Public Joint Stock Company
Territorial Generating Company №1
and its subsidiaries

International Financial Reporting Standards
Consolidated Financial Statements for NINE MONTHS ended 30 September 2017
(not audited)

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(in thousands of Russian Roubles)

	Notes	30 September 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	6	131 452 269	132 468 741
Investment property		181 601	191 924
Intangible assets		948 873	779 445
Investments in associates	7	392 522	395 151
Deferred income tax assets		443 116	526 907
Other non-current assets	8	964 163	1 087 518
Total non-current assets		**134 382 544**	**135 449 686**
Current assets			
Cash and cash equivalents	9	2 057 222	3 354 882
Short-term investments	10	-	4 370
Trade and other receivables	12	15 513 759	17 583 729
Current income tax prepayments		818 457	473 162
Inventories	13	3 258 448	2 768 011
Total current assets		**21 647 886**	**24 184 154**
Non-current assets held for sale	11	128 943	137 114
TOTAL ASSETS		**156 159 373**	**159 770 954**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	38 543 414	38 543 414
Share premium	14	22 913 678	22 913 678
Merger reserve	14	(6 086 949)	(6 086 949)
Other reserves		(1 209 011)	(1 209 011)
Effect of remeasurements of post-employment benefits obligations		51 824	52 151
Retained earnings		52 670 514	47 464 616
Equity attributable to the Company's owners		**106 883 470**	**101 677 899**
Non-controlling interest		8 535 173	8 305 973
TOTAL EQUITY		**115 418 643**	**109 983 872**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	15	16 447 253	17 022 529
Deferred income tax liabilities		11 668 027	10 952 740
Post-employment benefits obligations		923 938	923 938
Other non-current liabilities	16	74 863	115 052
Total non-current liabilities		**29 114 081**	**29 014 259**
Current liabilities			
Short-term borrowings	17	1 987 845	10 129 851
Trade and other payables	18	8 450 483	9 433 751
Current income tax payable		3 083	3 691
Other taxes payable	19	1 185 238	1 205 530
Total current liabilities		**11 626 649**	**20 772 823**
TOTAL LIABILITIES		**40 740 730**	**49 787 082**
TOTAL EQUITY AND LIABILITIES		**156 159 373**	**159 770 954**

Approved for issue and signed on 7 November 2017.

Acting General Director A. I. Vorobiev

Chief Accountant R. V. Stanishevskaya

(in thousands of Russian Roubles)

	Notes	Nine months ended 30 September 2017	Nine months ended 30 September 2016
Revenue			
Sales of electricity		35 743 245	32 027 611
Sales of heat		23 750 160	21 630 828
Other sales	20	683 092	758 059
Total revenue		**60 176 497**	**54 416 498**
Government grants	21	65 782	266 363
Operating expenses	22	(50 650 604)	(45 638 915)
Other operating income	23	289 209	373 415
Total operating expenses		**(50 295 613)**	**(44 999 137)**
Operating profit		**9 880 884**	**9 417 361**
Finance income	24	300 551	237 409
Finance costs	24	(1 382 735)	(1 681 057)
Finance costs, net		**(1 082 184)**	**(1 443 648)**
Profit before income tax		**8 798 700**	**7 973 713**
Income tax expense		(2 032 559)	(1 227 665)
Profit for the period		**6 766 141**	**6 746 048**
Other comprehensive expense for the period including tax		(327)	-
Total comprehensive income for the period		**6 765 814**	**6 746 048**
Profit for the period is attributable to:			
Owners of the TGC-1		6 536 941	6 527 281
Non-controlling interests		229 200	218 767
Profit for the period		**6 766 141**	**6 746 048**
Total comprehensive income for the period is attributable to:			
Owners of the TGC-1		6 536 614	6 527 281
Non-controlling interests		229 200	218 767
Total comprehensive income for the period		**6 765 814**	**6 746 048**

Approved for issue and signed on 7 November 2017.

Acting General Director A. I. Vorobiev

Chief Accountant R. V. Stanishevskaya

PJSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR NINE MONTHS ENDED 30 SEPTEMBER 2017
(in thousands of Russian Roubles)

	Attributable to owners of the Company								
	Share capital	Share premium	Merger reserve	Other reserves	Effect of measurements of post-employment benefits obligations	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2016	**38 543 414**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**(11 672)**	**43 014 555**	**97 164 015**	**8 365 373**	**105 529 388**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	5 386 680	**5 386 680**	**(62 507)**	**5 324 173**
Other comprehensive income									
Measurements of post-employment benefits obligations	-	-	-	-	77 208	-	**77 208**	**3 684**	**80 892**
Income tax on other comprehensive income	-	-	-	-	(13 385)	-	**(13 385)**	**(577)**	**(13 962)**
Total other comprehensive expense	-	-	-	-	63 823	-	**63 823**	**3 107**	**66 930**
Total comprehensive income for the year	-	-	-	-	**63 823**	5 386 680	**5 450 503**	**(59 400)**	**5 391 103**
Transactions with owners									
Dividends	-	-	-	-	-	(936 619)	(936 619)	-	**(936 619)**
Total transactions with owners	-	-	-	-	-	**(936 619)**	**(936 619)**	-	**(936 619)**
Balance at 31 December 2016	**38 543 414**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**52 151**	**47 464 616**	**101 677 899**	**8 305 973**	**109 983 872**
Comprehensive income for the period									
Profit for the period	-	-	-	-	-	6 536 941	6 536 941	229 200	**6 766 141**
Other comprehensive income					-				-
Measurements of post-employment benefits obligations	-	-	-	-	-	-	-	-	-
Income tax on other comprehensive income	-	-	-	-	(327)	-	(327)	-	**(327)**
Total other comprehensive expense	-	-	-	-	**(327)**	-	**(327)**	-	**(327)**
Total comprehensive income for the period	-	-	-	-	**(327)**	**6 536 941**	**6 536 614**	**229 200**	**6 765 814**
Transactions with owners									
Dividends	-	-	-	-	-	(1 331 043)	(1 331 043)	-	(1 331 043)
Total transactions with owners	-	-	-	-	-	**(1 331 043)**	**(1 331 043)**	-	**(1 331 043)**
Balance at 30 September 2017	**38 543 414**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**51 824**	**52 670 514**	**106 883 470**	**8 535 173**	**115 418 643**

Approved for issue and signed on 7 November 2017.

Acting General Director A. I. Vorobiev

Chief Accountant R. V. Stanishevskaya

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

	Notes	Nine months ended 30 September 2017	Nine months ended 30 September 2016
Cash flows from operating activities			
Profit before income tax		8 798 700	7 973 713
Adjustments to non-cash items		7 115 711	7 270 166
Operating cash flows before working capital changes		**15 914 411**	**15 243 879**
Capital changes		1 399 013	147 910
Cash generated from operations		**17 313 424**	**15 391 789**
Income taxes paid and interest paid		(3 515 042)	(5 219 895)
Net cash from operating activities		**13 798 382**	**10 171 894**
Net cash used in investing activities		**(5 074 790)**	**(5 722 609)**
Net cash from financing activities		**(10 021 252)**	**(5 311 738)**
Net decrease in cash and cash equivalents		**(1 297 660)**	**(862 453)**
Cash and cash equivalents at the beginning of the period		**3 354 882**	**1 701 151**
Cash and cash equivalents at the end of the period		**2 057 222**	**838 698**

Approved for issue and signed on 7 November 2017.

Acting General Director A. I. Vorobiev

Chief Accountant R. V. Stanishevskaya

(in thousands of Russian Roubles)

Note 1. The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for nine months ended 30 September 2017 for Public Joint-Stock Company (PJSC) Territorial Generating Company № 1(here in after "TGC-1", or the "Company") and its subsidiaries (the "Group").

The Company was incorporated and is domiciled in the Russian Federation. It is a public joint stock company and was established in accordance with Russian law.

"TGC-1" was established on 25 March 2005 as part of the restructuring of Russia's electricity sector in accordance with Board of Directors Resolution No. 181 of RAO UES of Russia (here in after "RAO UES") on 26 November 2004. The structure and founding principles of TGC-1 were adopted by the RAO UES Board of Directors on 23 April 2004 (Resolution No. 168).

The Group consists of the Company and the following subsidiaries. All Group companies are incorporated in the Russian Federation.

	% of ownership as at 30 September		
Subsidiary	**2017**	**2016**	**Immediate parent**
PJSC Murmanskaya TPP	98.6791	91.3138	PJSC TGC-1
JSC St Petersburg Heating Grid	74.9997	74.9997	PJSC TGC-1

As the operator of 53 power plants, the Group is principally engaged in electricity, capacity and heat generation. The Group's generating assets are located in the North-West of Russia, in particular in St. Petersburg, the Leningrad region, the Murmansk region and in Karelia region.

The Company's registered office is located at 6 Bronevaya Str., litera B, St. Petersburg, Russia, 198188.

Note 2. Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. Ongoing decline in oil prices, political tension in the region and international sanctions against certain Russian companies and individuals had a negative impact on the Russian economy. As a result during 2016:

- the CBRF exchange rate fluctuated between RR 60.2730 and RR 89.5913 per USD;
- the RTS stock exchange index ranged between 628.41 and 1 164.15;
- access to international financial markets to raise funding was limited for certain entities.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2016:

- the CBRF exchange rate fluctuated between RR 55.8453 per USD and RR 60.7503 per USD;
- the RTS stock exchange index ranged between 973.33 and 1 195.61.

Note 2. Operating environment of the Group (continued)

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

Management has determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Thus, final impairment losses from financial assets could differ significantly from the current level of provisions. These standards also require recognition of impairment losses for property, plant and equipment that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are (Note 4).

Government relations and current regulation

As at 30 September 2017 the Group was controlled by the Gazprom Group (51.79% stake) via its subsidiary Gazprom Energoholding LLC (as at 31 December 2016 - 51.79% stake). The Group's other significant shareholder as at 30 September 2017 was Fortum Power and Heat Oy - 29.45% stake (as at 31 December 2016 - 29.45% stake). The Gazprom Group is controlled by the government of the Russian Federation, which was the Group's ultimate controlling party as at 30 September 2017 and 31 December 2016.

The Group's customer base also includes a large number of state-controlled entities. Furthermore, the government also controls a number of the Group's suppliers of fuel and other materials.

The Russian government directly affects the Group's operations through the Federal Antimonopoly Service of the Russian Federation ("FAS Russia"), which regulates its wholesale energy purchases, and by the St Petersburg Tariff Service, Leningrad Regional Tariff Service, Karelia Tariff Service and Murmansk Regional Tariff Service, which regulate its retail electricity, capacity and heat sales. The operations of all generating facilities are coordinated by OJSC "System Operator of Unified Energy System", a state-controlled company.

Tariffs which the Group may charge for electricity, capacity and heat sales are governed by regulations specific to the electricity, capacity and heat industry and that apply to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning the cost of service plus a margin.

Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. Management believes that the Group will have a sufficient liquidity to continue its operations in the foreseeable future.

As at 30 September 2017, the Group's current assets exceeded its current liabilities by RUB 10 150 180 thousand (as at 31 December 2016 the Group's current assets exceeded its current liabilities by RUB 3 548 445 thousand).

The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

Note 3. Summary of Significant Accounting Polices

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (Refer to Note 5).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made.

The Group may have power over an investee even when it holds less than majority of voting power in an investee.

In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

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

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

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

Note 3. Summary of Significant Accounting Polices (continued)

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

Presentation currency

These consolidated financial statements are presented in thousands of Russian Roubles (RUB thousand), unless otherwise stated.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles (RUB).

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Revenue is translated into each entity's functional currency using the official exchange rate of the CBRF at the respective date of transaction.

At 30 September 2017, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar (USD) was USD 1 = RUB 58.0169 (31 December 2016: USD 1 = RUB 60.6569), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 68.4483 (31 December 2016: EUR 1 = RUB 63.8111).

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Note 3. Summary of Significant Accounting Polices (continued)

Disposals of subsidiaries, associates or joint ventures

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are transferred to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Note 3. Summary of Significant Accounting Polices (continued)

Classification of financial assets

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The Group does not have the following categories of financial assets: financial assets at fair value through profit or loss, financial assets held to maturity and available-for-sale financial assets.

Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. The Group's loans and receivables comprise of 'trade and other receivables' and 'short-term investments' in the statement of financial position.

Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost. The Group's other financial liabilities comprise of 'trade and other payables' and 'borrowings' in the statement of financial position.

The Group does not have financial liabilities relate to category held for trading which also includes financial derivatives.

Initial recognition of financial instruments

Financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method ("EIR"), less impairment losses. The EIR amortization is included in Finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss in finance costs.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(in thousands of Russian Roubles)

Note 3. Summary of Significant Accounting Polices (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Property, plant and equipment includes assets under construction for future use as property, plant and equipment. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

At the time of the Group's establishment in 2005 property, plant and equipment were recorded at the carrying values determined in accordance with the IFRS at the date of their transfer to the Group by its predecessor entity RAO UES.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less selling costs and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or losses. An impairment loss recognized for an asset in prior periods is reversed if there has been a positive change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year within other operating income or costs.

Costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is written off. Gains and losses arising from disposal of property, plant and equipment are included in profit or losses.

Social assets are not included in property, plant and equipment as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences on the date of acquisition, or for internally constructed assets, from the time the asset is completed and ready for use.

The estimated useful lives, in years, of assets by type of facility are as follows:

Type of facility	Useful lives, years
Production buildings	40-50
Hydrotechnical buildings	50-60
Generating equipment	20-30
Heating networks	25-35
Other	10-25

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated disposal costs, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost and then it is recorded at amortised cost in accordance with useful lives. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment.

Note 3. Summary of Significant Accounting Polices (continued)

Investment property (continued)

Earned rental income is recorded in profit or loss for the year within other operating income.

Gains or losses on disposal of investment property are calculated as proceeds less the carrying amount.

Operating lease

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or losses on a straight-line basis over the period of the lease. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Operating leases include long-term leases of land with rental payments contingent on cadastral values regularly reviewed by the government.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease liabilities

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method.

The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Intangible assets

The Group's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them into use. Amortisation is included in operating expenses (Note 25). Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Software licences	2-15
Capitalised internal software development costs	2-15
Other licences	4-10

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the tax authorities on taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Note 3. Summary of Significant Accounting Polices (continued)

Income taxes (continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profits will be available against which the deductionscan be utilised. Deferred tax assets and liabilities are netted only within the individual entities of the Group.

Deferred tax is not provided for the undistributed earnings of the subsidiaries, as the Group controls the subsidiaries' dividend policy and requires profits to be reinvested. Only insignificant dividends are expected to be declared from future profits of the subsidiaries. Neither these future profits nor the related taxes are recognised in these consolidated financial statements.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on a weighted average basis. The net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables

Accounts receivable are recorded inclusive of VAT. Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and liquidity of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty is experiencing a significant financial difficulty as evidenced by its financial data that the Group has obtained;
- the counterparty is considering bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, has significantly decreased as a result of deteriorating market conditions.

Note 3. Summary of Significant Accounting Polices (continued)

Prepayments

Prepayments are carried at cost less any provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after more than one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments offset when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid short-term investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Non-current assets classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment, investment properties and intangible assets are not depreciated.

Reclassified non-current financial instruments, deferred taxes and investment properties held at fair value are not subject to write down to the lower of their carrying amount and fair value less costs to sell. Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded in equity as a share premium.

Note 3. Summary of Significant Accounting Polices (continued)

Merger reserve

Any difference between the carrying value of the net assets merged into the Group as a result of a transaction under common control, and the nominal value of any shares issued is recorded in equity, as a merger reserve. Merger reserve is not distributable to shareholders and not taxable for income tax purposes.

Other reserves

Difference between the carrying value of the net assets merged into the Group in 2011 as a result of contribution in OJSC «St Petersburg Heating Grid's» share capital, and the nominal value of the shares issued is recorded in equity, as other reserves.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared and approved before or on the reporting date. Dividends are disclosed in subsequent events note when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Value added tax

Output value added tax (VAT) related to sales is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the compensation of income in relation to companies providing heating services per tariffs that don't cover expenses for the costs are deferred and recognised as deferred income in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Trade and other payables

Trade payables and accounts payable for capital construction are accrued when the counterparty performs its contractual obligations under the contract and are carried at amortised cost using the effective interest method.

Borrowings

Borrowings are carried at amortised cost using the effective interest method.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that that necessarily takes a substantial period of time to prepare for its intended use or sale (a qualifying asset) are capitalised as part of the cost of that asset.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditures on qualifying assets. Capitalised borrowing costs are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining acquiring a qualifying asset.

Note 3. Summary of Significant Accounting Polices (continued)

Borrowing costs (continued)

Where this occurs, the actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised. The commencement date for capitalisation is when the Group (i) incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases upon completion of all the activities necessary for preparing the qualifying asset for its intended use or sale.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing and amount. They are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Revenue recognition

Revenue is recognised on the delivery of electricity, capacity and heat. Revenues from sales of non-utility goods are recognised at the point of transfer of risks and rewards of ownership of the goods.

Correspondingly, when in accordance with the utilities market regulation in the Russian Federation, utilities companies are required to conclude transactions for the sale and repurchase of electricity (for bilateral contracts concluded or for electricity consumed in the production process) or when these transactions are performed for the purpose of the price risk hedging, these transactions are recorded on a net basis. Capacity sales are recognized when the capacity obligations have been fulfilled.

Revenues from sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue amounts are presented net of VAT. Revenues are measured at the fair value of the consideration received or receivable.

Offset

A portion of sales and purchases are settled by mutual cancellations or non-cash settlements. These transactions are generally in the form of set off of mutual balances.

Sales and purchases that are expected to be settled by mutual settlements or non-cash settlements are recognised based on management's estimate of the fair value to be received or given up in non-cash settlements.

Non-cash transactions have been excluded from the Consolidated Statement of Cash Flow. Investing and financing activities and the total of operating activities represent actual cash flows.

Pension and post-employment benefits

In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme defined by the Russian Federation on behalf of its employees. Mandatory contributions (social insurance contributions) to the governmental pension scheme are expensed when incurred.

The Group also operates defined benefit plans. For some of these plans the Group has a contract with a non-governmental pension fund, whilst the other plans are operated by the Group without engaging pension funds.

Cash paid by the Group to the solidarity account with the non-governmental pension fund is refundable to the Group until it is allocated to individual pensioners' bank accounts, and, on that basis, is accounted for by the Group as an asset (accounts receivable from the pension fund).

Note 3. Summary of Significant Accounting Polices (continued)

Pension and post-employment benefits (continued)

Defined benefit plans determine the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the reporting date. All defined benefit plans are considered to be fully unfunded.

The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related post-employment benefits.

Remeasurement of defined benefit liability is the actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and recognized in other comprehensive income at a time.

The cost of services of past periods is a change in the present value of defined benefit obligation as a result of adjustments of plan that recognises in the period of changes in plan's conditions.

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Environmental liabilities

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

Earnings per share

Earnings per share are determined by dividing the profit attributable to the Company's ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Operating segments are defined as types of operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company's Management Board. The primary activity of the Group is production of electric and heat power and capacity.

The Group generates its revenues from the generation of electricity, capacity and heat in the Russian Federation, so the Group holds assets in the same geographical area, i.e. the Russian Federation. The technology of electricity, capacity and heat production does not allow for the segregation of the electricity, capacity and heat segments.

Note 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities and carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts, recognised in the consolidated financial statements, and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year, include:

Provision for impairment of property, plant and equipment

At each reporting date the carrying amounts of the Group's property, plant and equipment and assets under construction are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such recoverable amount has declined below the carrying value, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed.

Useful lives of property, plant and equipment

The estimation of the useful life based on an item of property, plant and equipment is a matter of management's judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Recoverability of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectability of specific customer accounts deteriorated compared to previous period estimates. If there has been a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are future heat tariffs and heat output.

If the actual results differ from the management expectations the recognized deferred tax asset will be written-off in full.

Note 5. Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted. The following standards were adopted in Russia:

IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018).

IFRS 15 is a converged standard for revenue recognition. It supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations.

The objective of IFRS 15 is to clarify the principles of revenue recognition. This includes removing inconsistencies and perceived weaknesses and improving the comparability of revenue recognition practices across companies, industries and capital markets. In doing so IFRS 15 establishes a single revenue recognition framework. The core principle of the framework is, that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 is a converged standard for revenue recognition. It supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations.

To accomplish this, IFRS 15 requires the application of the following five steps:

1. Identify the contract
2. Identify the performance obligation(s)
3. Determine the transaction price
4. Allocate the transaction price to each performance obligation
5. Recognise revenue when each performance obligation is satisfied.

Furthermore the guidance significantly enhances the required qualitative and quantitative disclosures related to revenue. The main objective of the requirements is the disclosure of sufficient information in terms of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In order to meet this objective, IFRS 15 requires specific disclosures for contracts with customers and significant judgements.

The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018).

The final version of IFRS 9 Financial Instruments replaces most of the guidance in IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard incorporates the final requirements on all three phases of the financial instruments projects - classification and measurement, impairment, and hedge accounting.

IFRS 9 establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. In a major change, which will affect all entities, a new 'expected loss' impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39. Under IFRS 9, the impairment model is a more 'forward looking' model in that a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognised.

Most of the requirements for financial liabilities were carried forward unchanged, except for recognition of changes in the fair value of financial liabilities designated at fair value through profit or loss, which relate to changes in an entity's own credit risk - such changes should be recognised directly in other comprehensive income (OCI).

The new hedge accounting requirements are more principles-based, less complex, and provide a better link to risk management and treasury operations than the requirements in IAS 39.

The Group is currently assessing the impact of the new standard on its financial statements.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

Disclosure Initiative - Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017).

The amendments require entities to provide a reconciliation of the opening and closing carrying amounts of each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows (e.g. borrowing, lease liabilities).

The Group is currently assessing the impact of the new standard on its financial statements.

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017).

IAS 12 Income Taxes was amended to clarify that:

- deductible temporary differences arise from unrealised losses on debt instruments measured at fair value, regardless of whether the instrument is recovered through sale or by holding it to maturity;

- The estimate of future taxable profits can include recovery of certain assets at amounts more than their carrying amount if there is enough evidence that it is probable that the entity will recover the asset for more than its carrying amount;

- where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type; and

- tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

The Group is currently assessing the impact of the new standard on its financial statements.

Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018).

The amendments clarify that the accounting for the effects of vesting and non-vesting conditions on cash-settled share-based payments should follow the same approach as for equity-settled share-based payments.

The Group anticipates that application of the amendments will not have any material effect on Group's financial statements.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019).

IFRS 16 was issued in January 2016. It contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low value items for which a lessee has the option not to apply the measurement and presentation requirements of IFRS 16, will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease.

The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements.

The application of the standard may affect the accounting for the group's operating leases. However, the Group currently is unable to determine to what extent these liabilities will result in recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

Certain new standards and interpretations have not been adopted in Russia yet:

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture-Amendments to IFRS 10 and IAS 28 (effective date undetermined).

The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

The Group anticipates that application of the amendments will not have any material effect on Group's financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

(in thousands of Russian Roubles)

Note 6. Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Electricity transmission equipment	Other	Construction in progress	Total
Balance as at 31 December 2016	**28 369 324**	**15 851 072**	**54 204 797**	**51 813 089**	**17 855 040**	**36 753 179**	**10 594 715**	**215 441 216**
Effect of reclassifications	-	-	(3 466)	-	-	3 466	-	-
Balance as at 31 December 2016 including effect of reclassifications	**28 369 324**	**15 851 072**	**54 201 331**	**51 813 089**	**17 855 040**	**36 756 645**	**10 594 715**	**215 441 216**
Additions	-	-	69 913	173 149	-	59 831	4 854 609	5 157 502
Transfers	801 994	73 809	1 020 265	933 053	163 610	1 565 908	(4 558 639)	-
Disposals	(980)	(2)	(316 747)	(5 262)	(30 565)	(43 422)	(9 463)	(406 441)
Balance as at 30 September 2017	**29 170 338**	**15 924 879**	**54 974 762**	**52 914 029**	**17 988 085**	**38 338 962**	**10 881 222**	**220 192 277**
Accumulated depreciation (including impairment)								
Balance as at 31 December 2016	**(9 307 731)**	**(8 190 983)**	**(21 681 579)**	**(24 069 330)**	**(4 635 571)**	**(14 916 796)**	**(170 485)**	**(82 972 475)**
Effect of reclassifications	-	-	3 163	-	-	(3 163)	-	-
Balance as at 31 December 2016 including effect of reclassifications	**(9 307 731)**	**(8 190 983)**	**(21 678 416)**	**(24 069 330)**	**(4 635 571)**	**(14 919 959)**	**(170 485)**	**(82 972 475)**
Charge for the year	(477 828)	(182 234)	(1 780 345)	(1 189 401)	(513 868)	(1 932 981)	-	(6 076 657)
Disposals	537	2	254 342	1 866	17 558	34 819	-	309 124
Balance as at 30 September 2017	**(9 785 022)**	**(8 373 215)**	**(23 204 419)**	**(25 256 865)**	**(5 131 881)**	**(16 818 121)**	**(170 485)**	**(88 740 008)**
Net book value as at 31 December 2016 (including effect of reclassifications)	**19 061 593**	**7 660 089**	**32 523 218**	**27 743 759**	**13 219 469**	**21 836 383**	**10 424 230**	**132 468 741**
Net book value as at 30 September 2017	**19 385 316**	**7 551 664**	**31 770 343**	**27 657 164**	**12 856 204**	**21 520 841**	**10 710 737**	**131 452 269**

(in thousands of Russian Roubles)

Note 6. Property, Plant and Equipment (continued)

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Electricity transmission equipment	Other	Construction in progress	Total
Balance as at 31 December 2015	26 219 763	15 811 362	51 967 059	46 704 320	16 963 634	32 036 783	17 985 696	207 688 617
Additions	598	-	76	212 665	464	69 071	6 039 117	6 321 991
Transfers	2 155 060	7 639	1 892 467	4 256 425	755 754	3 734 544	(12 801 889)	-
Disposals	(68 837)	-	(76 062)	(794 363)	(26 632)	(117 478)	(150 487)	(1 233 859)
Balance as at 30 September 2016	28 306 584	15 819 001	53 783 540	50 379 047	17 693 220	35 722 920	11 072 437	212 776 749
Accumulated depreciation (including impairment)								
Balance as at 31 December 2015	(8 968 562)	(8 036 173)	(19 449 075)	(22 163 393)	(3 996 146)	(12 857 892)	(184 211)	(75 655 452)
Charge	(461 651)	(190 087)	(1 371 948)	(1 103 251)	(486 788)	(1 631 697)	-	(5 245 422)
Disposals	68 139	-	75 663	794 363	14 095	111 535	1 148	1 064 943
Balance as at 30 September 2016	(9 362 074)	(8 226 260)	(20 745 360)	(22 472 281)	(4 468 839)	(14 378 054)	(183 063)	(79 835 931)
Net book value as at 31 December 2015	17 251 201	7 775 189	32 517 984	24 540 927	12 967 488	19 178 891	17 801 485	132 033 165
Net book value as at 30 September 2016	18 944 510	7 592 741	33 038 180	27 906 766	13 224 381	21 344 866	10 889 374	132 940 818

Note 6. Property, Plant and Equipment (continued)

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been made available for use in production, including generating stations under construction.

Other property, plant and equipment include electricity transmission equipment, motor vehicles, computer equipment, office fixtures and other equipment.

As at 30 September 2017 the advances given to contractors, which amounted to RUB 1 528 404 thousand, net of VAT (as at 31 December 2016: RUB 954 618 thousand), are recognised within the construction in progress balance.

As at 30 September 2017 and 31 December 2016 the Group had no property, plant and equipment pledged as collateral according to loan agreements.

The total amount of capitalised interests that were calculated using 9.6% capitalization rate for nine months ended 30 September 2017 is RUB 223 347 thousand (10.24% capitalization rate for the year ended 31 December 2016: RUB 537 126 thousand). The payment of capitalised interests is recorded in Consolidated Statement of Cash Flow in respect of operating activities.

(in thousands of Russian Roubles)

Note 7. Investments in Associates

LLC «TGC Service» and «JSC Hibinskaya Heating Company» are the associates for the Group. LLC «TGC Service» specializes in repairing of the capital and service equipment of the power enterprises and also provides maintenance, support, diagnostics and technical reequipment of power industry objects. JSC Hibinskaya Heating Company» specializes in production, transportation and sales of heat energy.

Information about Group's investments in associates is presented below:

	30 September 2017	31 December 2016
Investments in LLC TGC Service	35 076	34 750
Investments in JSC HHC	357 446	360 401
Total investments	**392 522**	**395 151**

As at 30 September 2017 and 31 December 2016 the ownership interest in JSC HHC was 50%. Management of the Group believes that there is a significant influence over JSC HHC as taking into account its current Board of Directors composition there is no joint control over the entity. Therefore, the investment in JSC HHC was accounted as investment in associate.

Note 8. Other Non-Current Assets

	30 September 2017	31 December 2016
Long-term receivables	189 678	275 376
Advances to suppliers	771 361	812 142
Loan issued	3 124	-
Total other non-current assets	**964 163**	**1 087 518**

Note 9. Cash and Cash Equivalents

	30 September 2017	31 December 2016
Cash in bank and in hand in RUB	103 030	2 307 892
Foreign currency accounts in EUR	1 954 192	1 046 990
Total cash and cash equivalents	**2 057 222**	**3 354 882**

Note 10. Short-term Investments

	30 September 2017	31 December 2016
Loan issued	-	4 370
Total short-term investments	**-**	**4 370**

As at 30 September 2017 impairment loss for CJSC "Energoinvest" was in the amount of RUB 29 651 thousand.

(in thousands of Russian Roubles)

Note 11. Non-current Assets Held for Sale

As at 30 September 2017 the property, plant and equipment with a total net book value amounting to RUB 128 943 thousand were classified as assets held for sale (31 December 2016: RUB 137 114 thousand). Movements of non-current assets held for sale for current and prior periods were as follows:

30 September 2017	Sale	Classification as assets held for sale	31 December 2016
128 943	8 171	-	137 114

30 September 2016	Sale	Classification as assets held for sale	31 December 2015
85 983	129 863	-	215 846

Note 12. Trade and other receivables

	30 September 2017	31 December 2016
Trade receivables, net of provision for impairment of RUB 6 876 620 (31 December 2016: RUB 7 805 692 thousand)	12 278 291	14 250 663
Other receivables, net of provision for impairment of RUB 68 262 (31 December 2016: RUB 77 231 thousand)	640 817	600 913
Total financial receivables	**12 919 108**	**14 851 576**
Value-added tax receivables	79 126	188 026
Advances to suppliers	2 459 225	2 529 530
Other taxes receivable	56 300	14 597
Total trade and other receivables	**15 513 759**	**17 583 729**

Note 13. Inventories

	30 September 2017	31 December 2016
Fuel	2 418 436	2 095 129
Spare parts	214 371	109 480
Raw materials and other supplies	625 641	563 402
Total inventories	**3 258 448**	**2 768 011**

Raw materials and other supplies are recorded net of provision for impairment in the amount of RUB 1 771 thousand (31 December 2016: RUB 73 449 thousand).

Note 14. Share capital

Share capital

The Group's share capital as at 30 September 2017 and as at 31 December 2016 was RUB 38 543 414 thousand comprising 3 854 341 416 571 ordinary shares with a par value of RUB 0.01. All shares authorised are issued and fully paid.

Share premium

Share premium represents the excess of contributions received over the nominal value of shares issued.

Merger reserve

As at 30 September 2017 and as at 31 December 2016 the merger reserve amounted to RUB 6 086 949 thousand.

(in thousands of Russian Roubles)

Note 14. Share capital (continued)

Dividends

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared under Russian Accounting Rules. The Company's statutory accounting reports form the basis for profit distribution and other appropriations. Russian legislation identifies net profit as the basis for distribution.

Note 15. Long-term Borrowings

	30 September 2017	31 December 2016
Bank borrowings and bonds issued	16 447 253	17 022 529
Total long-term borrowings	**16 447 253**	**17 022 529**

	Currency	Contractual interest rate	Maturity	30 September 2017	31 December 2016
Long-term bonds (03)	RUB	6.9%	2021	2 038 560	2 008 680
Long-term bonds (04)	RUB	6.9%	2022	2 015 120	2 103 380
Gazprombank	RUB	9.2-9,5%	2018	2 876 697	2 751 461
Sberbank RF	RUB	8.4%	2017-2019	4 039 152	4 185 800
NORDIC Investment Bank	EUR	EURIBOR + 3%	2019	800 713	889 134
ROSBANK	RUB	11.5%	2017	-	106 633
VTB	RUB	9.6-9.65%	2017-2018	-	6 550 181
Gazprom	RUB	7.92%	2022	5 900 000	-
				17 670 242	18 595 269
Less: current portion					
Long-term bonds (03)	RUB	6.9%	2021	(38 560)	(8 680)
Long-term bonds (04)	RUB	6.9%	2022	(15 120)	(103 380)
Gazprombank	RUB	9.2-9.5%	2018	(838 820)	(353 461)
Sberbank RF	RUB	8.4%	2017-2019	(3 649)	(685 800)
ROSBANK	RUB	11.5%	2017	-	(106 633)
VTB	RUB	9.6-9.65%	2017-2018	-	(14 678)
NORDIC Investment Bank	EUR	ЕВРИБОР + 3%	2019	(326 840)	(300 108)
Total long-term bank borrowings and bonds issued				**16 447 253**	**17 022 529**

(in thousands of Russian Roubles)

Note 15. Long-term Borrowings (continued)

Compliance with covenants

Under long-term borrowings facility agreements, the Group is required to comply with certain financial and non-financial covenants. The most significant and most important of these being:

- to maintain particular ratios, i.e. the EBITDA to Finance Charges, the total debt to equity and the Current Ratio;
- to maintain certain liquidity and debt-to-assets ratio.

If any of these covenants are breached, the repayment can be altered by the respective lender, up to immediate repayment.

Note 16. Other Non-Current Liabilities

	30 September 2017	31 December 2016
Long-term accounts payable	74 863	115 052
Total other non-current liabilities	**74 863**	**115 052**

Other non-current liabilities are mainly presented by payables for installation of heating meters, paid by equal interests during three years.

Note 17. Short-Term Borrowings

	30 September 2017	31 December 2016
Bank borrowings and bonds issued	1 987 845	10 129 851
Total short-term borrowings	1 987 845	10 129 851

Name of lender	Currency	Contractual interest rate	30 September 2017	31 December 2016
Gazprom	RUB	10.5%	-	7 500 000
Gazprombank	RUB	10.9-11.8%	764 856	810 323
VTB	RUB	10.65-11.9%	-	246 788
Current portion of long-term borrowings:				
Long-term bonds (03)	RUB	6.9%	38 560	8 680
Long-term bonds (04)	RUB	6.9%	15 120	103 380
Sberbank RF	RUB	8.4%	3 649	685 800
Gazprombank	RUB	9.2-9.5%	838 820	353 461
ROSBANK	RUB	11.5%	-	106 633
NORDIC Investment Bank	EUR	ЕВРИБОР+3%	326 840	300 108
VTB	RUB	9.6-9.65%	-	14 678
Total bank borrowings and bonds issued			**1 987 845**	**10 129 851**

(in thousands of Russian Roubles)

Note 18. Trade and other payables

	30 September 2017	31 December 2016
Trade accounts payable	2 746 558	3 758 463
Accounts payable for capital construction	1 353 482	1 692 314
Accrued liabilities and other payables	2 283 720	2 221 501
Total financial payables	**6 383 760**	**7 672 278**
Advances from customers	1 695 813	1 257 235
Current employee benefits	370 910	504 238
Total trade and other payables	**8 450 483**	**9 433 751**

Note 19. Other Taxes Payable

	30 September 2017	31 December 2016
VAT payable	492 767	657 886
Property tax	439 350	273 563
Employee taxes	169 569	204 218
Personal Income Tax	52 740	61 610
Water usage tax	-	3
Other taxes	30 812	8 250
Total taxes payable	**1 185 238**	**1 205 530**

As at 30 September 2017 and as at 31 December 2016 the Group had no past due tax liabilities.

Note 20. Other Sales

	Nine months ended 30 September 2017	Nine months ended 30 September 2016
Connection of customers to heating network	407 405	509 282
Installation of heating meters	91 327	9 623
Maintenance of electrical facilities	44 511	68 717
Water usage	24 860	24 188
Handling of heating oil	20 265	12 356
Revenue from transit of rail cars	2 209	15 767
Other	92 515	118 126
Total other sales	**683 092**	**758 059**

Note 21. Government Grants

During nine months 2017 Group received a grant from regional budget for the compensation of income in relation to providing heating services (sales to consumers of heat) per tariffs that don't cover expenses for a total amount of RUB 65 782 thousand (during nine months 2016 - RUB 266 363 thousand).

(in thousands of Russian Roubles)

Note 22. Operating Expenses

	Nine months ended 30 September 2017	Nine months ended 30 September 2016
Fuel	21 579 323	19 841 097
Depreciation of property, plant and equipment	6 076 657	5 245 422
Employee benefits	5 601 378	5 504 378
Electricity, capacity and heat purchases	5 036 666	4 260 608
Repairs and maintenance	2 338 321	2 385 903
Water usage expenses	2 049 768	1 862 056
Operating lease expenses	1 810 523	323 584
Heat distribution	1 513 349	1 402 637
Taxes other than income tax	1 327 797	1 063 744
Other materials	649 144	550 562
Fees of electricity market operators	614 795	608 107
Security expenses	406 107	398 233
IT services	234 468	237 064
Insurance cost	214 733	211 498
Acceptance of payments	199 066	185 088
Telecommunication expenses	168 683	171 032
Amortisation of intangible assets	69 645	81 992
Consulting, legal and audit expenses	38 094	93 191
Amortisation of investment property	10 505	9 768
(Gain)/loss on disposal of property, plant and equipment	(50 550)	36 993
(Release)/provision for impairment of accounts receivable	(460 689)	127 054
Other operating expenses	1 222 821	1 038 904
Total operating expenses	**50 650 604**	**45 638 915**

Note 23. Other Operating Income

	Nine months ended 30 September 2017	Nine months ended 30 September 2016
Operating lease income	122 721	142 333
Insurance	118 770	95 749
Fines and penalties	97 211	167 796
Other operating income	(49 493)	(36 288)
Total other operating income	**289 209**	**373 415**

Note 24. Finance Income and Finance Costs

	Nine months ended 30 September 2017	Nine months ended 30 September 2016
Interest income	136 522	164 692
Exchange differences (net)	72 893	56 327
Effect of discounting of financial instruments	91 136	16 390
Finance income	300 551	237 409
Interest expense	(1 376 191)	(1 665 519)
Effect of discounting of financial instruments	(6 544)	(15 538)
Finance costs	**(1 382 735)**	**(1 681 057)**

Note 25. Events after the Reporting Period

Borrowings

During the period between reporting date and signing date, the Group received long-term borrowings of RUB 3 098 000 thousand and short-term borrowings of RUB 2 252 300 thousand.

During the period between reporting date and signing date, the Group repaid borrowings a total of RUB 3 434 124 thousand.

Approved for issue and signed on 7 November 2017.

Acting General Director A. I. Vorobiev

Chief Accountant R. V. Stanishevskaya