	2,500	1,974
Finance expenses	20	(2,056)	(3,271)
Share of profit of associates and joint ventures, net	7	944	1,624
Income before income tax		**22,906**	**21,804**
Income tax expense	21	(4,099)	(4,730)
Income for the period		**18,807**	**17,074**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) that will be reclassified subsequently to profit or loss when specific conditions are met			
Actuarial loss, net of tax		(3)	–
(Loss)/gain on available-for-sale financial assets, net of tax	8	(85)	227
Net loss on hedge instruments, net of tax		(41)	(20)
Exchange loss on translation to presentation currency		(1,074)	(1,575)
Other comprehensive loss, net of tax		**(1,203)**	**(1,368)**
Total comprehensive income for the period		**17,604**	**15,706**
Income attributable to:			
Shareholders of the Company		18,865	17,237
Non-controlling interest		(58)	(163)
		18,807	**17,074**
Total comprehensive income attributable to:			
Shareholders of the Company		17,712	15,983
Non-controlling interest		(108)	(277)
		17,604	**15,706**
		RUR	**RUR**
Basic income per ordinary share for income attributable to the shareholders of the Company		**0.226**	**0.204**
Diluted income per ordinary share for income attributable to the shareholders of the Company		**0.222**	**0.204**

Chairman of the Management Board — Kovalchuk B.Yu.

Member of the Management Board, Chief Financial Officer — Miroshnichenko E.N.

30 May 2017

The interim consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out in Notes 1-26.

Interim consolidated statement of cash flows

(in millions of RUR)

	Note	For the three months ended 31 March 2017	2016 (restated)
Operating activities			
Income before income tax		**22,906**	**21,804**
Adjustments to reconcile income before tax to net cash flows from operating activities:			
Depreciation and amortisation	19	4,909	5,648
Provision for impairment of accounts receivable	19	1,751	2,470
Other provisions, (release)/charge	19	(281)	967
Share of profit of associates and joint ventures	7	(944)	(1,624)
(Income)/loss from electricity derivatives, net	18, 19	(7)	10
Foreign exchange loss, net	20	1,359	1,116
Interest income	20	(2,172)	(1,899)
Other finance income	20	(328)	(75)
Interest expenses	20	678	2,098
Other finance expenses	20	19	57
Share option plan	25	411	–
Gain from disposal of controlling interest	5, 18	(4)	–
Other non-cash operations/items		21	202
Operating cash flows before working capital adjustments and income tax paid		**28,318**	**30,774**
Increase in inventories		(1,091)	(346)
Increase in accounts receivable and prepayments		(8,614)	(10,003)
Decrease in value added tax recoverable		1,173	741
Decrease/(increase) in other current assets		619	(460)
Decrease in accounts payable and accrued liabilities		(10,609)	(7,688)
Decrease in taxes other than income tax prepaid/payable, net		(1,093)	(190)
Other working capital adjustments		(4)	3
		8,699	**12,831**
Income tax paid		(5,097)	(2,349)
Net cash flows from operating activities		**3,602**	**10,482**

The interim consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out in Notes 1-26.

Interim consolidated statement of cash flows (continued)

(in millions of RUR)

	Note	For the three months ended 31 March 2017	2016 (restated)
Investing activities			
Proceeds from disposal of property, plant and equipment		38	21
Purchase of property, plant and equipment and intangible assets		(5,947)	(5,994)
Purchase of controlling interest, net of cash acquired	5	(500)	–
Proceeds from disposal of assets classified as held-for-sale		3,125	–
Loans issued		(28)	–
Proceeds from repayment of loans issued		70	426
Bank deposits placed		(4,756)	(2,712)
Bank deposits returned and proceeds from promissory notes repayment		13	3,298
Interest proceeds for bank deposits placed		1,000	1,692
Dividends received		–	6
Cash flows used for other investing activities		(11)	(77)
Net cash flows used for investing activities		**(6,996)**	**(3,340)**
Financing activities			
Proceeds from loans and borrowings		9,245	16,990
Repayment of loans and borrowings		(7,612)	(22,741)
Repayment of finance leases		(119)	(148)
Interest paid		(616)	(3,846)
Purchase of non-controlling interest in subsidiaries	5	25	–
Acquisition of treasury shares	13	–	(1,667)
Net cash flows from/(used for) financing activities		**923**	**(11,412)**
Effect of exchange rate fluctuations on cash and cash equivalents		(244)	(322)
Net decrease in cash and cash equivalents		**(2,715)**	**(4,592)**
Cash and cash equivalents at the beginning of the period		95,988	66,280
Cash and cash equivalents at the end of the period	11	**93,273**	**61,688**

Chairman of the Management Board — Kovalchuk B.Yu.

Member of the Management Board, Chief Financial Officer — Miroshnichenko E.N.

30 May 2017

The interim consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out in Notes 1-26.

Interim consolidated statement of changes in equity

(in millions of RUR)

		Attributable to shareholders of the Company										
	Note	Share capital	Treasury shares	Share premium	Foreign currency translation reserve	Fair value reserve	Hedge reserve	Actuarial reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2016		**293,340**	**(56,184)**	**69,312**	**7,041**	**865**	**(12)**	**(99)**	**49,277**	**363,540**	**2,705**	**366,245**
Total comprehensive (loss)/income for the three months ended 31 March 2016		–	–	–	(1,472)	227	(9)	–	17,237	**15,983**	(277)	**15,706**
Disposal of non-controlling interest in subsidiary due to mandatory offer	5	–	–	–	–	–	–	–	(111)	**(111)**	(82)	**(193)**
Acquisition of treasury shares	13	–	(2,933)	–	–	–	–	–	1,266	**(1,667)**	–	**(1,667)**
Balance at 31 March 2016 (restated)		**293,340**	**(59,117)**	**69,312**	**5,569**	**1,092**	**(21)**	**(99)**	**67,669**	**377,745**	**2,346**	**380,091**
Balance at 1 January 2017		**293,340**	**(58,787)**	**69,312**	**2,972**	**2,485**	**16**	**(182)**	**107,879**	**417,035**	**2,191**	**419,226**
Total comprehensive (loss)/income for the three months ended 31 March 2017		–	–	–	(1,047)	(85)	(19)	(2)	18,865	**17,712**	(108)	**17,604**
Acquisition of non-controlling interest in subsidiary	5	–	–	–	–	–	–	–	221	**221**	(196)	**25**
Share option plan	25	–	–	–	–	–	–	–	411	**411**	–	**411**
Balance at 31 March 2017		**293,340**	**(58,787)**	**69,312**	**1,925**	**2,400**	**(3)**	**(184)**	**127,376**	**435,379**	**1,887**	**437,266**

Chairman of the Management Board — Kovalchuk B.Yu.

Member of the Management Board, Chief Financial Officer — Miroshnichenko E.N.

30 May 2017

The interim consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out in Notes 1-26.

(in millions of RUR)

1. The Group and its operations

General information on the Group

Public Joint Stock Company "Inter RAO UES" (the "Parent Company" or the "Company" or PJSC "Inter RAO") is incorporated and domiciled in the Russian Federation and whose shares are publicly traded.

The Russian Federation is the ultimate controlling party of PJSC Inter RAO and has a controlling interest in the Company of over 50%.The main state shareholders of the Parent Company as at 31 March 2017 are JSC ROSNEFTEGAZ (26.37%) and PJSC FGC UES (14.07%).

The Company has controlling interests in a number of subsidiaries operating in different regions of the Russian Federation and abroad (the Company and its subsidiaries collectively are designated as the "Group").

The Group is engaged in the following business activities:

- Electricity production, supply and distribution;
- Export and import of electricity;
- Sales of electricity purchased abroad and on the domestic market;
- Engineering services;
- Energy effectiveness research and development.

The Group's business environment

The governments of the countries where the Group entities operate directly affect the Group's operations through regulation with respect to energy generation, purchases and sales. Governmental economic, social and other policies in these countries could have a material effect on the operations of the Group.

The Russian Federation, Georgia, Moldavia (including Transdniestria Republic), Turkey, Lithuania, Latvia and Estonia have been experiencing significant (albeit different) political and economic changes that have affected, and may continue to affect, the activities of the Group entities operating in this environment. Consequently, operations in these jurisdictions involve risks that typically do not exist in other mature markets. These risks include matters arising from the policies of the government, economic conditions, the imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

The accompanying interim condensed consolidated financial statements reflect management's assessment of the impact of the business environment on the operating results and the financial position of the Group in the countries where the Group entities operate. Management is unable to predict all developments which could have an impact on the utilities sector and the wider economy in these countries and consequently, what effect, if any, they could have on the financial position of the Group. Therefore, future business environment may differ from management's assessment.

2. Basis of preparation

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

(b) Functional and presentation currency

The national currencies of the countries where the Group entities operate are usually the individual company's functional currencies, because they generally reflect the economic substance of the underlying transactions and circumstances of those companies.

The Group applies judgment in determination of the functional currencies of certain Group entities. The functional currency determination influences foreign exchange gain/losses recognised in profit and loss and translation differences recognised in other comprehensive income.

The interim condensed consolidated financial statements are presented in millions of the Russian roubles ("RUR"). The main part of the Group is represented by entities operating in the Russian Federation having RUR as their functional currency. All values are rounded to the nearest million, except when otherwise indicated.

(in millions of RUR)

2. Basis of preparation (continued)

(c) Seasonality

Demand for electricity is to some extent influenced by the season of the year. Revenue is usually higher in the period from October to March than in other months of the year. This seasonality does not impact revenue or cost recognition policies of the Group.

(d) Predecessor accounting

In the interim condensed consolidated financial statements the Group accounted for acquisition of 100% of shares of LLC ESC Bashkortostan as acquisition amongst entities under common control using the predecessor accounting method (or the pooling-of-interests method). Application of pooling-of-interests method assumes the comparatives are presented as if the entity acquired had always been consolidated. Accordingly, information in respect to the comparative period has been restated and prepared as if the acquisition had occurred from the beginning of the earliest period presented.

The effect of the restatement of the Group's interim condensed consolidated financial statements is described below:

For the three months ended 31 March 2016	*As previously reported*	*Retrospective consolidation of entity acquired under common control*	*Elimination intercompany adjustment*	*As restated*
Revenue	224,382	9,349	(1,730)	232,001
Other operating income	1,418	18	(5)	1,431
Operating expenses, net	(204,506)	(9,184)	1,735	(211,955)
Operating income	**21,294**	**183**	**–**	**21,477**
Finance income	1,962	12	–	1,974
Finance expenses	(3,192)	(79)	–	(3,271)
Share of loss of associates and joint ventures	1,624	–	–	1,624
Income/(loss) before income tax	**21,688**	**116**	**–**	**21,804**
Income tax expense	(4,704)	(26)	–	(4,730)
Income/(loss) for the period	**16,984**	**90**	**–**	**17,074**
Other comprehensive (loss)/income				
Other comprehensive (loss)/income that will be reclassified subsequently to profit or loss when specific conditions are met				
Gain on available-for-sale financial assets, net of tax	227	–	–	227
Net loss on hedge instruments, net of tax	(20)	–	–	(20)
Exchange loss on translation to presentation currency	(1,575)	–	–	(1,575)
Other comprehensive loss, net of tax	**(1,368)**	**–**	**–**	**(1,368)**
Total comprehensive income for the period	**15,616**	**90**	**–**	**15,706**
Income attributable to:				
Shareholders of the Company	17,147	90	–	17,237
Non-controlling interest	(163)	–	–	(163)
	16,984	**90**	**–**	**17,074**
Total comprehensive income attributable to:				
Shareholders of the Company	15,893	90	–	15,983
Non-controlling interest	(277)	–	–	(277)
	15,616	**90**	**–**	**15,706**

(e) Change in presentation

Starting from 1 January 2017, the management of Company decided to change presentation of Segment information, dividing the "Generation in the Russian Federation" segment into two separate segments: "Electric Power Generation in the Russian Federation" and "Thermal Power Generation in the Russian Federation", and also to merge the segments "Other" and "Unallocated and eliminations" in "Corporate centre", having previously allocated part of the assets to the segment "Trading in the Russian Federation and Europe". The comparative information was revised accordingly (Note 4).

(in millions of RUR)

3. Summary of significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements for the three months ended 31 March 2017 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016, except for the adoption of new amendments of the following standards became effective as of 1 January 2017, noted below:

a) The amendments of the following standards became effective for the Group's consolidated financial statements as of 1 January 2017:

- *The amendments to IAS 7 Statement of Cash Flows* are part of the IASB's *Disclosure Initiative* and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. This amendments did not have any effect on the consolidated financial statements.
- *IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses − Amendments to IAS 12.* The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. This amendments did not have any effect on the consolidated financial statements. This amendments did not have any effect on the consolidated financial statements.

b) The following IFRSs and amendments to existing IFRSs that have been published are not yet effective:

- *IFRS 2 Classification and Measurement of Share-based Payment Transactions − Amendments to IFRS 2.* The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.
- *IFRS 16 Leases* was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases − Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees − leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.
- *IFRS 9 Financial Instruments.* In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.
- *IFRS 15 Revenue from Contracts with Customers* was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

The Group has not adopted earlier any other standard, interpretation and amendment that has been issued but is not yet effective.

The Group is considering the implication of the new standards and the impact on the Group's consolidates financial statement and plans to adopt new standards when they become effective.

4. Segment information

Operating segments are components of an enterprise about which separate financial information is available and is evaluated regularly by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources and in assessing performance. The Management Board of the Parent Company has been determined as the CODM; the operating segment has been defined as a legal entity or a particular business activity of a legal entity. The Management Board analyses the effectiveness of the operating segments based on IFRS financial reporting.

The Management Board considers the Groups activities from both geographical (by countries of the Group entities' jurisdiction) and business perspective (electric power generation, thermal power generation, trading, supply, engineering and corporate centre) meaning that each operating segment represents a certain type of business activities or legal entities in a certain country.

The following reporting segments have been identified based on the requirements of IFRS 8 *Operating Segments* (taking into consideration aggregation criteria as well as quantitative thresholds on revenue and EBITDA):

- **Supply in the Russian Federation** (represented by PJSC Mosenergosbyt (Group of entities), JSC Saint Petersburg Power Supply Company (Group of entities), PJSC Tambov Energy Retailing Company, PJSC Saratovenergo, JSC Altayenergosbyt, LLC INTER RAO Orlovskii Energosbyt, JSC Industrial Energetics, LLC RN-Energo, PJSC Tomskenergosbyt, LLC Omsk Energy Retailing Company, JSC EIRTS LO, LLC ESC Bashkortostan, LLC RT − Energy Trading (equity accounted investee).
- **Electric Power Generation in the Russian Federation** (represented by Group Inter RAO − Electric Power Plants, including NVGRES Holding Limited (till 31 March 2017 − Note 7) and CJSC Nizhnevartovskaya GRES (equity accounted investees).
- **Thermal Power Generation in the Russian Federation** represented by:
  - *TGC-11* (represented by JSC TGC-11, JSC Tomsk generation, JSC TomskRTS and JSC OmskRTS);
  - *Bashkir Generation* (represented by Group Bashkir Generation Company).
- **Trading in the Russian Federation and Europe** (represented by the trading activities of the Parent Company, RAO Nordic Oy, AB INTER RAO Lietuva and its subsidiaries, Inter Green Renewables and Trading AB, JSC Eastern Energy Company, LLC Payments implementation center).
- **Foreign assets** represented by the following reporting sub-segments:
  - ***Georgia*** (represented by JSC Telasi, LLC Mtkvari Energy (till June 2016 − Note 5), JSC Khramhesi I and JSC Khramhesi II);
  - ***Armenia*** (represented by CJSC Elektricheskiye seti Armenii, JSC RazTES (equity accounted investees from 30 October 2015 till 29 December 2016 − Note 5);
  - ***Moldavia*** (represented by CJSC Moldavskaya GRES);
  - ***Kazakhstan*** (represented by JSC Stantsiya Ekibastuzskaya GRES-2 (equity accounted investee till 1 December 2016 − Note 5) and LLP INTER RAO Central Asia (till 21 September 2016 − Note 5);
  - ***Turkey*** (represented by Trakya Elektrik Uterim Ve Ticaret A.S.).
- **Engineering in the Russian Federation** (represented by LLC INTER RAO Engineering, LLC Quartz Novie Tekhnologii (equity accounted investee till 7 October 2016 − Note 5), LLC Quartz Group, LLC Power Efficiency Centre INTER RAO UES (equity accounted investee), LLC INTER RAO − Export, Energy beyond borders Non-for-profit Fund and LLC TCC Energy beyond borders).
- **Corporate centre** includes elimination of transactions among the reporting segments and management expenses, interest income and interest expense of the Parent Company and other subsidiaries, as well as loans and borrowings, obtained by the Parent Company and other subsidiaries, which cannot be allocated to a specific reporting segment on a reasonable basis.

(in millions of RUR)

4. Segment information (continued)

The CODM evaluates performance of the operating segments based on EBITDA, which is calculated as profit/(loss) for the period before finance income and finance expenses; income tax expense; depreciation and amortisation of property, plant and equipment, intangible assets; impairment charge/(release) of property, plant and equipment; impairment of goodwill and other intangible assets; impairment of available-for-sale financial assets and assets classified as held-for-sale; provisions for doubtful debts and for inventory obsolescence; other provisions; share in profit/(loss) of associates and effects from acquisition and disposal of Group entities; income/(loss) from purchase and sale of available-for-sale financial assets and assets classified as held-for-sale; and charity expenses, income/(loss) from disposal of non-financial assets and some other included in Other item within the reconciliation between EBITDA of the reporting segments and net income/(loss) for the reporting period. The Group’s definition of EBITDA may differ from that of other companies. Information about depreciation and amortisation of property, plant and equipment and intangible assets, interest income and interest expenses is disclosed in segment information as it is regularly reviewed by the CODM.

Revenue of each segment is mainly represented by sales of electricity and capacity and heat-power allocated to the reporting segments.

The CODM analyses leverage of the Group’s subsidiaries, joint ventures (equity accounted investees) on a regular basis; loans and borrowings are allocated to the reporting segments excluding inter-segment balances.

Joint ventures (equity accounted investees) are reviewed by the CODM in terms of the Group’s share in their profit/(loss) and loan and borrowings.

(in millions of RUR)

4. Segment information (continued)

Below is the performance of the operating segments for the three months ended 31 March 2017:

	Supply	***Electric Power Generation***	***Thermal Power Generation***		***Trading***	***Foreign assets***			***Engineering***		
	The Russian Federation	***Inter RAO − Electricity Generation Group***	***TGC-11***	***Bashkir Generation***	***The Russian Federation and Europe***	***Georgia***	***Moldavia***	***Turkey***	***The Russian Federation***	***Corporate centre***	***Total***
Total revenue	**162,714**	**42,477**	**11,152**	**16,744**	**11,682**	**2,614**	**1,068**	**3,902**	**1,992**	**(15,765)**	**238,580**
Revenue from external customers	162,206	32,018	10,073	13,878	11,204	2,614	1,068	3,902	1,584	33	**238,580**
Inter-segment revenue	508	10,459	1,079	2,866	478	−	−	−	408	(15,798)	**−**
Operating expenses, including:											
Purchased electricity and capacity	(89,187)	(1,551)	(794)	(1,133)	(9,191)	(2,117)	−	−	−	15,341	**(88,632)**
Transmission fees	(64,666)	−	−	(2)	(1,211)	(268)	(3)	−	−	−	**(66,150)**
Fuel expenses	−	(19,183)	(4,217)	(8,458)	−	−	(18)	(3,126)	−	584	**(34,418)**
Share in (loss)/profit of joint ventures	(11)	1,025	−	−	−	−	−	−	(20)	14	**1,008**
EBITDA	**3,678**	**16,950**	**3,568**	**4,222**	**1,107**	**(171)**	**624**	**621**	**(266)**	**(1,426)**	**28,907**
Depreciation and amortisation	(433)	(2,697)	(447)	(790)	(41)	(122)	(80)	−	(51)	(248)	**(4,909)**
Interest income	1,011	179	1	69	30	5	−	11	104	762	**2,172**
Interest expenses	(380)	(33)	(109)	(9)	(29)	(29)	(34)	(80)	(29)	54	**(678)**

(in millions of RUR)

4. Segment information (continued)

Below is the performance of the operating segments for the three months ended 31 March 2016 (restated):

	Supply	*Electric Power Generation*	*Thermal Power Generation*		*Trading*	*Foreign assets*					*Engineering*		
	The Russian Federation	***Inter RAO − Electricity Generation Group***	***TGC-11***	***Bashkir Generation***	***The Russian Federation and Europe***	***Armenia***	***Georgia***	***Moldavia***	***Kazakhstan***	***Turkey***	***The Russian Federation***	***Corporate centre***	***Total***
Total revenue	**148,619**	**39,463**	**10,770**	**16,289**	**19,517**	**–**	**3,369**	**1,363**	**–**	**4,914**	**1,465**	**(13,768)**	**232,001**
Revenue from external customers	148,120	30,765	9,749	13,458	19,191	–	3,369	1,363	–	4,914	1,033	39	**232,001**
Inter-segment revenue	499	8,698	1,021	2,831	326	–	–	–	–	–	432	(13,807)	**–**
Operating expenses, including:													
Purchased electricity and capacity	(79,537)	(1,678)	(823)	(943)	(14,975)	–	(1,210)	–	–	–	–	13,328	**(85,838)**
Transmission fees	(59,126)	–	–	(3)	(1,462)	–	(312)	(4)	–	–	–	–	**(60,907)**
Fuel expenses	–	(17,680)	(4,292)	(8,421)	–	–	(967)	(35)	–	(3,575)	–	550	**(34,420)**
Share in profit/ (loss) of joint ventures	12	757	–	–	–	825	–	–	197	–	(2)	20	**1,809**
EBITDA	**4,912**	**15,055**	**3,353**	**4,498**	**2,826**	**825**	**237**	**795**	**197**	**1,061**	**(440)**	**(918)**	**32,401**
Depreciation and amortisation	(522)	(2,869)	(324)	(827)	(51)	–	(159)	(133)	(1)	(455)	(53)	(254)	**(5,648)**
Interest income	940	293	–	85	70	–	13	–	–	19	38	441	**1,899**
Interest expenses	(381)	(1,201)	(270)	(62)	(69)	–	(39)	(72)	–	(136)	(21)	153	**(2,098)**

(in millions of RUR)

4. Segment information (continued)

As at 31 March 2017

	Supply	***Electric Power Generation***	***Thermal Power Generation***		***Trading***	***Foreign assets***			***Engineering***		
	The Russian Federation	***Inter RAO − Electricity Generation Group***	***TGC-11***	***Bashkir Generation***	***The Russian Federation and Europe***	***Georgia***	***Moldavia***	***Turkey***	***The Russian Federation***	***Corporate centre***	***Total***
Loans and borrowings, including:	**(6,670)**	**–**	**(2,769)**	**(581)**	**(1,387)**	**(1,136)**	**–**	**(5,317)**	**(154)**	**(677)**	**(18,691)**
Share in loans and borrowings of joint ventures	–	–	–	–	–	–	–	–	–	(140)	**(140)**

As at 31 December 2016

	Supply	***Electric Power Generation***	***Thermal Power Generation***		***Trading***	***Foreign assets***					***Engineering***		
	The Russian Federation	***Inter RAO − Electricity Generation Group***	***TGC-11***	***Bashkir Generation***	***The Russian Federation and Europe***	***Armenia***	***Georgia***	***Moldavia***	***Kazakhstan***	***Turkey***	***The Russian Federation***	***Corporate centre***	***Total***
Loans and borrowings, including:	**(2,038)**	**–**	**(5,238)**	**(173)**	**(1,780)**	**–**	**(1,005)**	**–**	**–**	**(6,701)**	**–**	**(840)**	**(17,775)**
Share in loans and borrowings of joint ventures	–	–	–	–	–	–	–	–	–	–	–	(151)	**(151)**

(in millions of RUR)

4. Segment information (continued)

The reconciliation between EBITDA of the reporting segments and net profit for the reporting period in the interim consolidated statement of comprehensive income is presented below:

	For the three months ended 31 March 2017	*For the three months ended 31 March 2016 (restated)*
EBITDA of the reportable segments	**28,907**	**32,401**
Depreciation and amortisation (Note 19)	(4,909)	(5,648)
Interest income (Note 20)	2,172	1,899
Interest expenses (Note 20)	(678)	(2,098)
Foreign currency exchange loss, net (Note 20)	(1,359)	(1,116)
Other finance income (Note 20)	309	18
Provisions charge, including: (Note 19)	(1,470)	(3,437)
other provisions release/(charge)	*281*	*(967)*
impairment of account receivables	*(1,751)*	*(2,470)*
Gain from disposal of controlling interest	4	–
Other item	(6)	(30)
Share of loss of associates (Note 7)	(64)	(185)
Income tax expense (Note 21)	(4,099)	(4,730)
Profit for the reporting period in the interim consolidated statement of comprehensive income	**18,807**	**17,074**

The reconciliation between loans and borrowings of the reportable segments and loans and borrowings for the reporting period in the interim consolidated statement of financial position is presented below:

	As at 31 March 2017	*As at 31 December 2016*
Loans and borrowings of the reportable segments	**(18,691)**	**(17,775)**
Less: share in loans an borrowings of joint ventures	140	151
Loans and borrowings in the interim consolidated statement of financial position	**(18,551)**	**(17,624)**

(in millions of RUR)

4. Segment information (continued)

Information about geographical areas

The Management Board also considers revenue of the Group entities generated in their countries of jurisdiction and abroad as well as non-current assets (property, plant and equipment, investment property, investments in associates and jointly controlled entities and intangible assets, including goodwill) based on location of assets.

	For the three months ended 31 March 2017			*For the three months ended 31 March 2016 (restated)*		
	Revenue in the Group entity's jurisdiction[1]	***Revenue in countries other than Group entity's jurisdiction***	***Total revenue based on location of customers***	***Revenue in the Group entity's jurisdiction***	***Revenue in countries other than Group entity's jurisdiction***	***Total revenue based on location of customers***
Russian Federation	221,611	–	**221,611**	210,212	–	**210,212**
Turkey	3,902	–	**3,902**	4,914	–	**4,914**
Finland	3,155	71	**3,226**	3,724	91	**3,815**
Georgia	2,614	132	**2,746**	3,369	995	**4,364**
Lithuania	2,353	–	**2,353**	2,815	–	**2,815**
China	–	1,074	**1,074**	–	1,690	**1,690**
Moldavia (incl. Transdniestria Republic)	1,023	45	**1,068**	1,290	73	**1,363**
Kazakhstan	–	577	**577**	–	758	**758**
Belarus	–	305	**305**	–	321	**321**
Mongolia	–	282	**282**	–	276	**276**
Estonia	120	137	**257**	304	324	**628**
Latvia	230	–	**230**	140	–	**140**
Other	178	771	**949**	232	473	**705**
Total	**235,186**	**3,394**	**238,580**	**227,000**	**5,001**	**232,001**

	Total non-current assets based on location of assets[2]	
	As at 31 March 2017	***As at 31 December 2016***
Russian Federation	299,249	303,000
Georgia	7,401	7,286
Turkey	3,470	3,709
Moldavia (incl. Transdniestria Republic)	3,411	3,735
Lithuania	1,117	1,206
Other	351	357
Total	**314,999**	**319,293**

5. Acquisitions and disposals

Acquisition of controlling interest in LLC ESC Bashkortostan

In December 2016 the Group acquired 100% of shares of LLC ESC Bashkortostan from entities under common control for the total cash consideration of RUR 4,100 million, including RUR 500 million paid in February 2017. This acquisition was accounted for using the pooling-of-interests method (Note 2d).

As at 31 December 2016 the Group has 100% of the shares of LLC ESC Bashkortostan.

1 Revenues are attributable to countries on the basis of the customer's location.

2 Total non-current assets based on location of assets excludes deferred tax assets, available-for-sale financial assets and other non-current assets.

(in millions of RUR)

5. Acquisitions and disposals (continued)

Acquisition of non-controlling interest in PJSC Tomskenergosbyt

As at 31 December 2015 the Group has 89.42% of the shares of PJSC Tomskenergosbyt. On 12 January 2016 the Group announced a mandatory offer to acquire 6.68% of ordinary and 36.44% of preference shares of PJSC Tomskenergosbyt held by non-controlling shareholders. The offer price was set at RUB 0.4157 per one ordinary and preference share. The offer term expired on 25 April 2016. Accordingly, as at 31 March 2016 the Group accrued a liability to the non-controlling shareholders in the amount of RUR 193 million, derecognised non-controlling interest in the amount of RUR 82 million and changes in retained earnings in the amount of RUR 111 million. As a result of mandatory offer the Group increased its share to 93.58%.

Acquisition of non-controlling interest in PJSC Mosenergosbyt

As at 31 December 2016 the Group has 93.99% of ordinary shares of PJSC Mosenergosbyt. In June 2016 annual shareholders meeting PJSC Mosenergosbyt decided to increase the Company's share capital through private subscription placement of the Company's ordinary shares. In February 2017 the Group participated in PJSC Mosenergosbyt shares placement in the amount of RUR 3,935 million. The total amount shares placement was RUR 4,020 million. As a result of private subscription the Group's share in PJSC Mosenergosbyt increased to 95.01% at 31 March 2017.

Other acquisitions and disposals

In January 2017 the Group purchase from third part parties additional share in one of Group's subsidiaries for RUR 60 million.

In June 2016 the Group has sold its 100% share in the subsidiary Mtkvari Energy LLC.

At the end of September 2016 the Group has sold 100% shares in LLP INTER RAO Central Asia.

In October 2015 and December 2015 the Group has sold the 50% share of its investments in the subsidiaries located in Republic of Armenia: CJSC Elektricheskiye seti Armenii and JSC RazTES, so the Group's share in these entities decreased from 100% to 50%. In December 2016 the Group has sold the remaining 50% share of its investments in CJSC Elektricheskiye seti Armenii and JSC RazTES.

On 7 October 2016 the Group sold 50.10% of shares of LLC Kvarz Noviye Technologii.

As at 1 December 2016 50% interest in a joint venture − JSC Stantsiya Ekibastuzskaya GRES was reclassified to held-for-sale assets due to management intention to sell the investment.

During the three months ended 31 March 2017 the Group liquidated a number of individually insignificant subsidiaries. The gain from the liquidation of RUR 4 million was recognised in the interim consolidated statement of comprehensive income.

(in millions of RUR)

6. Property, plant and equipment

	Land and buildings	*Infra-structure assets*	*Plant and equipment*	*Other*	*Const-ruction in progress*	*Total*
Cost						
Balance at 31 December 2016	**103,279**	**83,092**	**246,283**	**8,730**	**63,375**	**504,759**
Reclassification	4	(3)	–	(1)	–	**–**
Additions	6	67	–	1	5,212	**5,286**
Disposals	(17)	(102)	(150)	(45)	(11)	**(325)**
Transfers	31	123	331	56	(541)	**–**
Transfer (to)/from other accounts	–	–	(5)	(1)	6	**–**
Translation difference	(466)	(133)	(844)	(33)	(28)	**(1,504)**
Balance at 31 March 2017	**102,837**	**83,044**	**245,615**	**8,707**	**68,013**	**508,216**
Including finance leases	*546*	–	–	–	–	***546***
Depreciation and impairment						
Balance at 31 December 2016	**(38,820)**	**(38,312)**	**(132,712)**	**(4,845)**	**(9,571)**	**(224,260)**
Reclassification	(2)	1	–	1	–	**–**
Depreciation charge	(643)	(814)	(2,960)	(194)	–	**(4,611)**
Disposals	4	96	140	34	7	**281**
Transfers	–	–	(3)	(1)	4	**–**
Translation difference	400	151	661	35	22	**1,269**
Balance at 31 March 2017	**(39,061)**	**(38,878)**	**(134,874)**	**(4,970)**	**(9,538)**	**(227,321)**
Including finance leases	*(39)*	–	–	–	–	***(39)***
Net book value						
Balance at 31 December 2016	**64,459**	**44,780**	**113,571**	**3,885**	**53,804**	**280,499**
Balance at 31 March 2017	**63,776**	**44,166**	**110,741**	**3,737**	**58,475**	**280,895**

Construction in progress is represented by property, plant and equipment that has not yet been ready for operation and advances to suppliers of property, plant and equipment. Such advances amounted to RUR 2,152 million as at 31 March 2017 (31 December 2016: RUR 3,084 million).

Interest capitalised amounted to RUR nil (the three months ended 31 March 2016: RUR 286 million).

7. Investments in associates and joint ventures

	Joint ventures		*Associates*			
	NVGRES Holding Limited Including CJSC Nizhnevartov-skaya GRES	***Other joint ventures***	***RUS Gas Turbines Holding B.V.***	***LLC INVENT***	***Other associates***	***Total***
Carrying value at 31 December 2016	**22,643**	**846**	**1,522**	**3,194**	**681**	**28,886**
Disposals	(3)	–	–	–	–	**(3)**
Share of profit/(loss) after tax	1,025	(17)	21	(82)	(3)	**944**
Transfer to other accounts	(8,650)	–	–	–	–	**(8,650)**
Translation difference	–	(1)	–	–	–	**(1)**
Carrying value at 31 March 2017	**15,015**	**828**	**1,543**	**3,112**	**678**	**21,176**

As at 31 December 2016 the Group held 75% interest in NVGRES Holding Limited, including its subsidiary CJSC Nizhnevartovskaya GRES accounted for using the equity method. In connection with the liquidation of NVGRES Holding Limited and the liquidator's decision on the distribution of the company's assets, as at 31 March 2017, the Group accounted a 75% interest in CJSC Nizhnevartovskaya GRES in the amount of RUR 15,015 million, long-term loan issued to CJSC Nizhnevartovskaya GRES in the amount of RUR 150 million (Note 9) and short-term part of long-term loan issued in the amount of RUR 8,483 million and other short-term receivables in the amount of RUR 17 million (Note 10). In accordance with the term of the Shareholders Agreement between the Group and PJSC Rosneft, control over CJSC Nizhnevartovskaya GRES is jointly exercised.

(in millions of RUR)

8. Available-for-sale financial assets

As at 31 March 2017 available-for-sale financial assets in the total amount of RUR 7,704 million (31 December 2016: RUR 7,810 million) included investments in quoted shares in the total amount of RUR 5,998 million (31 December 2016: RUR 6,104 million) and investment in unquoted shares in the total amount of RUR 1,706 million (31 December 2016: RUR 1,706 million).

For the three months ended 31 March 2017 and 31 March 2016 there was no impairment loss on available-for-sale financial assets recognised through profit and loss in the interim consolidated statement of comprehensive income (Note 19).

For the three months ended 31 March 2017 the amount of RUR 85 million, net of tax RUR 21 million was recognised as a loss from revaluation of available-for-sale financial assets through other comprehensive income in the interim consolidated statement of comprehensive income (for the three months ended 31 March 2016: gain from revaluation in the amount of RUR 227 million, net of tax RUR 57 million).

9. Other non-current assets

		31 March 2017	*31 December 2016*
Financial non-current assets		***8,206***	***11,223***
Non-current trade receivables		1,743	1,925
	Less impairment provision	*(262)*	*(309)*
Non-current trade receivables − net		**1,481**	**1,616**
Other non-current receivables		4,284	7,545
	Less impairment provision	*(488)*	*(951)*
Other non-current receivables − net		**3,796**	**6,594**
Non-current loans issued (including interest)		3,092	3,269
	Less impairment provision	*(183)*	*(256)*
Non-current loans issued (including interest) − net		**2,909**	**3,013**
Long-term bank deposits		20	–
Non-financial non-current assets		***4,381***	***4,207***
Non-current advances to suppliers and prepayments		57	60
	Less impairment provision	*(18)*	*(19)*
Non-current advances to suppliers and prepayments − net		**39**	**41**
VAT recoverable		4	4
Other		4,338	4,162
		12,587	**15,430**

(in millions of RUR)

10. Accounts receivable and prepayments

		31 March 2017	*31 December 2016*
Financial assets		***104,066***	***88,732***
Trade receivables		110,640	100,127
	Less impairment provision	*(33,304)*	*(31,519)*
Trade receivables − net		**77,336**	**68,608**
Other receivables		20,732	21,617
	Less impairment provision	*(3,098)*	*(2,889)*
Other receivables − net		**17,634**	**18,728**
Short-term loans issued (including interest)		9,168	557
	Less impairment provision	*(493)*	*(505)*
Short-term loans issued (including interest)		**8,675**	**52**
Short-term outstanding interest on bank deposits		62	47
	Less impairment provision	*(10)*	*(10)*
Short-term outstanding interest on bank deposits − net		**52**	**37**
Short-term receivables on construction contracts		369	1,307
Non-financial assets		***13,975***	***15,373***
Advances to suppliers and prepayments		8,533	9,051
	Less impairment provision	*(1,493)*	*(1,500)*
Advances to suppliers and prepayments − net		**7,040**	**7,551**
Short-term VAT recoverable		3,564	3,872
Taxes prepaid		3,371	3,950
		118,041	**104,105**

The Group does not hold any collateral as a security.

11. Cash and cash equivalents

	31 March 2017	*31 December 2016*
Cash at bank and in hand, national currency	57,949	53,985
Cash at bank and in hand, foreign currency	8,406	7,526
Bank deposits with maturity of three months or less	26,918	34,477
Total	**93,273**	**95,988**

12. Other current assets

	31 March 2017	*31 December 2016*
Restricted cash	3,104	3,727
Bank deposits with maturity of 3-12 months	4,741	19
Short-term derivative financial instruments	−	72
Other	949	894
Total	**8,794**	**4,712**

(in millions of RUR)

13. Equity

Share capital

	31 March 2017	*31 December 2016*
Number of ordinary shares issued and fully paid (in units)	104,400,000,000	104,400,000,000
Par value (in RUR)	2.809767	2.809767
Share capital (in million RUR)	293,340	293,340

Change in retained earnings as a result of acquisition of controlling interests

As described in the paragraph "Predecessor accounting" (see Note 2d) the Company accounted for acquisition of controlling interest from entity under common control using pooling-of-interests method. As a result, the Group consolidated the entity acquired and represented the financial statements as if LLC ESC Bashkortostan had been always consolidated. The amount of RUR 885 million represented the net assets of acquired entity was recognised in retained earnings as at 1 January 2016. The table below represents changes in retained earnings for the period from 1 January 2016 as a result of acquisition of subsidiary under common control.

Balance at 1 January 2016	**885**
Profit of entity acquired	90
Balance at 31 March 2016 (restated)	**975**

Movements in outstanding and treasury shares

In March 2016 the Group has acquired 1 044 000 thousand shares of the Parent company (1% of its share capital) from the third parties for the price of RUR 1.5965 per share. The cash consideration in the amount of RUR 1,667 million was recognised in the interim consolidated statement of changes in equity and the interim consolidated statement of cash flows.

14. Loans and borrowings

This note provides information about the Group's loans and borrowings. Certain loan agreements include financial and non-financial covenants.

Loans and borrowings	*Currency*	*31 March 2017*	*31 December 2016*
Total in RUR	RUR	1,890	3,696
Total in USD	USD	5,757	7,148
Total in EUR	EUR	783	877
Total in JPY	JPY	458	447
Total in GEL	GEL	224	77
Finance leases			
Financial lease	USD	537	689
Financial lease	RUR	136	175
Financial lease	EUR	43	48
Total long-term loans and borrowings		**9,828**	**13,157**
Less: current portion of long-term loans and borrowings and long-term finance leases		(3,805)	(4,271)
		6,023	**8,886**

As at 31 March 2017 fair value of loans and borrowings amounts to RUR 9,989 million (31 December 2016: RUR 13,417 million), and estimated by discounting of contractual future cash flows at the prevailing current market interest rates available to the Group for similar financial instruments.

Changes in interest rates impact loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Parent Company has a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. At the time of raising new loans or borrowings management applies the policy to determine whether a fixed or variable rate would be more favorable to the Company over the expected period until maturity. As for other entities of the Group, following the corporate regulative documents, the decisions on raising new loans and borrowings on the subsidiaries level are subject for approval by the Parent Company. Management applies the same policy in making decisions in respect of the conditions of raising loans and borrowings on the subsidiary level.

(in millions of RUR)

15. Accounts payable and accrued liabilities

	31 March 2017	*31 December 2016*
Financial liabilities		
Trade payables	46,565	47,832
Short-term derivative financial instruments	26	17
Dividends payable	9	9
Other payables and accrued expenses	5,294	4,828
Total	**51,894**	**52,686**
Non-financial liabilities		
Advances received	25,774	35,694
Staff payables	11,438	9,333
Provisions, short-term	7,335	7,755
Total	**44,547**	**52,782**
	96,441	**105,468**

As at 31 March 2017 advances received included RUR 10,564 million of payments for electricity sales from customers of PJSC Mosenergosbyt (Group of companies), JSC Saint Petersburg Power Supply Company, LLC RN-Energo and Group Bashkir Generation Company (31 December 2016: RUR 18,949 million), RUR 3,723 million of advances received by LLC INTER RAO Export for construction of power station in Ecuador and Cuba (31 December 2016: RUR 3,698 million) and RUR 2,024 million of advances received by the Parent Company from buyers of equipment in Ecuador and Venezuela (31 December 2016: RUR 2,247 million).

16. Other non-current liabilities

	31 March 2017	*31 December 2016*
Financial liabilities		
Long-term derivative financial instruments	13	14
Other long-term liabilities	2,073	451
Total financial liabilities	**2,086**	**465**
Non-financial liabilities		
Pensions liabilities	4,075	4,081
Restoration provision	1,992	1,946
Government grants	46	42
Other long-term liabilities	692	726
Total non-financial liabilities	**6,805**	**6,795**
Total	**8,891**	**7,260**

17. Revenue

	Three months ended 31 March 2017	*Three months ended 31 March 2016 (restated)*
Electricity and capacity	216,573	208,616
Thermal energy sales	17,194	15,807
Other revenue	4,813	7,578
	238,580	**232,001**

18. Other operating income

	Three months ended 31 March 2017	*Three months ended 31 March 2016 (restated)*
Penalties and fines received	860	921
Electricity derivatives	26	–
Rental income	82	93
Gain from disposal of controlling interest	4	–
Other	447	417
	1,419	**1,431**

(in millions of RUR)

19. Operating expenses, net

	Three months ended 31 March 2017	*Three months ended 31 March 2016 (restated)*
Purchased electricity and capacity	88,632	85,838
Electricity transmission fees	66,150	60,907
Fuel expenses	34,418	34,420
Employee benefit expenses and payroll taxes	11,813	11,316
Depreciation and amortisation	4,909	5,648
Provision for impairment of accounts receivable, net	1,751	2,470
Agency fees	1,138	1,124
Taxes other than income tax	936	1,019
Thermal power transmission expenses	893	696
Repairs and maintenance	852	661
Water supply expenses	765	633
Other materials for production purposes	543	577
Transportation expenses	510	511
Operating lease expenses	453	450
Cost of equipment for resale	300	24
Other provisions (release)/charge	(281)	967
Consulting, legal and auditing services	242	298
Loss from electricity derivatives	19	10
Loss on sale or write-off of inventory	18	2
Other	4,420	4,384
	218,481	**211,955**

20. Finance income and expenses

	Three months ended 31 March 2017	*Three months ended 31 March 2016 (restated)*
Finance income		
Interest income	2,172	1,899
Other finance income	328	75
	2,500	**1,974**

	Three months ended 31 March 2017	*Three months ended 31 March 2016 (restated)*
Finance expenses		
Interest expenses	678	2,098
Foreign currency exchange loss, net	1,359	1,116
Other finance expenses	19	57
	2,056	**3,271**

21. Income tax expense

	Three months ended 31 March 2017	*Three months ended 31 March 2016 (restated)*
Current tax expense	4,887	4,208
Deferred tax (benefit)/expense	(659)	770
Amended tax returns	(129)	(197)
Provision for income tax	–	(51)
Income tax expense	**4,099**	**4,730**

(in millions of RUR)

22. Fair value of financial instruments

Fair value is determined either by reference to market or by discounting relevant cash flows using market interest rates for similar instruments. As a result of this exercise management believes that fair value of its financial assets and liabilities approximates their carrying amounts except for loans and borrowings. Fair value of loans and borrowings is disclosed in Note 14.

Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by observable current market transactions and assets and liabilities for which pricing is obtained via pricing services. In case prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable. Non-market observable inputs mean that fair values are determined in whole or partly using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions with the same instrument nor they are based on available market data. Main asset classes in this category are unlisted equity investments and debt instruments. Valuation techniques are used to the extent that observable inputs are not available, whereby allow situations in which there is little, if any, market activity for the financial instrument at the measurement date. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing of the financial instrument (including risk assumptions). These inputs are developed based on the best information available, which might include the Group's own data.

Determination of fair value and fair values hierarchy

The Group uses the following hierarchy to determine and disclose fair value of financial instruments:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table shows an analysis of financial instruments by level of the fair value hierarchy:

			Fair value hierarchy		
At 31 March 2017	***Note***	***Total fair value***	***Level 1***	***Level 2***	***Level 3***
Financial assets					
Available-for-sale financial assets					
Quoted investment securities	8	**5,998**	5,998	−	−
Held to maturity financial assets					
Long-term bank deposits	9	**20**	−	−	20
Bonds issued by financial institutions		**425**	425	−	−
Total financial assets		**6,443**	**6,423**	**−**	**20**
Financial liabilities					
Derivative financial instruments					
Electricity derivatives	15, 16	**14**	14	−	−
Interest rate SWAP	15, 16	**25**	−	25	−
Financial liabilities at amortised cost					
Loans and borrowings	14	**9,989**	−	9,989	−
Total financial liabilities		**10,028**	**14**	**10,014**	**−**

(in millions of RUR)

22. Fair value of financial instruments (continued)

At 31 December 2016	*Note*	*Total fair value*	*Fair value hierarchy* Level 1	Level 2	Level 3
Financial assets					
Derivative financial instruments					
Electricity derivatives	12	**72**	72	–	–
Available-for-sale financial assets					
Quoted investment securities	8	**6,104**	6,104	–	–
Held to maturity financial assets					
Bonds issued by financial institutions		**375**	375	–	–
Total financial assets		**6,551**	**6,551**	**–**	**–**
Financial liabilities					
Derivative financial instruments					
Electricity derivatives	15, 16	**3**	3	–	–
Interest rate SWAP	15, 16	**28**	–	28	–
Financial liabilities at amortised cost					
Loans and borrowings	14	**13,417**	–	13,417	–
Total financial liabilities		**13,448**	**3**	**13,445**	**–**

23. Commitments

Investment and capital commitments

In accordance with the memorandum signed between the Group and the Government of Georgia in March 2013, the Group has to invest in realisation of projects aimed to improve the electricity network which belongs to the Group entity JSC Telasi. As at 31 March 2017 realisation of investment commitments was in line with schedule for the year 2017.

As at 31 March 2017 capital commitments of subsidiaries of the Company are as follows:

Subsidiary	*RUR, million*
JSC Inter RAO − Electric Power Plants	5,153
LLC Bashkir Generation Company	5,461
JSC TGC-11	197
Total	**10,811**

Capital commitments of JSC Inter RAO − Electric Power Plants as at 31 March 2017 are mainly for supply of equipment for Permskaya GRES and for Verkhnetagilskaya GRES (block 12).

Capital commitments of LLC Bashkir Generation Company included contractual obligations for the construction of Zatonskaya TEC, reconstruction of the office building and reconstruction of heating networks.

Guarantees

- In September 2015 the Group entered into a bank guarantee agreement with ING Bank Eurasia for the purpose of financial support of agreement between the Group and CELEC EP for construction of HPP “Toachi Pilaton” (Ecuador). As at 31 March 2017 the guarantees amounted to USD 23 million, or RUR 1,323 million at the Central Bank of the Russian Federation exchange rate as of 31 March 2017 with an interest rate of 1.6% per annum (as at 31 December 2016: USD 24 million, or RUR 1,474 million at the Central Bank of the Russian Federation exchange rate as of 31 December 2016 with an interest rate of 1.6% per annum). These guarantees will expire in December 2017. In favor of the Group, the counter guarantees from the guarantor bank − Gazprombank JSC were issued by the subcontractor of the Toachi Pilaton HPP project.
- In January-September 2016 the Group entered into the new guarantee agreement with ING Bank Eurasia for the purpose of financial support of agreement between the Group and CELEC EP for construction of HPP “Machala” (Ecuador). As at 31 March 2017 the guarantees amounted to USD 32 million, or RUR 1,825 million at the Central Bank of the Russian Federation exchange rate as of 31 March 2017 (as at 31 December 2016: USD 32 million, or RUR 1,964 million at the Central Bank of the Russian Federation exchange rate as of 31 December 2016). The guarantees will expire in January 2018. In favor of the Group, the counter guarantees from the guarantor bank − Gazprombank JSC were issued by the subcontractor of the HPP “Machala” project.

(in millions of RUR)

23. Commitments (continued)

Guarantees (continued)

- In May 2016 the Group entered into the new guarantee agreement with State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" for the purpose of financial support of agreement between the Group and Empresa Importadora de Objetivos Electroenergeticos for capacity increase of TPP "East Havana" and TPP "Maximo Gomes" (Cuba). As at 31 March 2017 the guarantee amounted to EUR 7 million, or RUR 422 million at the Central Bank of the Russian Federation exchange rate as of 31 March 2017 (as at 31 December 2016: EUR 7 million, or RUR 445 million at the Central Bank of the Russian Federation exchange rate as of 31 December 2016). The guarantee will expire in January 2024.
- In December 2010 the Group established together with General Electric and State Corporation Russian Technologies an associate entity, RUS Gas Turbines Holding B.V. The Group's share in the entity is 25%. The entity was established to participate in production and sales of high-performance industrial gas turbines in the Russian Federation. The Group carries certain financial obligations to finance the associate.

  In August 2012 the Group entered into the standby letter of credit with PJSC VTB Bank issued a standby letter of credit in favour of GE ENERGY HOLDINGS VOSTOK B.V. (Beneficiary) to the maximum aggregate amount of EUR 50 million in order to fulfill the Group's investment obligations related to the associate.

  As at 31 March 2017 the standby letter of credit outstanding amount was EUR 25 million, or RUR 1,511 million at the Central Bank of the Russian Federation exchange rate as of 31 March 2017 (as at 31 December 2016: EUR 25 million, or RUR 1,592 million at the Central Bank of the Russian Federation exchange rate as of 31 December 2016). The standby letter of credit expires in August 2020.
- Guarantees of the Group's share of the joint ventures contingent liabilities in the amount of RUR 1,048 million which are to be incurred jointly with other investors (as at 31 December 2016: RUR 1,136 million).

24. Contingencies

(a) Operating environment

The operations and earnings of Group entities continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia, Georgia, Moldavia (including Transdniestria Republic) and Lithuania.

A significant drop in crude oil prices and a significant devaluation of the Russian rouble, as well as series of unilateral restrictive political and economic measures imposed on the Russian Federation by several countries occurred in 2014, continued to have a negative impact on the economy of the Russian Federation, primary jurisdiction of the Group, in 2016. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth in the Russian Federation, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

(b) Insurance

The unified corporate standards are established in the Group for insurance coverage, for insurance companies reliability requirements and insurance coverage procedures developed by Parent Company.

There are two types of insurance undertaken by the Group: obligatory (as required by the law or by agreement between parties) and voluntary.

Obligatory insurance includes public liability insurance of owners of dangerous facilities and public liability insurance of car owners. The Group is obligated to insure different types of property, plant and equipment under loan agreements provisions.

Voluntary insurance includes property insurance against certain risks and equipment breakdown insurance, vehicles insurance, insurance against construction and assembly risks, voluntary public liability insurance of owners of dangerous facilities against social and environmental harm risks. The Group also undertakes insurance of directors' and officials' of certain Group entities responsibilities to cover financial losses of third parties.

The Group's assets are insured for its replacement value which is set by valuation reports for insurance purposes considering technical risks. Obligatory condition of the property insurance of foreign subsidiaries is the availability of reliable reinsurance protection, which is done by transferring part of the risk to the foreign reinsurers with high reliability ratings.

In order to optimise insurance protection management performs regular appraisal of efficiency of Group's insurance terms and rationale for new insurance products acquired.

(in millions of RUR)

24. Contingencies (continued)

(c) Litigation

Legal proceedings

In the normal course of business the Group is a party to legal actions and consequently had received a number of legal claims from customers and subcontractors with the likelihood of negative outcome for the Group as not probable, but only possible, and, consequently, no provision has been made in these financial statements:

	31 March 2017	***31 December 2016***
Subcontractors claims	7,214	6,464
Customer's complaints	109	145
	7,323	**6,609**

Other than those litigations which have been accrued in the provisions (Note 15) and disclosed above, management of the Group is unaware of any actual, pending or threatened claims as at the date of approval of these interim condensed consolidated financial statements, which would have a material impact on the Group.

(d) Tax contingencies

The taxation systems in the Russian Federation and in other countries in which the Group operates are relatively new and characterised by frequent changes in legislation, official pronouncements and court decisions which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges.

A tax year remains open for review by the tax authorities during three to five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in the Russian Federation and in the other countries in which the Group operates. Management believes that it has adequately provided for tax liabilities based on its interpretations of applicable relevant tax legislation, official pronouncements and court decisions.

However, the interpretations of the relevant authorities could differ and the effect on these interim condensed consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The Group includes a number of operating and investment companies located in a number of different tax jurisdictions across Europe and the CIS. Those entities are subject to a complex variety of tax regimes and the nature of current and past trading and investment activities exposes them to areas of tax legislation involving considerable judgement and, consequently, uncertainty.

The Parent Company and subsidiaries in the countries where they operate have various transactions with related parties. The pricing policy could give rise to transfer pricing risks. In management's opinion, the Group is in substantial compliance with the tax laws of the countries where Group entities operate. However, relevant authorities could take different positions with regard to interpretive issues or court practice could develop adversely with respect to the positions taken by the Group and the effect could be significant.

(e) Environmental matters

Group entities operate in the electric power industry in the Russian Federation, Georgia and Moldavia. The enforcement of environmental regulations in these countries is evolving and position of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage, except restoration provision.

Restoration provision liabilities relate to reclamation of land plots, used for ash dumps by generating entities, which use coal for production purposes (Note 16).

(in millions of RUR)

24. Contingencies (continued)

(f) Ownership of land

The current legislation in Georgia is unclear in relation to ownership issues with regard to land over which the Company's equipment for the transmission of electricity is located (JSC Telasi). On further clarification of the law, it is possible that the Company may be required to acquire ownership over certain land plots or to pay rentals to other parties for their use. At the date of approval of these financial statements, management considers that it is not possible to quantify any additional expense, if any, which JSC Telasi might incur and consequently, no provision has been made against such potential liabilities in these financial statements.

25. Related party transactions

(a) Parent Company and control relationships

The Russian Federation is the ultimate controlling party of PJSC Inter RAO and has a controlling interest in the Company of over 50%. Details of operations with entities controlled by the Russian Federation are provided in Note 25 (d).

(b) Transactions with key management personnel

The members of the Management Board own 0.0145% of ordinary shares of PJSC Inter RAO as at 31 March 2017 (31 December 2016: 0.0145%).

Compensation paid to key management and members of the Board of Directors for their service in that capacity is made up of contractual salary and performance bonuses. Key management and members of the Board of Directors received the following remuneration during the period, which is included in employee benefit expenses and payroll taxes (Note 19):

	Three months ended 31 March 2017	***Three months ended 31 March 2016***
Salaries and bonuses	73	45

Employee's Share Option Programme

In February 2016 the Company's Board of Directors approved Share Option Programme (hereinafter referred to as "the Programme") in which members of the Management Board and other key employees of the Group were to be participants (hereinafter referred to as "the Programme participants").

In July 2016 the basic conditions of the Programme have been communicated to key managers. The total number of shares participating in the Programme, is 2% of the share capital of the Parent company. The Programme participants can exercise the share option at any time from February 2018 to February 2020.

Changes in the amounts of options granted are described in the table below:

	All options granted under the Programme	***Attributed to members of the Management Board***
Number of options outstanding as at 31 December 2016	2,088,000,000	657,720,000
Options signed during the three months ended 31 March 2017	–	–
Number of options outstanding as at 31 March 2017	**2,088,000,000**	**657,720,000**

Fair value of services received in return for share options granted to employees is measured by reference to fair value of the share options granted. The estimate of the fair value of the services received is measured based on the Binomial model.

	31 March 2017
Weighted average price (RUR)	3.9151
Expected volatility	42.50%
Option life, years	3.6
Risk-free interest rate	8.60%
Fair value of the option at measurement date (in RUR)	1.653330801

To determine volatility the Group used the historical volatility of the market prices of the Company's publicly traded shares. For the three months year ended 31 March 2017 the Group recognised a loss of RUR 411 million within employee benefit expenses in the consolidated statement of comprehensive income related to the fair value of the options agreements signed.

(in millions of RUR)

25. Related party transactions (continued)

(c) Transactions with associates and joint ventures

Sales to and purchases from joint ventures and associates are made at terms equivalent to those that prevail in arm's length transactions.

The Group's transactions with associates and joint ventures are disclosed below.

	Three months ended 31 March 2017	*Three months ended 31 March 2016*
Revenue		
Joint ventures	135	211
Associates	–	5
Other operating income		
Joint ventures	1	–
Interest income		
Joint ventures	3	67
Associates	–	2
	139	**285**

	Three months ended 31 March 2017	*Three months ended 31 March 2016 (restated)*
Purchased power		
Joint ventures	1	152
Purchased capacity		
Joint ventures	357	326
Other expenses		
Joint ventures	9	1
Interest expenses		
Joint ventures	–	424
	367	**903**

	31 March 2017	*31 December 2016*
Accounts receivable		
Joint ventures	112	154
Associates	–	1
Loans issued		
Joint ventures	8,635	–
Accounts payable		
Joint ventures	99	96
Associates	2	–

(in millions of RUR)

25. Related party transactions (continued)

(d) Transactions with entities controlled by the Russian Federation

Sales to and purchases from entities controlled by the Russian Federation are made at terms equivalent to those that prevail in arm's length transactions.

Information on transactions with entities controlled by the Russian Federation is presented below:

	Three months ended 31 March 2017	*Three months ended 31 March 2016 (restated)*
Revenue		
Electricity and capacity	78,561	76,647
Other revenues	1,430	3,858
Other operating income	208	409
	80,199	**80,914**
Operating expenses		
Purchased power and capacity	25,207	19,540
Transmission fees	59,995	54,982
Fuel expenses (gas)	26,886	24,714
Fuel expenses (coal)	258	118
Other purchases	10	30
Other expenses	3,159	3,706
	115,515	**103,090**
Capital expenditures	**8**	**461**

	Three months ended 31 March 2017	*Three months ended 31 March 2016 (restated)*
Finance income/(expenses)		
Interest income	493	480
Interest expenses	(168)	(802)
	325	**(322)**

	31 March 2017	*31 December 2016*
Long-term accounts receivable		
Other account receivables	203	204
Less impairment provision	(23)	(23)
Other receivables − net	**180**	**181**
Short-term accounts receivable		
Trade accounts receivable, gross	39,879	34,769
Less impairment provision	(14,694)	(13,402)
Trade receivables − net	**25,185**	**21,367**
Advances issued	148	918
Advances issued for capital construction	204	52
Other receivables	1,606	1,596
	27,143	**23,933**

	31 March 2017	*31 December 2016*
Accounts payable		
Trade accounts payable	24,573	21,812
Payables for capital construction	35	50
Other accounts payable	2,268	337
Advances received	7,648	13,723
	34,524	**35,922**

(in millions of RUR)

25. Related party transactions (continued)

(d) Transactions with entities controlled by the Russian Federation (continued)

	31 March 2017	*31 December 2016*
Loans and borrowings		
Short-term loans and borrowings	1,690	210
Long-term loans and borrowings	153	–
Interest on loans and borrowings	4	1
	1,847	**211**

	31 March 2017	*31 December 2016*
Cash and cash equivalents	**4,845**	**6,342**

	31 March 2017	*31 December 2016*
Other current assets (bank deposits)	**7,616**	**11,771**

	Three months ended 31 March 2017	*Three months ended 31 March 2016 (restated)*
Financial transactions		
Loans and borrowings received	1,840	105
Loans and borrowings repaid	(210)	(10,439)
	1,630	**(10,334)**

In July 2011 subsidiary of PJSC Inter RAO entered into an agreement with a state-controlled company for sale of electric power under the “take-or-pay” arrangement through 30 June 2026. The sales to and purchases from enterprises controlled by the Russian Federation are made at terms equivalent to those that prevail in arm’s length transactions.

(e) Transactions with other related parties

Sales to and purchases from other related parties are made at terms equivalent to those that prevail in arm’s length transactions. Amounts of transactions with other related parties (except for those controlled by the Russian Federation, equity investees and joint ventures), for each of the reporting periods are provided below:

	Three months ended 31 March 2017	*Three months ended 31 March 2016*
Revenue		
Electricity and capacity	19	1,895
Operating expenses		
Purchased electricity and capacity	827	1,015
Other expenses	22	55

	31 March 2017	*31 December 2016*
Short-term accounts receivable		
Trade and other accounts receivable	667	630
Short-term accounts payable		
Trade and other accounts payable	49	259

	31 March 2017	*31 December 2016*
Loans and borrowings payable		
Long-term loans and borrowings	–	–
Short-term loans and borrowings	931	825
	931	**825**

(in millions of RUR)

25. Related party transactions (continued)

(e) Transactions with other related parties (continued)

	31 March 2017	*31 December 2016*
Cash and cash equivalents		
Cash in bank	26,640	28,665
Short-term bank deposits	6,061	6,080
	32,701	**34,745**

	Three months ended 31 March 2017	*Three months ended 31 March 2016*
Income and expenses		
Interest income	358	88
Interest expenses	(72)	(265)

26. Events after the reporting period

In April 2017 Peresvet Bank has returned the short-term portion of the debt to the Group for cash placed on current accounts as well as deposits opened in the bank in the amount of RUR 2,847 million.