PJSC Inter RAO

Interim Financial Information

For the three and nine months ended 30 September 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 30 September 2017, the related interim consolidated statement of comprehensive income for the tree-month and nine-month periods then ended, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the nine-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
Ernst & Young LLC

14 November 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	30 September 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	6	282,385	280,499
Intangible assets		14,010	9,908
Investments in associates and joint ventures	7	22,297	28,886
Deferred tax assets		7,709	6,527
Available-for-sale financial assets	8	11,070	7,810
Other non-current assets	9	3,235	15,430
Total non-current assets		**340,706**	**349,060**
Current assets			
Inventories		16,299	14,104
Accounts receivable and prepayments	10	104,826	104,105
Income tax prepaid		4,600	625
Cash and cash equivalents	11	110,336	95,988
Other current assets	12	22,243	4,712
		258,304	**219,534**
Assets classified as held-for-sale		3,000	3,000
Total current assets		**261,304**	**222,534**
Total assets		**602,010**	**571,594**
Equity and liabilities			
Equity			
Share capital	13	293,340	293,340
Treasury shares		(58,787)	(58,787)
Share premium		69,312	69,312
Hedge reserve		2	16
Actuarial reserve		(158)	(182)
Fair value reserve		2,260	2,485
Foreign currency translation reserve		2,486	2,972
Retained earnings		136,373	107,879
Total equity attributable to shareholders of the Company		**444,828**	**417,035**
Non-controlling interest		1,484	2,191
Total equity		**446,312**	**419,226**
Non-current liabilities			
Loans and borrowings	14	3,893	8,886
Deferred tax liabilities		12,416	10,678
Other non-current liabilities	16	8,487	7,260
Total non-current liabilities		**24,796**	**26,824**
Current liabilities			
Loans and borrowings		22,531	8,738
Accounts payable and accrued liabilities	15	101,251	105,468
Amount payable to non-controlling shareholders for shares of subsidiary	5	749	–
Other taxes payable		6,122	9,005
Income tax payable		249	2,333
Total current liabilities		**130,902**	**125,544**
Total liabilities		**155,698**	**152,368**
Total equity and liabilities		**602,010**	**571,594**

Chairman of the Management Board — Kovalchuk B.Yu.

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

14 November 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 30 September 2017	For the three months ended 30 September 2016	For the nine months ended 30 September 2017	For the nine months ended 30 September 2016
Revenue	17	216,416	201,605	653,686	621,979
Other operating income	18	1,782	1,230	5,096	37,083
Operating expenses, net	19	(206,003)	(195,895)	(618,049)	(584,196)
Operating income		**12,195**	**6,940**	**40,733**	**74,866**
Finance income	20	2,290	3,267	7,577	7,758
Finance expenses	20	(987)	(2,279)	(3,050)	(8,684)
Share of profit of associates and joint ventures, net	7	213	882	2,078	4,225
Income before income tax		**13,711**	**8,810**	**47,338**	**78,165**
Income tax expense	21	(2,908)	(2,448)	(6,588)	(9,809)
Income for the period		**10,803**	**6,362**	**40,750**	**68,356**
Other comprehensive income/(loss)					
Other comprehensive income/(loss) that will be reclassified subsequently to profit or loss when specific conditions are met					
Actuarial gain/(loss), net of tax		5	1	24	(311)
Gain/(loss) on available-for-sale financial assets and assets classified as held-for-sale, net of tax	8	373	834	(225)	891
Net gain/(loss) on hedge instruments, net of tax		9	11	(27)	11
Exchange loss on translation to presentation currency		(281)	(214)	(402)	(3,320)
Other comprehensive income/(loss), net of tax		**106**	**632**	**(630)**	**(2,729)**
Total comprehensive income for the period		**10,909**	**6,994**	**40,120**	**65,627**
Income/(loss) attributable to:					
Shareholders of the Company		10,598	6,417	40,302	68,064
Non-controlling interest		205	(55)	448	292
		10,803	**6,362**	**40,750**	**68,356**
Total comprehensive income/(loss) attributable to:					
Shareholders of the Company		10,731	7,058	39,601	65,528
Non-controlling interest		178	(64)	519	99
		10,909	**6,994**	**40,120**	**65,627**
Basic income per ordinary share for income attributable to the shareholders of the Company		**RUR 0.127**	**RUR 0.078**	**RUR 0.483**	**RUR 0.813**
Diluted income per ordinary share for income attributable to the shareholders of the Company		**RUR 0.125**	**RUR 0.075**	**RUR 0.475**	**RUR 0.810**

Chairman of the Management Board — Kovalchuk B.Yu.

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

14 November 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 nine months ended 30 September* 2017	2016
Operating activities			
Income before income tax		**47,338**	**78,165**
Adjustments to reconcile income before tax to net cash flows from operating activities			
Depreciation and amortisation	19	15,788	17,199
Provision for impairment of accounts receivable, net	19	4,600	7,511
Other provisions charge	19	841	1,059
Impairment of property, plant and equipment and intangible assets charge/(release)	19	2,436	(4,417)
Share of profit of associates and joint ventures	7	(2,078)	(4,225)
Income from electricity derivatives, net	18, 19	(124)	(67)
Foreign exchange loss, net	20	925	2,422
Interest income	20	(6,528)	(7,015)
Other finance income	20	(632)	(483)
Interest expenses	20	2,072	5,803
Other finance expenses	20	53	459
Dividend income	20	(417)	(260)
Income from sale of assets classified as held-for-sale	18	–	(31,870)
Share option plan	25	844	1,877
Gain from disposal of controlling interest	5, 18	(17)	(95)
Other non-cash operations/items		(1)	514
Operating cash flows before working capital adjustments and income tax paid		**65,100**	**66,577**
(Increase)/decrease in inventories		(2,269)	78
Increase in accounts receivable and prepayments		(8,629)	(3,439)
Decrease in value added tax recoverable		3,925	2,591
Decrease/(increase) in other current assets		3,249	(15,729)
Decrease in accounts payable and accrued liabilities		(8,503)	(5,756)
Decrease in taxes other than income tax prepaid/payable, net		(3,512)	(1,954)
Other working capital adjustments		71	150
		49,432	**42,518**
Income tax paid		(12,077)	(9,097)
Net cash flows from operating activities		**37,355**	**33,421**

Interim consolidated statement of cash flows (continued)

(in millions of RUR)

	Note	For the nine months ended 30 September 2017	2016
Investing activities			
Proceeds from disposal of property, plant and equipment		89	102
Purchase of property, plant and equipment and intangible assets		(21,718)	(23,032)
Purchase of controlling interest, net of cash acquired	5	(500)	–
Proceeds from disposal of controlling interest, net of cash disposed	5	–	433
Proceeds from disposal of assets classified as held-for-sale		9,375	48,125
Proceeds from repayment of loans issued		12,636	553
Loans issued		(108)	–
Bank deposits placed		(25,746)	(17,607)
Bank deposits returned and proceeds from promissory notes repayment		5,061	26,790
Interest proceeds for bank deposits placed		2,979	5,720
Purchase of bonds		(44)	–
Dividends received		427	395
Cash flows used for other investing activities		(279)	(140)
Net cash flows (used for) / from investing activities		**(17,828)**	**41,339**
Financing activities			
Proceeds from loans and borrowings		35,952	32,537
Repayment of loans and borrowings		(26,682)	(51,007)
Repayment of finance leases		(363)	(409)
Interest paid		(1,816)	(7,943)
Dividends paid		(12,214)	(1,967)
Purchase of non-controlling interest in subsidiaries		(1,582)	(76)
Proceeds from disposal of non-controlling interest in subsidiaries		1,568	–
Acquisition of treasury shares		–	(1,667)
Proceeds from treasury shares sold		–	223
Net cash flows used for financing activities		**(5,137)**	**(30,309)**
Effect of exchange rate fluctuations on cash and cash equivalents		(42)	(565)
Net increase in cash and cash equivalents		**14,348**	**43,886**
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	**110,336**	**110,166**

Chairman of the Management Board — Kovalchuk B.Yu.

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

14 November 2017

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 nine months ended 30 September 2016		–	–	–	(3,126)	891	5	(306)	68,064	65,528	99	65,627
Dividends to shareholders		–	–	–	–	–	–	–	(1,716)	(1,716)	(622)	(2,338)
Acquisition of non-controlling interest in subsidiary		–	–	–	–	–	–	–	(43)	(43)	(33)	(76)
Share option plan		–	–	–	–	–	–	–	1,877	1,877	–	1,877
Sale of treasury shares		–	330	–	–	–	–	–	(107)	223	–	223
Acquisition of treasury shares		–	(2,933)	–	–	–	–	–	1,266	(1,667)	–	(1,667)
Balance at 30 September 2016		293,340	(58,787)	69,312	3,915	1,756	(7)	(405)	118,618	427,742	2,149	429,891
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 nine months ended 30 September 2017		–	–	–	(486)	(225)	(14)	24	40,302	39,601	519	40,120
Dividends to shareholders	13	–	–	–	–	–	–	–	(12,656)	(12,656)	(461)	(13,117)
Acquisition of non-controlling interest in subsidiary	5	–	–	–	–	–	–	–	244	244	(219)	25
Disposal of non-controlling interest in subsidiary	5	–	–	–	–	–	–	–	(240)	(240)	(546)	(786)
Share option plan	25	–	–	–	–	–	–	–	844	844	–	844
Balance at 30 September 2017		293,340	(58,787)	69,312	2,486	2,260	2	(158)	136,373	444,828	1,484	446,312

Chairman of the Management Board Kovalchuk B.Yu.

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

14 November 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 30 September 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 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.

(in millions of RUR)

2. Basis of preparation (continued)

(b) Functional and presentation currency (continued)

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.

(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) Changes in presentation

Starting from 1 January 2017, the management of the 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).

3. Summary of significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements for the three and nine months ended 30 September 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. These 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. These 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.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

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

- *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.

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 Group activities from both geographical (by countries of the Group entities' jurisdiction) and business perspective (generation, trading, supply, distribution, engineering and other) 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 JSC Nizhnevartovskaya GRES (equity accounted investees).

(in millions of RUR)

4. Segment information (continued)

- **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) 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.

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 30 September 2017:

	Supply	***Electric Power Generation in the Russian Federation***	***Thermal Power Generation in the Russian Federation***		***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	**147,172**	**40,896**	**4,361**	**9,917**	**17,880**	**2,627**	**2,162**	**3,007**	**3,708**	**(15,314)**	**216,416**
Revenue from external customers	146,954	30,328	3,679	7,689	17,207	2,627	2,162	3,007	2,745	18	**216,416**
Inter-segment revenue	218	10,568	682	2,228	673	−	−	−	963	(15,332)	**−**
Operating expenses, including:											
Purchased electricity and capacity	(78,280)	(2,010)	(501)	(884)	(13,810)	(821)	−	−	−	14,323	**(81,983)**
Transmission fees	(58,587)	−	−	−	(1,712)	(270)	(14)	−	−	−	**(60,583)**
Fuel expenses	−	(19,969)	(1,984)	(5,542)	−	−	(870)	(2,400)	−	660	**(30,105)**
Share in (loss)/profit of joint ventures	(17)	351	−	−	−	−	−	−	−	13	**347**
EBITDA	**5,391**	**11,836**	**(705)**	**(184)**	**2,237**	**1,078**	**968**	**253**	**95**	**(1,312)**	**19,657**
Depreciation and amortisation	(428)	(3,002)	(422)	(799)	(47)	(135)	(77)	(526)	(55)	(187)	**(5,678)**
Interest income	896	443	−	60	11	4	−	8	72	571	**2,065**
Interest expenses	(410)	(39)	(102)	(3)	(8)	(57)	(27)	(77)	(33)	48	**(708)**

(in millions of RUR)

4. Segment information (continued)

Below is the performance of the operating segments for the three months ended 30 September 2016:

	Supply	***Electric Power Generation in the Russian Federation***	***Thermal Power Generation in the Russian Federation***		***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	**131,590**	**39,864**	**3,812**	**10,473**	**21,472**	**–**	**2,777**	**1,175**	**–**	**3,309**	**2,067**	**(14,934)**	**201,605**
Revenue from external customers	131,409	29,359	3,235	8,239	21,084	–	2,777	1,175	–	3,309	987	31	**201,605**
Inter-segment revenue	181	10,505	577	2,234	388	–	–	–	–	–	1,080	(14,965)	**–**
Operating expenses, including:													
Purchased electricity and capacity	(70,018)	(2,370)	(379)	(957)	(17,339)	–	(1,043)	–	–	–	–	13,838	**(78,268)**
Transmission fees	(53,518)	–	–	(1)	(1,492)	–	(277)	(4)	–	–	–	–	**(55,292)**
Fuel expenses	–	(20,102)	(1,833)	(5,622)	–	–	–	(60)	–	(2,572)	–	563	**(29,626)**
Share in (loss)/profit of joint ventures	(6)	550	–	–	–	431	–	–	(51)	–	(29)	11	**906**
EBITDA	**3,025**	**11,010**	**(1,027)**	**666**	**2,340**	**431**	**995**	**643**	**(51)**	**532**	**75**	**(2,994)**	**15,645**
Depreciation and amortisation	(549)	(2,974)	(438)	(853)	(47)	–	(145)	(122)	(1)	(395)	(44)	(217)	**(5,785)**
Interest income	1,039	216	–	84	77	–	16	–	–	10	39	1,568	**3,049**
Interest expenses	(462)	(985)	(181)	(11)	(41)	–	(36)	(49)	–	(107)	(26)	81	**(1,817)**

(in millions of RUR)

4. Segment information (continued)

Below is the performance of the operating segments for the nine months ended 30 September 2017:

	Supply	*Electric Power Generation in the Russian Federation*	*Thermal Power Generation in the Russian Federation*		*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	**449,383**	**117,856**	**21,133**	**37,937**	**43,729**	**7,486**	**3,952**	**8,837**	**8,688**	**(45,315)**	**653,686**
Revenue from external customers	448,347	87,807	18,617	30,333	41,915	7,486	3,952	8,837	6,323	69	**653,686**
Inter-segment revenue	1,036	30,049	2,516	7,604	1,814	−	−	−	2,365	(45,384)	**−**
Operating expenses, including:											
Purchased electricity and capacity	(241,598)	(5,098)	(1,826)	(2,895)	(33,848)	(3,969)	−	−	−	42,875	**(246,359)**
Transmission fees	(178,895)	−	−	(3)	(4,073)	(762)	(23)	−	−	−	**(183,756)**
Fuel expenses	−	(54,920)	(8,559)	(19,832)	−	−	(1,132)	(6,994)	−	1,795	**(89,642)**
Share in (loss)/profit of joint ventures	(42)	1,965	−	−	−	−	−	−	(23)	37	**1,937**
EBITDA	**13,985**	**39,386**	**3,073**	**5,777**	**5,072**	**1,381**	**1,742**	**1,046**	**(191)**	**(4,262)**	**67,009**
Depreciation and amortisation	(1,273)	(8,426)	(1,329)	(2,382)	(131)	(385)	(231)	(826)	(162)	(643)	**(15,788)**
Interest income	2,711	1,171	7	187	55	13	−	26	243	2,115	**6,528**
Interest expenses	(1,181)	(106)	(310)	(22)	(53)	(136)	(89)	(230)	(95)	150	**(2,072)**

(in millions of RUR)

4. Segment information (continued)

Below is the performance of the operating segments for the nine months ended 30 September 2016:

	Supply	*Electric Power Generation in the Russian Federation*	*Thermal Power Generation in the Russian Federation*		*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	**404,002**	**113,860**	**19,660**	**37,630**	**59,686**	**−**	**8,940**	**3,684**	**−**	**11,370**	**5,159**	**(42,012)**	**621,979**
Revenue from external customers	403,096	85,859	17,365	30,215	58,501	−	8,940	3,684	−	11,370	2,854	95	**621,979**
Inter-segment revenue	906	28,001	2,295	7,415	1,185	−	−	−	−	−	2,305	(42,107)	**−**
Operating expenses, including:													
Purchased electricity and capacity	(215,009)	(5,640)	(1,699)	(2,729)	(47,145)	−	(3,157)	−	−	−	−	39,653	**(235,726)**
Transmission fees	(163,295)	−	−	(6)	(4,263)	−	(845)	(11)	−	−	−	−	**(168,420)**
Fuel expenses	−	(53,716)	(8,540)	(19,678)	−	−	(954)	(105)	−	(8,387)	−	1,651	**(89,729)**
Share in profit/(loss) of joint ventures	10	1,997	−	−	−	1,962	−	−	607	−	(41)	48	**4,583**
EBITDA	**10,314**	**38,688**	**2,329**	**6,901**	**7,492**	**1,962**	**2,234**	**2,048**	**609**	**2,154**	**(555)**	**(4,858)**	**69,318**
Depreciation and amortisation	(1,607)	(8,681)	(1,287)	(2,532)	(148)	−	(460)	(382)	(2)	(1,253)	(143)	(704)	**(17,199)**
Interest income	2,958	780	−	274	212	−	40	−	1	40	108	2,602	**7,015**
Interest expenses	(1,242)	(3,285)	(630)	(105)	(175)	−	(112)	(181)	−	(364)	(73)	364	**(5,803)**

(in millions of RUR)

4. Segment information (continued)

As at 30 September 2017

	Supply	*Electric Power Generation in the Russian Federation*	*Thermal Power Generation in the Russian Federation*		*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:	**(14,033)**	**–**	**(4,263)**	**(49)**	**(1,022)**	**(1,766)**	**–**	**(4,668)**	**(285)**	**(482)**	**(26,568)**
Share in loans and borrowings of joint ventures	–	–	–	–	–	–	–	–	–	(144)	**(144)**

As at 31 December 2016

	Supply	*Electric Power Generation in the Russian Federation*	*Thermal Power Generation in the Russian Federation*		*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:	**(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 income for the reporting period in the interim consolidated statement of comprehensive income is presented below:

	For the three months ended 30 September		*For the nine months ended 30 September*	
	2017	***2016***	***2017***	***2016***
EBITDA of the reportable segments	**19,657**	**15,645**	**67,009**	**69,318**
Depreciation and amortisation (Note 19)	(5,678)	(5,785)	(15,788)	(17,199)
Interest income (Note 20)	2,065	3,049	6,528	7,015
Interest expenses (Note 20)	(708)	(1,817)	(2,072)	(5,803)
Foreign currency exchange loss, net (Note 20)	(273)	(159)	(925)	(2,422)
Other finance income/(expenses) (Note 20)	219	(85)	996	284
Provisions (charge)/release, including: (Note 19)	(1,046)	(1,896)	(7,877)	(4,153)
impairment of intangible assets	–	–	*(68)*	–
impairment of property, plant and equipment (charge)/release	–	–	*(2,368)*	*4,417*
other provisions charge	*(248)*	*(303)*	*(841)*	*(1,059)*
impairment of account receivables	*(798)*	*(1,593)*	*(4,600)*	*(7,511)*
Gain/(loss) from disposal of controlling interest (Note 18)	1	(21)	17	95
Income from sale of assets classified as held-for-sale	–	–	–	31,870
Other item	(392)	(97)	(691)	(482)
Share of (loss)/profit of associates (Note 7)	(134)	(24)	141	(358)
Income tax expense (Note 21)	(2,908)	(2,448)	(6,588)	(9,809)
Income for the reporting period in the interim consolidated statement of comprehensive income	**10,803**	**6,362**	**40,750**	**68,356**

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 30 September 2017	***As at 31 December 2016***
Loans and borrowings of the reportable segments	**(26,568)**	**(17,775)**
Less:		
Share in loans and borrowings of joint ventures	144	151
Loans and borrowings in the interim consolidated statement of financial position	**(26,424)**	**(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, investments in associates and jointly controlled entities and intangible assets, including goodwill) based on location of assets.

	For the three months ended 30 September 2017			*For the three months ended 30 September 2016*		
	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	194,158	–	**194,158**	179,373	–	**179,373**
Turkey	3,007	–	**3,007**	3,309	–	**3,309**
Finland	2,666	72	**2,738**	1,966	100	**2,066**
Georgia	2,627	292	**2,919**	2,777	5	**2,782**
Belarus	–	3,859	**3,859**	–	4,649	**4,649**
Lithuania	2,339	–	**2,339**	2,114	–	**2,114**
China	–	2,877	**2,877**	–	3,628	**3,628**
Moldavia (incl. Transdniestria Republic)	2,162	–	**2,162**	1,176	–	**1,176**
Kazakhstan	–	839	**839**	–	705	**705**
Estonia	113	276	**389**	176	179	**355**
Mongolia	–	501	**501**	–	425	**425**
Latvia	200	–	**200**	212	–	**212**
Ukraine	–	27	**27**	–	37	**37**
Other	215	186	**401**	293	481	**774**
Total	**207,487**	**8,929**	**216,416**	**191,396**	**10,209**	**201,605**

	For the nine months ended 30 September 2017			*For the nine months ended 30 September 2016*		
	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	598,815	–	**598,815**	558,967	–	**558,967**
Turkey	8,837	–	**8,837**	11,370	–	**11,370**
Finland	7,933	209	**8,142**	7,972	235	**8,207**
Georgia	7,486	431	**7,917**	8,940	1,155	**10,095**
Belarus	–	6,789	**6,789**	–	8,331	**8,331**
Lithuania	6,458	–	**6,458**	6,651	–	**6,651**
China	–	5,883	**5,883**	–	7,501	**7,501**
Moldavia (incl. Transdniestria Republic)	3,952	–	**3,952**	3,684	–	**3,684**
Kazakhstan	–	2,073	**2,073**	–	2,026	**2,026**
Mongolia	–	1,119	**1,119**	–	1,028	**1,028**
Estonia	345	588	**933**	683	759	**1,442**
Latvia	626	–	**626**	486	–	**486**
Ukraine	–	90	**90**	–	181	**181**
Other	594	1,458	**2,052**	878	1,132	**2,010**
Total	**635,046**	**18,640**	**653,686**	**599,631**	**22,348**	**621,979**

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

(in millions of RUR)

4. Segment information (continued)

Information about geographical areas (continued)

	Total non-current assets based on location of assets[1]	
	As at 30 September 2017	***As at 31 December 2016***
Russian Federation	303,103	303,000
Georgia	7,878	7,286
Moldavia (incl. Transdniestria Republic)	3,452	3,735
Turkey	2,727	3,709
Lithuania	1,195	1,206
Other	337	357
Total	**318,692**	**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.

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

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.

On 19 June 2017 the Group announced a voluntary public offer to acquire the ordinary shares of PJSC Mosenergosbyt held by non-controlling shareholders. The offer price was set at RUB 0.405 per one ordinary share. The offer term expired on 28 August 2017. As a result of the voluntary public offer the Group increased its share in PJSC Mosenergosbyt to 95.17%. In accordance with Russian legislation the Group has the obligation to purchase the rest amount of ordinary shares from non-controlling shareholders at their request. As at 30 September 2017 the Group recognized the liability to the non-controlling shareholders in the amount of RUR 749 million.

[1] 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)

Disposal of controlling interest in Mtkvari Energy LLC

In June 2016 the Group has sold its 100% share in the subsidiary Mtkvari Energy LLC for the total consideration of USD 13.6 million (RUR 899 million) including cash consideration of USD 9.6 million (RUR 635 million) paid in June 2016 and deferred cash consideration of USD 4 million (RUR 264 million) paid in December 2016.

Carrying value of the net assets of Mtkvari Energy LLC at the date of disposal amounted to RUR 1,242 million. The carrying values of disposed assets and liabilities were as follows:

	Carrying values
Property, plant and equipment	322
Intangible assets	2
Deferred tax assets	159
Accounts receivable	467
Inventory	176
Cash and cash equivalents	217
Accounts payable and accrued charges	(28)
Taxes payable	(73)
Carrying value of net assets disposed	**1,242**
Foreign currency translation reserve disposed	459
Gain from disposal of Group entity	116
Cash consideration received	635
Deferred cash consideration	264
Total cash and cash equivalents disposed	(217)
Total cash proceeds from disposal	**418**

The gain from the sale of RUR 116 million was recognised in the interim consolidated statement of comprehensive income.

Other acquisitions and disposals

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

At the end of September 2016 the Group has sold 100% shares in LLP INTER RAO Central Asia to the third parties for cash consideration of RUR 15 million, net of cash disposed of RUR 49 million. The loss of RUR 21 million was recognised in the interim consolidated statement of comprehensive income.

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 Quartz Novie Tekhnologii.

During the nine months ended 30 September 2017 the Group liquidated a number of individually insignificant subsidiaries. The gain of RUR 17 million from the liquidation 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	57	(57)	–	–	–	**–**
Additions	11	566	37	5	17,858	**18,477**
Disposals	(102)	(175)	(327)	(97)	(82)	**(783)**
Transfers	9,192	7,642	36,582	317	(53,733)	**–**
Transfer from/(to) other accounts	–	5	(10)	(1)	(2)	**(8)**
Translation difference	(236)	58	(340)	(4)	(10)	**(532)**
Balance at 30 September 2017	**112,201**	**91,131**	**282,225**	**8,950**	**27,406**	**521,913**
Including finance leases	*546*	–	–	*1,110*	–	***1,656***
Depreciation and impairment						
Balance at 31 December 2016	**(38,820)**	**(38,312)**	**(132,712)**	**(4,845)**	**(9,571)**	**(224,260)**
Reclassification	(163)	47	116	–	–	**–**
Depreciation charge	(1,968)	(2,508)	(9,012)	(562)	–	**(14,050)**
Impairment loss charge	(408)	(678)	(1,208)	(3)	(71)	**(2,368)**
Additions	–	(1)	(34)	(4)	–	**(39)**
Disposals	36	148	311	79	–	**574**
Transfers	(2,107)	(613)	(5,573)	(8)	8,301	**–**
Transfer (from)/to other accounts	(49)	(18)	–	–	67	**–**
Translation difference	225	38	326	12	14	**615**
Balance at 30 September 2017	**(43,254)**	**(41,897)**	**(147,786)**	**(5,331)**	**(1,260)**	**(239,528)**
Including finance leases	*(48)*	–	–	*(537)*	–	***(585)***
Net book value						
Balance at 31 December 2016	**64,459**	**44,780**	**113,571**	**3,885**	**53,804**	**280,499**
Balance at 30 September 2017	**68,947**	**49,234**	**134,439**	**3,619**	**26,146**	**282,385**

Construction in progress is represented by property, plant and equipment that is not yet ready for operation and advances to suppliers of property, plant and equipment. Such advances amounted to RUR 1,229 million as at 30 September 2017 (31 December 2016: RUR 3,084 million).

Interest capitalised amounted to RUR nil million (the nine months ended 30 September 2016: RUR 768 million).

(a) Impairment

The Group performed the impairment tests of property, plant and equipment by the cash generating units and the material charge and reversals included in the Consolidated statement of comprehensive income in the line "Operating expenses" are discussed below:

JSC TGC-11 (the company included into the operating segment – "Thermal power generation in the Russian Federation")

The impairment for the nine months ended 30 September 2017 in the amount of RUR 2,368 million was recognised in 2nd quarter of 2017 after the impairment test as at 30 June 2017 due to unfavourable rise of maintenance and service cost of generation equipment and insufficient rise of market prices and regulatory tariffs to compensate it. The recoverable amount was measured as value in use using the discount rate of 15.4% as at 30 June 2017.

Verkhnetagilskaya GRES (separate power plant included into the operating segment – "Electric power generation in the Russian Federation")

The impairment in the amount of RUR 4,417 million was recovered in 2nd quarter of 2016 after the impairment test as at 30 June 2016 due to change in estimates of capacity tariffs on the basis of the draft agreement of the contract for capacity supply (CCS) for Block № 12 (Note 19). The recoverable amount was measured as value in use using the discount rate of 12.4% as at 30 June 2016.

(in millions of RUR)

7. Investments in associates and joint ventures

	Joint ventures		*Associates*			
	NVGRES Holding Limited including JSC Nizhne-vartovskaya 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**
Recognized actuarial loss and past service cost	(5)	–	–	–	–	**(5)**
Disposals	(3)	–	–	–	–	**(3)**
Unrealized gain	–	–	–	2	–	**2**
Share of profit/(loss) after tax	1,965	(28)	248	(94)	(13)	**2,078**
Dividends received	–	(10)	–	–	–	**(10)**
Transfer to other accounts	(8,650)		–	–	–	**(8,650)**
Translation difference	–	(1)	–	–	–	**(1)**
Carrying value at 30 September 2017	**15,950**	**807**	**1,770**	**3,102**	**668**	**22,297**

As at 31 December 2016 the Group held 75% interest in NVGRES Holding Limited, including its subsidiary JSC 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, the Group accounted a 75% interest in JSC Nizhnevartovskaya GRES, long-term loan issued to JSC Nizhnevartovskaya GRES in the amount of RUR 150 million 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). As at 30 September 2017 the loan was fully repaid by the JSC Nizhnevartovskaya GRES in cash. In accordance with the term of the Shareholders Agreement between the Group and PJSC Rosneft, control over JSC Nizhnevartovskaya GRES is jointly exercised.

8. Available-for-sale financial assets

As at 30 September 2017 available-for-sale financial assets in the total amount of RUR 11,070 million (31 December 2016: RUR 7,810 million) included investments in quoted shares in the total amount of RUR 5,595 million (31 December 2016: RUR 6,104 million) and investment in unquoted financial instruments in the total amount of RUR 5,475 million (31 December 2016: RUR 1,706 million).

For the nine months ended 30 September 2017 the amount of RUR 407 million, net of tax RUR 102 million was recognised as a loss from revaluation of quoted available-for-sale financial assets through other comprehensive income in the interim consolidated statement of comprehensive income (for the nine months ended 30 September 2016: gain from revaluation in the amount of RUR 990 million, net of tax RUR 247 million).

In April 2017 the deposits placed at Peresvet Bank were converted into the bonds with the option to convert it into the shares of Peresvet Bank at Bank's discretion and reclassified to the unquoted available-for-sale financial assets at the fair value of RUR 3,523 million (Note 9). During the reporting period the change of bonds fair value in the amount of RUR 182 million, net of tax RUR 45 million was recognised as an income through other comprehensive income in the interim consolidated statement of comprehensive income. As at 30 September 2017 the bonds issued by Peresvet Bank amounted to RUR 3,769 million.

(in millions of RUR)

9. Other non-current assets

		30 September 2017	31 December 2016
Financial non-current assets		***2,304***	***11,223***
Non-current trade receivables		1,674	1,925
	Less impairment provision	*(234)*	*(309)*
Non-current trade receivables − net		**1,440**	**1,616**
Other non-current receivables		919	7,545
	Less impairment provision	*(82)*	*(951)*
Other non-current receivables − net		**837**	**6,594**
Non-current loans issued (including interest)		−	3,269
	Less impairment provision	−	*(256)*
Non-current loans issued (including interest) − net		**−**	**3,013**
Long-term derivative financial instruments		5	−
Long-term bank deposits		22	−
Non-financial non-current assets		***931***	***4,207***
Non-current advances to suppliers and prepayments		20	60
	Less impairment provision	*(8)*	*(19)*
Non-current advances to suppliers and prepayments − net		**12**	**41**
VAT recoverable		6	4
Other		913	4,162
		3,235	**15,430**

As at 31 December 2016 the non-current loans issued (including interest) represented the loans issued to CJSC Elektricheskiye seti Armenii in the amount of RUR 3,013 million. During the reporting period the loan given was repaid.

As at 31 December 2016 Other included cash and deposits placed at Peresvet Bank in the amount of RUR 3,260 million, net of discount effect recognised within Other finance expenses of RUR 12,643 million. In April 2017 the debt was converted into the bonds with the option to convert it into the shares of Peresvet Bank at Bank’s discretion and was reclassified to the unquoted available-for-sale financial assets at the fair value of RUR 3,523 million (Note 8).

As at 30 September 2017 other non-current receivables included accounts receivable from LLC Telmamskaya HEP in the amount of RUR nil million (as at 31 December 2016: RUR 5,408 million, net of discount effect of RUR 842 million).

(in millions of RUR)

10. Accounts receivable and prepayments

		30 September 2017	31 December 2016
Financial assets		***86,073***	***88,732***
Trade receivables		105,191	100,127
	Less impairment provision	*(36,094)*	*(31,519)*
Trade receivables − net		**69,097**	**68,608**
Other receivables		18,960	21,617
	Less impairment provision	*(3,011)*	*(2,889)*
Other receivables − net		**15,949**	**18,728**
Short-term loans issued (including interest)		330	557
	Less impairment provision	*(250)*	*(505)*
Short-term loans issued (including interest)		**80**	**52**
Short-term outstanding interest on bank deposits		588	47
	Less impairment provision	*(10)*	*(10)*
Short-term outstanding interest on bank deposits − net		**578**	**37**
Short-term receivables on construction contracts		369	1,307
Non-financial assets		***18,753***	***15,373***
Advances to suppliers and prepayments		13,867	9,051
	Less impairment provision	*(1,436)*	*(1,500)*
Advances to suppliers and prepayments − net		**12,431**	**7,551**
Short-term VAT recoverable		2,492	3,872
Taxes prepaid		3,830	3,950
		104,826	**104,105**

As at 30 September 2017 other receivables included accounts receivable from LLC Telmamskaya HEP in the amount of RUR 8,949 million, net of discount effect recognised within the line “Provision for impairment of accounts receivable, net” of RUR 426 million under the terms of sale-purchase agreement of PJSC Irkutskenergo shares (as at 31 December 2016: RUR 11,771 million, net of discount effect of RUR 729 million).

The Group does not hold any collateral as a security.

11. Cash and cash equivalents

	30 September 2017	31 December 2016
Cash at bank and in hand, national currency	45,905	53,985
Cash at bank and in hand, foreign currency	16,230	7,526
Bank deposits with maturity of three months or less	48,201	34,477
Total	**110,336**	**95,988**

(in millions of RUR)

12. Other current assets

	30 September 2017	31 December 2016
Bank deposits with maturity of 3-12 months	20,684	19
Restricted cash	770	3,727
Short-term derivative financial instruments	19	72
Other	770	894
Total	**22,243**	**4,712**

As at 31 December 2016 restricted cash balances include cash deposited in Peresvet Bank in the amount of RUR 2,806 million. In April 2017 this amount was fully repaid by the bank.

13. Equity

Share capital

	30 September 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

Dividends

On 9 June 2017 the Parent Company declared dividends for the year 2016 of RUR 0.14681992337 per share in the amount of RUR 15,328 million (including dividends to third parties in the amount of RUR 12,656 million).

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*	*30 September 2017*	*31 December 2016*
Total in USD	USD	5,053	7,148
Total in RUR	RUR	1,645	3,696
Total in GEL	GEL	911	77
Total in EUR	EUR	772	877
Total in JPY	JPY	446	447
Finance leases			
Financial lease	USD	337	689
Financial lease	EUR	48	48
Financial lease	RUR	41	175
Total long-term loans and borrowings		**9,253**	**13,157**
Less: current portion of long-term loans and borrowings and long-term finance leases		(5,360)	(4,271)
		3,893	**8,886**

As at 30 September 2017 fair value of loans and borrowings amounts to RUR 9,439 million (31 December 2016: RUR 13,417 million), and is 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 authorized management bodies. 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

	30 September 2017	*31 December 2016*
Financial liabilities		
Trade payables	47,133	47,832
Call option	763	–
Short-term derivative financial instruments	23	17
Dividends payable	30	9
Other payables and accrued expenses	6,543	4,828
Total	**54,492**	**52,686**
Non-financial liabilities		
Advances received	30,393	35,694
Provisions, short-term	8,537	7,755
Staff payables	7,829	9,333
Total	**46,759**	**52,782**
	101,251	**105,468**

As at 30 September 2017 the call option of RUR 763 million was accrued by the Group due to option agreement signed between the Group and the non-controlling shareholder to purchase its non-controlling share in one of the newly established subsidiary. The option will expire in 2042.

16. Other non-current liabilities

	30 September 2017	*31 December 2016*
Financial liabilities		
Long-term derivative financial instruments	10	14
Other long-term liabilities	1,127	451
Total financial liabilities	**1,137**	**465**
Non-financial liabilities		
Pensions liabilities	4,120	4,081
Restoration provision	2,579	1,946
Government grants	41	42
Other long-term liabilities	610	726
Total non-financial liabilities	**7,350**	**6,795**
Total	**8,487**	**7,260**

17. Revenue

	For the three months ended 30 September		*For the nine months ended 30 September*	
	2017	*2016*	*2017*	*2016*
Electricity and capacity	206,568	190,209	609,963	574,124
Thermal energy sales	4,466	4,574	29,352	26,975
Other revenue	5,382	6,822	14,371	20,880
	216,416	**201,605**	**653,686**	**621,979**

(in millions of RUR)

18. Other operating income

	For the three months ended 30 September		*For the nine months ended 30 September*	
	2017	***2016***	***2017***	***2016***
Penalties and fines received	1,248	699	3,840	3,434
Income from sale of assets classified as held-for-sale	–	–	–	31,870
Rental income	74	93	230	282
Electricity derivatives income	98	24	124	72
Gain/(loss) from disposal of controlling interest	1	(21)	17	95
Other	361	435	885	1,330
	1,782	**1,230**	**5,096**	**37,083**

19. Operating expenses, net

	For the three months ended 30 September		*For the nine months ended 30 September*	
	2017	***2016***	***2017***	***2016***
Purchased electricity and capacity	81,983	78,268	246,359	235,726
Electricity transmission fees	60,583	55,292	183,756	168,420
Fuel expenses	30,105	29,626	89,642	89,729
Employee benefit expenses and payroll taxes	11,423	13,254	34,910	36,312
Depreciation and amortisation	5,678	5,785	15,788	17,199
Repairs and maintenance	3,188	2,263	6,307	4,274
Provision for impairment of accounts receivable, net	798	1,593	4,600	7,511
Agency fees	1,202	1,204	3,606	3,498
Taxes other than income tax	977	893	2,721	2,511
Water supply expenses	974	991	2,481	2,340
Impairment of property plant and equipment – charge/(release) (Note 6)	–	–	2,368	(4,417)
Other materials for production purposes	854	1,032	2,063	2,275
Operating lease expenses	510	476	1,493	1,400
Transportation expenses	525	482	1,476	1,451
Thermal power transmission expenses	75	58	1,216	979
Other provisions charge	248	303	841	1,059
Consulting, legal and auditing services	284	207	769	764
Cost of equipment for resale	39	–	538	138
Impairment of intangible assets	–	–	68	–
(Gain)/loss on sale or write-off of inventory	(5)	2	24	7
(Gain)/loss from electricity derivatives	(13)	–	–	5
Other	6,575	4,166	17,023	13,015
	206,003	**195,895**	**618,049**	**584,196**

20. Finance income and expense

	For the three months ended 30 September		*For the nine months ended 30 September*	
	2017	***2016***	***2017***	***2016***
Finance income				
Interest income	2,065	3,049	6,528	7,015
Dividend income	128	9	417	260
Other finance income	97	209	632	483
	2,290	**3,267**	**7,577**	**7,758**

(in millions of RUR)

20. Finance income and expense (continued)

	For the three months ended 30 September		*For the nine months ended 30 September*	
	2017	***2016***	***2017***	***2016***
Finance expenses				
Interest expenses	708	1,817	2,072	5,803
Foreign currency exchange loss, net	273	159	925	2,422
Other finance expenses	6	303	53	459
	987	**2,279**	**3,050**	**8,684**

21. Income tax expense

	For the three months ended 30 September		*For the nine months ended 30 September*	
	2017	***2016***	***2017***	***2016***
Current tax expense	871	2,069	6,474	7,490
Deferred tax expense	2,050	450	623	2,753
Amended tax returns	(13)	(74)	(509)	(377)
Provision for income tax	–	3	–	(57)
Income tax expense	**2,908**	**2,448**	**6,588**	**9,809**

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.

(in millions of RUR)

22. Fair value of financial instruments (continued)

Determination of fair value and fair values hierarchy (continued)

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

At 30 September 2017	***Note***	***Total fair value***	***Fair value hierarchy***		
			Level 1	***Level 2***	***Level 3***
Financial assets					
Derivative financial instruments					
Electricity derivatives	9, 12	**24**	24	–	–
Available-for-sale financial assets					
Quoted investment securities	8	**5,595**	5,595	–	–
Held to maturity financial assets					
Long-term bank deposits	9	**22**	–	–	22
Bonds issued by financial institutions		**4,314**	545	3,769	–
Total financial assets		**9,955**	**6,164**	**3,769**	**22**
Financial liabilities					
Derivative financial instruments					
Electricity derivatives	15, 16	**12**	12	–	–
Interest rate SWAP	15, 16	**21**	–	21	–
Financial liabilities designated at fair value through profit or loss					
Call option agreement	15	**763**	–	763	–
Financial liabilities at amortised cost					
Loans and borrowings	14	**9,439**	–	9,439	–
Total financial liabilities		**10,235**	**12**	**10,223**	**–**

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**	**–**

(in millions of RUR)

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 realization of projects aimed to improve the electricity network which belongs to the Group entity JSC Telasi. As at 30 September 2017 realisation of investment commitments was in line with schedule for the year 2017.

As at 30 September 2017 capital commitments of subsidiaries of the Company, are as follows:

Subsidiary	***RUR, million***
LLC Bashkir Generation Company	4,420
JSC Inter RAO − Electric Power Plants	1,583
TGC-11	430
Total	**6,433**

Capital commitments of LLC Bashkir Generation Company included contractual obligations for the construction of Zatonskaya TEC, construction of a boiler room in Agidel city and reconstruction of the office building.

Capital commitments of JSC Inter RAO Electric Power Plants as at 30 September 2017 are mainly for works on completion of the Permskaya GRES (road construction, the delivery of other equipments, other improvements) and for the delivery of spare parts for gas turbine to the Kaliningradskaya TEC.

Capital commitments of TGC-11 as at 30 September 2017 are mainly for the reconstruction of the ash pump of the Omsk TEC.

Guarantees

- 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 30 September 2017 the guarantees amounted to USD 2 million, or RUR 133 million at the Central Bank of the Russian Federation exchange rate as of 30 September 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 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 30 September 2017 the guarantee amounted to EUR 7 million, or RUR 468 million at the Central Bank of the Russian Federation exchange rate as of 30 September 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 2017 the Group entered into the standby letter of credit with BNP Paribas Group issued a standby letter of credit in favour of GE ENERGY HOLDINGS VOSTOK B.V. (Beneficiary) to the maximum aggregate amount of EUR 30 million in order to fulfill the Group’s investment obligations related to the associate.

  As at 30 September 2017 the standby letter of credit outstanding amount was EUR 21 million, or RUR 1,422 million at the Central Bank of the Russian Federation exchange rate as of 30 September 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 September 2020.
- Guarantees of the Group’s share of the joint ventures contingent liabilities in the amount of RUR 1,085 million which are to be incurred jointly with other investors (as at 31 December 2016: RUR 1,136 million).

(in millions of RUR)

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), Lithuania and Kazakhstan.

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 2016-2017. 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 Groups' 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.

(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 with the likelihood of negative outcome for the Group determined as not probable, but only possible, and, consequently, no provision has been made in these interim condensed financial statements:

	30 September 2017	***31 December 2016***
Subcontractors claims	6,753	6,464
Customer's complaints	256	145
	7,009	**6,609**

Other than those litigations which have been accrued in the provisions (Note 16) 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.

(in millions of RUR)

24. Contingencies (continued)

(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 Group estimates that possible claims in respect of certain open tax positions of Group entities as at 30 September 2017 may be successfully challenged in the amount of RUR 242 million.

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).

(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).

(in millions of RUR)

25. Related party transactions (continued)

(b) Transactions with key management personnel

The members of the Management Board and the Board of Directors own 0.0136% of ordinary shares of PJSC Inter RAO as at 30 September 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):

	Nine months ended 30 September 2017	***Nine months ended 30 September 2016***
Salaries and bonuses	767	900

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 nine months ended 30 September 2017	–	–
Number of options outstanding as at 30 September 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.

	30 September 2017
Weighted average price (RUR)	3.9024
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 nine months ended 30 September 2017 the Group recognised a loss of RUR 844 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.

	Nine months ended 30 September 2017	*Nine months ended 30 September 2016*
Revenue		
Joint ventures	575	463
Associates	3	6
Other operating income		
Joint ventures	3	4
Interest income		
Joint ventures	77	186
Associates	–	2
Dividend income		
Associates	–	1
	658	**662**
Purchased power		
Joint ventures	61	1,316
Purchased capacity		
Joint ventures	1,475	772
Other expenses		
Joint ventures	22	18
Associates	2	–
Finance expenses		
Joint ventures	–	995
	1,560	**3,101**
Capital expenditures		
Joint ventures	–	5

	30 September 2017	*31 December 2016*
Accounts receivable		
Joint ventures	124	154
Associates	3	1
Accounts payable		
Joint ventures	159	96
Associates	9	–

(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:

	Nine months ended 30 September 2017	*Nine months ended 30 September 2016*
Revenue		
Electricity and capacity	214,759	187,836
Other revenues	6,131	9,917
Other operating income	1,027	989
	221,917	**198,742**
Operating expenses		
Purchased power and capacity	71,692	52,913
Transmission fees	168,192	152,638
Fuel expense (gas)	69,560	66,965
Fuel expense (coal)	708	551
Other purchases	101	95
Other expenses	10,917	9,118
	321,170	**282,280**
Capital expenditures	**326**	**519**

	Nine months ended 30 September 2017	*Nine months ended 30 September 2016*
Finance income/(expenses)		
Interest income	1,687	1,729
Other finance income	49	23
Dividend income	122	–
Interest expenses	(562)	(1,822)
	1,296	**(70)**

	30 September 2017	*31 December 2016*
Available-for-sale financial assets	**9,127**	**5,906**
Long-term accounts receivable		
Other account receivables, gross	189	204
Less impairment provision	(21)	(23)
Other receivables − net	**168**	**181**
Short-term accounts receivable		
Trade accounts receivable, gross	37,164	34,769
Less impairment provision	(16,258)	(13,402)
Trade receivables − net	**20,906**	**21,367**
Advances issued	753	918
Advances issued for capital construction	157	52
Other receivables	1,882	1,596
	23,698	**23,933**

(in millions of RUR)

25. Related party transactions (continued)

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

	30 September 2017	*31 December 2016*
Accounts payable		
Trade accounts payable	24,078	21,812
Payables for capital construction	308	50
Other accounts payable	2,679	337
Advances received	14,628	13,723
	41,693	**35,922**

	30 September 2017	*31 December 2016*
Loans and borrowings		
Short-term loans and borrowings	6,840	210
Long-term loans and borrowings	702	–
Interest on loans and borrowings	15	1
	7,557	**211**

	30 September 2017	*31 December 2016*
Cash and cash equivalents	11,753	6,342

	30 September 2017	*31 December 2016*
Other current assets (bank deposits)	30,630	11,771

	Nine months ended 30 September 2017	*Nine months ended 30 September 2016*
Financial transactions		
Loans and borrowings received	16,209	1,135
Loans and borrowings repaid	(8,871)	(12,318)
	7,338	**(11,183)**

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:

	Nine months ended 30 September 2017	*Nine months ended 30 September 2016*
Revenue		
Electricity and capacity	48	3,219
Operating expenses		
Purchased electricity and capacity	2,079	2,305
Other expenses	27	135

(in millions of RUR)

25. Related party transactions (continued)

(e) Transactions with other related parties (continued)

	30 September 2017	*31 December 2016*
Short-term accounts receivable		
Trade and other accounts receivable	615	630
Short-term accounts payable		
Trade and other accounts payable	44	259

	30 September 2017	*31 December 2016*
Loans and borrowings payable		
Short-term loans and borrowings	1,975	825
	1,975	**825**

	30 September 2017	*31 December 2016*
Cash and cash equivalents		
Cash in bank	20,964	28,665
Short-term bank deposits	18,326	6,080
	39,290	**34,745**

	Nine months ended 30 September 2017	*Nine months ended 30 September 2016*
Income and expenses		
Interest income	2,004	460
Interest expenses	(223)	(1,096)

26. Events after the reporting period

In November 2017 the Group acquired 2.87% of voting preference shares of PJSC Saratovenergo (calculated from the total number of voting shares) and 1.81% of ordinary shares and 6.05% of voting preference shares of PJSC Tambov Energy Retail Company (calculated from the total number of voting shares) for RUR 12 million and 14 million respectively. Thus, the Group has increased its ownership in these subsidiaries to 59.84 % and 67.24% respectively.