

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

International Financial Reporting Standards  
Interim Condensed Consolidated Financial  
Statements (unaudited) and Report on review  
for SIX MONTHS ended 30 June 2018

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Translation from the Russian original

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Shareholders of PJSC “TGC-1”

### Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of PJSC “TGC-1” (OGRN 1057810153400, Bld. B, 6 Bronevaya Ulitsa, Saint-Petersburg, 198188, Russian Federation) and its subsidiaries as at 30 June 2018 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. General Director (management) is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard (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.

Translation from the Russian original

### 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 International Accounting Standard (IAS) 34.

The translation is true and correct.

The engagement partner on the review



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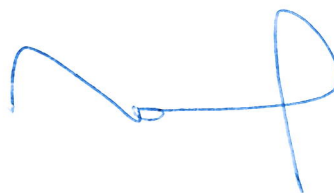
03 August 2018

PJSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
 INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018  
 (UNAUDITED)  
 (in thousands of Russian Roubles)

	Notes	31 June 2018	31 December 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	133 197 936	133 411 806
Investment property		155 957	163 424
Intangible assets		1 716 181	1 417 030
Investments in associates	8	396 541	371 926
Deferred income tax assets	9	501 821	461 550
Other non-current assets	10	1 008 855	1 019 458
<b>Total non-current assets</b>		<b>136 977 291</b>	<b>136 845 194</b>
<b>Current assets</b>			
Cash and cash equivalents	11	3 587 666	6 975 598
Short-term investments	12	10 144	10 144
Trade and other receivables	14	12 415 650	16 678 334
Current income tax prepayments		895 686	50 364
Inventories	15	3 156 807	3 117 999
<b>Total current assets</b>		<b>20 065 953</b>	<b>26 832 439</b>
Non-current assets held for sale	13	108 341	110 070
<b>TOTAL ASSETS</b>		<b>157 151 585</b>	<b>163 787 703</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	16	38 543 414	38 543 414
Share premium	16	22 913 678	22 913 678
Merger reserve	16	(6 086 949)	(6 086 949)
Other reserves		(1 209 011)	(1 209 011)
Effect of remeasurements of post-employment benefits obligations		(72 240)	(71 760)
Retained earnings		59 294 857	53 740 611
<b>Equity attributable to the Company's owners</b>		<b>113 383 749</b>	<b>107 829 983</b>
Non-controlling interest		8 810 155	8 629 256
<b>TOTAL EQUITY</b>		<b>122 193 904</b>	<b>116 459 239</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term borrowings	17	10 166 443	16 351 350
Deferred income tax liabilities	9	10 925 008	11 081 932
Post-employment benefits obligations		1 138 739	1 138 739
Other non-current liabilities	18	80 836	58 219
<b>Total non-current liabilities</b>		<b>22 311 026</b>	<b>28 630 240</b>
<b>Current liabilities</b>			
Short-term borrowings	19	1 913 449	8 358 294
Trade and other payables	20	8 874 253	7 843 745
Current income tax payable		-	896 669
Other taxes payable	21	1 858 953	1 599 516
<b>Total current liabilities</b>		<b>12 646 655</b>	<b>18 698 224</b>
<b>TOTAL LIABILITIES</b>		<b>34 957 681</b>	<b>47 328 464</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>157 151 585</b>	<b>163 787 703</b>

Approved for issue and signed on 3 August 2018.

Deputy Director General of economics and finance



A. V. Goncharov

Chief Accountant



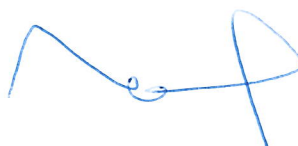
R. V. Stanishevskaya

PJSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
 INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE  
 INCOME FOR SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)  
 (in thousands of Russian Roubles)

	Notes	Six months ended 30 June 2018	Six months ended 30 June 2017
<b>Revenue</b>			
Sales of electricity		16 731 962	14 782 191
Sales of capacity		10 025 275	9 358 862
Sales of heat		20 721 369	20 156 292
Other sales	22	434 707	393 901
<b>Total revenue</b>		<b>47 913 313</b>	<b>44 691 246</b>
Government grants	23	64 653	37 985
Operating expenses	24	(39 334 508)	(37 080 808)
Reversal of impairment of financial assets		414 162	458 755
Other operating income	25	281 033	156 310
<b>Total operating expenses</b>		<b>(38 574 660)</b>	<b>(36 427 758)</b>
<b>Operating profit</b>		<b>9 338 653</b>	<b>8 263 488</b>
Finance income	26	198 649	283 614
Finance costs	26	(533 420)	(1 034 729)
<b>Finance costs, net</b>		<b>(334 771)</b>	<b>(751 115)</b>
<b>Share of profit of associates</b>		<b>24 615</b>	<b>25 746</b>
<b>Profit before income tax</b>		<b>9 028 497</b>	<b>7 538 119</b>
Income tax expense		(1 070 996)	(1 718 476)
<b>Profit for the period</b>		<b>7 957 501</b>	<b>5 819 643</b>
<b>Other comprehensive expense for the period including tax</b>		<b>(446)</b>	<b>(327)</b>
<b>Total comprehensive income for the period</b>		<b>7 957 055</b>	<b>5 819 316</b>
<b>Profit for the period is attributable to:</b>			
Owners of the TGC-1		7 774 956	5 689 012
Non-controlling interests		182 545	130 631
<b>Profit for the period</b>		<b>7 957 501</b>	<b>5 819 643</b>
<b>Total comprehensive income for the period is attributable to:</b>			
Owners of the TGC-1		7 774 476	5 688 685
Non-controlling interests		182 579	130 631
<b>Total comprehensive income for the period</b>		<b>7 957 055</b>	<b>5 819 316</b>
Earnings per ordinary share for profit attributable to owners of the TGC-1, basic and diluted (in Russian Roubles)	27	0.0020	0.0015

Approved for issue and signed on 3 August 2018.

Deputy Director General of economics and finance



A. V. Goncharov

Chief Accountant



R. V. Stanishevskaya

**PJSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)**  
*(in thousands of Russian Roubles)*

	Attributable to owners of the Company					Effect of measurements of post-employment benefits obligations	Retained earnings	Total	Non-controlling interest	Total equity
	Share capital	Share premium	Merger reserve	Other reserves						
<b>Balance at 31 December 2016</b>	<b>38 543 414</b>	<b>22 913 678</b>	<b>(6 086 949)</b>	<b>(1 209 011)</b>	<b>52 151</b>	<b>47 464 616</b>	<b>101 677 899</b>	<b>8 305 973</b>	<b>109 983 872</b>	
Comprehensive income for the period										
Profit for the period	-	-	-	-	-	5 689 012	5 689 012	130 631	5 819 643	
Other comprehensive income										
Measurements of post-employment benefits obligations	-	-	-	-	-	-	-	-	-	
Income tax on other comprehensive income	-	-	-	-	(327)	-	(327)	-	(327)	
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(327)</b>	<b>-</b>	<b>(327)</b>	<b>-</b>	<b>(327)</b>	
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(327)</b>	<b>5 689 012</b>	<b>5 688 685</b>	<b>130 631</b>	<b>5 819 316</b>	
Transactions with owners										
Dividends	-	-	-	-	-	(1 331 043)	(1 331 043)	-	(1 331 043)	
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1 331 043)</b>	<b>(1 331 043)</b>	<b>-</b>	<b>(1 331 043)</b>	
<b>Balance at 30 June 2017</b>	<b>38 543 414</b>	<b>22 913 678</b>	<b>(6 086 949)</b>	<b>(1 209 011)</b>	<b>51 824</b>	<b>51 822 585</b>	<b>106 035 541</b>	<b>8 436 604</b>	<b>114 472 145</b>	
Effect of changes in accounting policies										
	-	-	-	-	-	(332 846)	(332 846)	(1 680)	(334 526)	
<b>Balance at 31 December 2017</b>	<b>38 543 414</b>	<b>22 913 678</b>	<b>(6 086 949)</b>	<b>(1 209 011)</b>	<b>(71 760)</b>	<b>53 740 611</b>	<b>107 829 983</b>	<b>8 629 256</b>	<b>116 459 239</b>	
Comprehensive income for the period										
Profit for the period	-	-	-	-	-	7 774 956	7 774 956	182 545	7 957 501	
Other comprehensive income										
Measurements of post-employment benefits obligations	-	-	-	-	-	-	-	-	-	
Income tax on other comprehensive income	-	-	-	-	(480)	-	(480)	34	(446)	
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(480)</b>	<b>-</b>	<b>(480)</b>	<b>34</b>	<b>(446)</b>	
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(480)</b>	<b>7 774 956</b>	<b>7 774 476</b>	<b>182 579</b>	<b>7 957 055</b>	
Transactions with owners										
Dividends	-	-	-	-	-	(1 887 864)	(1 887 864)	-	(1 887 864)	
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1 887 864)</b>	<b>(1 887 864)</b>	<b>-</b>	<b>(1 887 864)</b>	
<b>Balance at 30 June 2018</b>	<b>38 543 414</b>	<b>22 913 678</b>	<b>(6 086 949)</b>	<b>(1 209 011)</b>	<b>(72 240)</b>	<b>59 294 857</b>	<b>113 383 749</b>	<b>8 810 155</b>	<b>122 193 904</b>	

Approved for issue and signed on 3 August 2018.

Deputy Director General of economics and finance

A. V. Goncharov

Chief Accountant

R. V. Stanishevskaya

PJSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
 INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR SIX MONTHS ENDED 30 JUNE 2018  
 (UNAUDITED)  
 (in thousands of Russian Roubles)

	Six months ended 30 June 2018	Six months ended 30 June 2017
<b>Cash flows from operating activities</b>		
Profit before income tax	9 028 497	7 538 119
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	3 785 337	4 014 633
Amortisation of intangible assets	77 971	45 163
Amortisation of investment property	7 468	7 002
Finance expense, net	334 771	751 115
Change in provision for impairment of accounts receivable	(414 162)	(458 755)
Gain on disposals of property, plant and equipment	(44 797)	(15 844)
Other non-cash items	(232 029)	234 678
<b>Operating cash flows before working capital changes</b>	<b>12 543 056</b>	<b>12 116 111</b>
Decrease in trade and other receivables	3 450 212	2 239 648
Increase in inventories	(38 866)	(256 561)
Increase in trade and other payables	(636 212)	(1 038 761)
Decrease in other taxes payable	259 437	484 425
<b>Cash generated from operations</b>	<b>15 577 627</b>	<b>13 544 862</b>
Income taxes paid	(2 944 486)	(1 794 818)
Interest paid	(697 139)	(1 270 020)
<b>Net cash from operating activities</b>	<b>11 936 002</b>	<b>10 480 024</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(2 859 468)	(3 332 940)
Proceeds from sale of property, plant and equipment	12 639	105 427
Purchase of intangible assets	(67 664)	(103 303)
Interest received	83 293	111 274
<b>Net cash used in investing activities</b>	<b>(2 831 200)</b>	<b>(3 219 542)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	5 963 900	14 298 394
Repayments of borrowings	(18 608 266)	(21 539 349)
<b>Net cash from financing activities</b>	<b>(12 644 366)</b>	<b>(7 240 955)</b>
<b>Net (increase)/decrease in cash and cash equivalents</b>	<b>(3 539 564)</b>	<b>19 527</b>
Effect of exchange rate changes on cash and cash equivalents	151 632	100 830
<b>Cash and cash equivalents at the beginning of the period</b>	<b>6 975 598</b>	<b>3 354 882</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>3 587 666</b>	<b>3 475 239</b>

Approved for issue and signed on 3 August 2018.

Deputy Director General of economics and finance

A. V. Goncharov

Chief Accountant

R. V. Stanishevskaya



## Note 1. The Group and its operations

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the six months ended 30 June 2018 for Public Joint-Stock Company (PJSC) Territorial Generating Company № 1 (here in after “TGC-1”, or the “Company”) and its subsidiaries (the “Group”).

The purpose of these interim condensed consolidated financial statements is to assist prepares of condensed consolidated interim financial statements in accordance with IFRS, especially in accordance with IAS 34 *Interim Financial Reporting*.

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.

Subsidiary	% of ownership as at 30 June		Immediate parent
	2018	2017	
PJSC Murmanskaya TPP	98.6791	98.6791	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 (Note 30). 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.

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 June 2018 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 June 2018 was Fortum Power and Heat Oy - 29.45% stake (as at 31 December 2017 - 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 June 2018 and 30 June 2017.

## **Note 2. Operating environment of the Group (continued)**

### ***Government relations and current regulation (continued)***

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 Tariff Service ("FTS"), 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 JSC "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.

## **Note 3. Summary of Significant Accounting Policies**

### ***Basis of preparation***

This Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting and should be read in conjunction with the annual Consolidated Financial Statements as at and for the year ended 31 December 2017, which were prepared in accordance with International Financial Reporting Standards (IFRS). This Interim Condensed Consolidated Financial Statements are unaudited. Certain disclosures duplicating information included in the annual Consolidated Financial Statements as at and for the year ended 31 December 2017 have been omitted or condensed.

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Consolidated Financial Statements are consistent with those applied during the preparation of the Consolidated Financial Statements as of and for the year ended 31 December 2017, except changes in accounting policies in respect of the application of new standards that became effective on 1 January 2018 (Refer to Note 5).

### ***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.

### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***Consolidated financial statements (continued)***

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.

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.

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.

As at 30 June 2018, 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 62.7565 (31 December 2017: USD 1 = RUB 57.6002), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 72.9921 (31 December 2017: EUR 1 = RUB 68.8668).

### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***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.

#### ***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.

### **Note 3. Summary of Significant Accounting Policies (continued)**

*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.

#### ***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.

### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***Initial recognition of financial instruments (continued)***

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.

#### ***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.

**Note 3. Summary of Significant Accounting Policies (continued)**

***Property, plant and equipment (continued)***

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

<b>Type of facility</b>	<b>Useful lives, years</b>
Production buildings	40-70
Hydrotechnical buildings	50-60
Generating equipment	20-40
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.

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.

**Note 3. Summary of Significant Accounting Policies (continued)**

***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 22). Intangible assets are amortised using the straight-line method over their useful lives:

	<b>Useful lives in years</b>
Software licences	2-10
Capitalised internal software development costs	2-10
Other licences	4-10

«Software licences» primarily includes SAP software.

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.

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 deductions can 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.



### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***Impairment of financial assets carried at amortised cost (continued)***

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.

#### ***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.

### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***Non-current assets classified as held for sale (continued)***

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.

#### ***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.

### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***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 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.

#### ***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.

### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***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).

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.

### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***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.

**Note 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies  
(continued)**

***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**

The significant accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2017, except for the application of new standards that became effective on 1 January 2018.

***Application of new IFRSs***

**IFRS 9 Financial Instruments (issued in November 2009 and effective for annual periods beginning on or after 1 January 2018)**

**a) Classification and measurement of financial assets**

The Group classifies financial assets into three measurement categories: those measured subsequently at amortised cost, those measured subsequently at fair value with changes recognised in other comprehensive income, and those measured subsequently at fair value with changes recognised in profit or loss.

The classification of debt instruments depends on the Group's business model for managing financial assets and contractual cash flows.

***Financial assets measured subsequently at amortised cost***

Such category of financial assets includes assets held to obtain contractual cash flows and it is expected that they will result in cash flows being payments of principal and interest, such as loans, receivables and investments held to maturity.

There are no changes in classification of financial assets that previously were also measured at amortised cost.

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

Such category of financial assets includes debt-type assets held within business models whose objective is achieved by both collecting contractual cash flows and selling financial assets and it is expected that they will result in cash flows being payments of principal and interest. The Group does not have this type of financial assets.

**b) Impairment of financial assets**

New model for recognition of impairment losses - expected credit losses (ECL) model was introduced within the Group. The Group applies the expected credit loss model to financial assets measured at amortised cost or at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets.

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

**b) Impairment of financial assets (continued)**

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

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

For all trade receivables the Group applies simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics, type of products or services and the days past due. The Group calculates expected loss rates for trade receivables based on historical data which are a reasonable approximation of current loss rates including external factors and forecasted values.

**c) Classification and measurement of financial liabilities**

New requirements in respect of finance liabilities measured through profit or loss will not have an impact on Group's accounting of finance liabilities because the Group does not have this type of liabilities.

IFRS 9 Financial Instruments (replaced IAS 39 «Financial instruments: Recognition and Measurement») has had a significant effect on the Interim Condensed Consolidated Financial Statements of the Group in respect of: impairment of financial assets, measured at amortised cost (as trade and other receivables) calculated in accordance to model of "expected credit losses", that differs from "incurred loss" model, caused to increase of impairment of accounts receivables as at 1 January 2018 in amount of RUB 409 366 thousand.

The Group applied IFRS 9 Financial Instruments retrospectively and used an option not to restate prior periods in respect of new requirements. The effect of applying IFRS 9 Financial Instruments was recognised in the opening balance of retained earnings and other reserves and non-controlling interest in the Interim Condensed Consolidated Statement of Changes in Equity of the Group as at 1 January 2018.

	1 January 2018	Impact of initial applying of IFRS 9	1 January 2018 (restated)
Cumulated loss	8 932 671	409 366	9 342 037
Deferred income tax charge	-	(74 840)	-
	8 932 671	334 526	9 342 037

In accordance to new requirements of IFRS 9 the credit losses in respect of trade and other receivables are presented separately in the Interim Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income. The Group applied this requirement in respect of trade and other receivables in the reporting period and reclassified comparative data for recognised credit losses in the amount of RUB 458 755 thousand from «Operating expenses» in «Impairment loss on financial assets» in the Interim Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income for six months ended 30 June 2017.

**IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018)**

Revenue is recognised as the obligation to perform is fulfilled by transferring a promised good or service to a customer. As asset is transferred when the control over such asset is passed to the customer.

Application of IFRS 15 Revenue from Contracts with Customers has not had a significant effect on the interim condensed consolidated financial information of the Group. Therefore, comparative data and opening balance of retained earnings and other reserves and non-controlling interest as at 1 January 2018 have not been restated.

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

### *Application of Interpretations and Amendments to existing Standards*

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

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

The amendments to IFRS 2 Share-based Payment (issued in June 2016). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.

The amendments to IAS 40 Investment Property (issued in December 2016). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property.

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

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

Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2019. In particular, the Group has not early adopted the standards and amendments:

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

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

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

The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify which borrowing costs are eligible for capitalisation in particular circumstances.

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



**Note 6. Balances and Transactions with Related Parties**

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include shareholders that have control or significant influence over the Company, and key management personnel, as well as companies that are controlled by the State or Gazprom Group.

As at 30 June 2018 and 31 December 2017 the Russian Government was the ultimate controlling party of the Group (Note 1), hence significant transactions with other state-controlled entities were disclosed as related party transactions in accordance with IAS 24 requirements.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in the six months ended 30 June 2018 and 30 June 2017, and had significant outstanding balances as at 30 June 2018 and 30 December 2017 are detailed below.

***PJSC Gazprom and its subsidiaries (under common control of the State)***

Transactions with PJSC Gazprom and its subsidiaries were as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017
<b>Revenue</b>		
Sales of electricity	491 143	456 968
Sales of heat	257 865	280 149
Other sales	12 359	7 319
<b>Total sales</b>	<b>761 367</b>	<b>744 436</b>
<b>Purchases</b>		
Purchases of fuel	(15 868 024)	(14 863 853)
Purchases of property, plant and equipment, construction in progress, intangible assets	(1 729 020)	(870 024)
<i>Including capitalised expenses of the borrowings</i>	<i>(1 421)</i>	<i>(69 571)</i>
Purchases of supplies	(359 073)	(496 503)
Purchases of electricity	(57 984)	(61 835)
Interest expense on borrowings	(192 076)	(507 040)
Operating lease expenses	(1 226 034)	(867 252)
Insurance cost	(143 376)	(143 854)
Cleaning cost	(54 156)	(53 944)
Other	(283 608)	(187 874)
<b>Total purchases</b>	<b>(19 913 351)</b>	<b>(18 052 179)</b>
<b>Income</b>		
Interest income	293	-
Interest income on bank deposits and cash in bank	9 966	68 501
Other income	4 209	2 877
<b>Total income</b>	<b>14 468</b>	<b>71 378</b>

LLC Gazprom Mezhrefiongaz is a major supplier of fuel (gas) for the Group.

**Note 6. Balances and Transactions with Related Parties (continued)**

***PJSC Gazprom and its subsidiaries (under common control of the State) (continued)***

Balances with Gazprom group subsidiaries at the end of the period were as follows:

	30 June 2018	31 December 2017
Borrowings (loans and bonds)	3 941 881	6 147 764
Loans issued	10 144	10 144
Long-term advances to suppliers	771 073	764 664
Advances under capital construction, included in property, plant and equipment	1 025 813	277 788
Trade and other receivables	1 047 977	1 517 518
Long-term payables	59 367	31 993
Trade and other payables	2 579 661	1 756 280
Cash and cash equivalents	625 392	545 997

***State-controlled entities***

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for natural gas and heat are based on tariffs set by FTS, prices for electricity and capacity based on tariffs set by FTS and also based on competitive take-off on the wholesale electricity (capacity) market. Bank loans are obtained at market rates. Taxes are charged and paid under the Russian tax law.

The Group had the following significant transactions with State-controlled entities:

	Six months ended 30 June 2018	Six months ended 30 June 2017
<b>Sales</b>		
Sales of heat	9 600 432	9 514 957
Sales of electricity	4 673 116	5 448 684
Government grants	64 653	37 985
Other sales	5 512	6 002
<b>Total sales</b>	<b>14 343 713</b>	<b>15 007 628</b>
<b>Expenses</b>		
Water usage expenses	(1 472 670)	(1 373 438)
Purchases of supplies	(1 966 435)	(1 327 745)
Heat distribution	(531 003)	(820 172)
Security services	(197 992)	(197 128)
Interest expenses on borrowings	(165 064)	(283 154)
Electricity purchases	(149 089)	(206 405)
Purchases of property, plant and equipment, construction in progress, intangible assets	(44 600)	(95 825)
<i>Including capitalised expenses of borrowings</i>	(44 551)	(87 273)
Operating lease	(61 433)	(62 730)
Transportation expenses	(3 677)	(3 454)
Interest income on bank deposits and cash in bank	451	4 624
Fees of electricity market operators	(398 832)	(391 392)
Other operating expenses	(2 402)	(169 392)
<b>Total purchases</b>	<b>(4 992 746)</b>	<b>(4 926 211)</b>

**Note 6. Balances and Transactions with Related Parties (continued)**

*State-controlled entities (continued)*

The Group had the following significant balances with State-controlled entities:

	31 June 2018	31 December 2017
Borrowings	500 321	10 769 667
Trade and other receivables	7 941 931	9 179 184
Cash and cash equivalents	2 841 708	2 230 659
Trade and other payables	625 541	920 222

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with JSC Centre of Financial Settlements (CFS). CFS's current financial settlement system of CFS does not provide the final counterparty with automated information about transactions and settlement balances with end consumers. Government-related entities, Gazprom Group and its subsidiaries may also act as counterparties.

The Group had the following significant transactions with CFS:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Sales of electricity	14 486 051	12 809 605
Electricity purchases	(2 572 621)	(2 508 652)

The Group had the following significant balances with CFS:

	30 June 2018	31 December 2017
Trade and other receivables	721 812	1 070 539
Trade and other payables	159 407	243 219

*Transactions with other related parties*

Other related parties are mainly represented by the Company's shareholder with a significant influence (Fortum Power and Heat OY) and associates (LLC TGC Service and JSC Hibinskaya Heating Company).

The Group had the following significant income/expenses and balances with other related parties:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Sales of electricity (Fortum Power and Heat OY)	234 478	178 977
Sales of heat (LLC TGC Service and JSC Hibinskaya Heating Company)	40 493	41 689
Other income (LLC TGC Service and JSC Hibinskaya Heating Company)	2 404	3 020
Purchases of property, plant and equipment, construction in progress, intangible assets	(186 530)	(177 730)
Purchases of supplies (LLC TGC Service)	(85)	(133)
Repairs and maintenance (LLC TGC Service)	(373 806)	(380 690)
Heat distribution (JSC Hibinskaya Heating Company)	(360 910)	(405 564)
Other expenses (LLC TGC Service)	(9 074)	(14 134)

**Note 6. Balances and Transactions with Related Parties (continued)**

***Transactions with other related parties (continued)***

The Group had the following significant balances with other related parties:

	30 June 2018	31 December 2017
Trade and other receivables (LLC TGC Service)	108 082	229 070
Trade and other receivables (Fortum Power and Heat OY)	52 525	27 703
Trade and other receivables (JSC Hibinskaya Heating Company)	8 004	12 272
Advances under capital construction, included in property, plant and equipment (LLC TGC Service)	126 622	108 153
Accounts payable (LLC TGC Service)	(411 843)	(659 559)
Accounts payable (JSC Hibinskaya Heating Company)	(45 874)	(94 948)

As at 30 June 2018, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment connected to related parties in the amount of RUB 9 763 854 thousand (31 December 2017: 9 178 891 RUB thousand). Sales commitments are disclosed in Note 28.

The Group has already allocated the necessary resources to meet these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

	30 June 2018	Year ended 31 December 2017
PJSC Gazprom and its subsidiaries	7 617 364	6 915 103
State-controlled entities	21 740	67 519
Other related parties	2 124 750	2 196 269
<b>Total</b>	<b>9 763 854</b>	<b>9 178 891</b>

***Transactions with the key management personnel***

Key management personnel includes members of the Board of Directors, General Director, members of Management Board.

Key management compensation in types is presented below:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Salaries	51 757	49 290
Short-term bonuses	50 483	60 441
Benefits to the Board of Directors	26 655	28 646
Termination benefits	1 562	12 610
<b>Total</b>	<b>130 457</b>	<b>150 987</b>

Main compensation for key management personnel of the Group generally is short-term excluding future payments under pension plans with defined benefits.

Pension benefits for key management of the Group are provided on the same terms as for the rest of employees.

The Group had the following balances with key management personnel:

	30 June 2018	31 December 2017
Payables to key management	3 718	5 478
<b>Total</b>	<b>3 718</b>	<b>5 478</b>

PJSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
 NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED FOR SIX MONTHS ENDED 30 JUNE 2018  
 (in thousands of Russian Roubles)

**Note 7. 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 2017	29 354 892	15 932 707	54 375 971	53 035 075	18 076 424	40 291 936	11 567 496	222 634 501
Additions	-	-	-	833 031	-	33 746	2 829 579	3 696 356
Transfers	18 789	-	149 808	937 474	29 618	223 215	(1 358 904)	-
Disposals	-	-	(1 118)	(23 112)	(5 523)	(34 795)	(113 380)	(177 928)
Balance as at 30 June 2018	29 373 681	15 932 707	54 524 661	54 782 468	18 100 519	40 514 102	12 924 791	226 152 929
<b>Accumulated depreciation (including impairment)</b>								
Balance as at 31 December 2017	(9 940 373)	(8 436 542)	(22 929 782)	(25 290 724)	(5 252 402)	(17 366 014)	(6 858)	(89 222 695)
Charge for the year	(247 983)	(127 090)	(891 029)	(812 383)	(256 458)	(1 450 394)	-	(3 785 337)
Disposals	-	-	745	21 465	2 892	27 937	-	53 039
Balance as at 30 June 2018	(10 188 356)	(8 563 632)	(23 820 066)	(26 081 642)	(5 505 968)	(18 788 471)	(6 858)	(92 954 993)
Net book value as at 31 December 2017	19 414 519	7 496 165	31 446 189	27 744 351	12 824 022	22 925 922	11 560 638	133 411 806
Net book value as at 30 June 2018	19 185 325	7 369 075	30 704 595	28 700 826	12 594 551	21 725 631	12 917 933	133 197 936

PJSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
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*(in thousands of Russian Roubles)*

**Note 7. 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 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	-	-	67 013	123 137	-	12 972	2 619 289	2 822 411
Transfers	772 236	2 307	740 268	46 073	9 370	838 773	(2 409 027)	-
Disposals	(203)	-	(316 686)	(5 262)	(17 327)	(32 626)	(4 674)	(376 778)
Balance as at 30 June 2017	29 141 357	15 853 379	54 691 926	51 977 037	17 847 083	37 575 764	10 800 303	217 886 849
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	(315 658)	(121 429)	(1 176 687)	(789 937)	(342 775)	(1 268 147)	-	(4 014 633)
Disposals	16	-	254 281	1 866	4 359	27 217	-	287 739
Balance as at 30 June 2017	(9 623 373)	(8 312 412)	(22 600 822)	(24 857 401)	(4 973 987)	(16 160 889)	(170 485)	(86 699 369)
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 June 2017	19 517 984	7 540 967	32 091 104	27 119 636	12 873 096	21 414 875	10 629 818	131 187 480

#### Note 7. 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 June 2018 the advances given to contractors, which amounted to RUB 1 313 580 thousand, net of VAT (as at 31 December 2017: RUB 1 500 758 thousand), are recognised within the construction in progress balance.

As at 30 June 2018 and 31 December 2017 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 7.50% capitalization rate for the six months ended 30 June 2018 is RUB 124 460 thousand (9.22% capitalization rate for the year ended 31 December 2017: RUB 280 809 thousand). The payment of capitalised interests is recorded in Consolidated Statement of Cash Flow in respect of operating activities.

#### Note 8. 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 June 2018	31 December 2017
Investments in LLC TGC Service	-	-
Investments in JSC HHC	396 541	371 926
<b>Total investments</b>	<b>396 541</b>	<b>371 926</b>

As at 30 June 2018 and 31 December 2017 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 9. Income Taxes

Income tax expense comprises the following:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Current income tax charge	(1 193 797)	(1 159 233)
Deferred income tax charge	(231 843)	(206 747)
Effect of change in income tax rate, recorded in profit and losses	354 644	(352 496)
<b>Total expense tax charge, recorded in changes in equity</b>	<b>(1 070 996)</b>	<b>(1 718 476)</b>
Movement during the year, recorded in changes in equity	74 394	(327)
<b>Total expense tax charge, recorded in other comprehensive income</b>	<b>74 394</b>	<b>(327)</b>
<b>Total expense tax charge</b>	<b>(996 602)</b>	<b>(1 718 803)</b>

The Group's companies applied the following tax rates for the six months, ended 30 June 2018: PJSC "TGC-1" - 17.19%, PJSC "Murmanskaya TPP" - 20%, JSC "St Petersburg Heating Grid" - 15.58% (2017: PJSC "TGC-1" - 17.8%, PJSC "Murmanskaya TPP" - 20%, JSC "St Petersburg Heating Grid" - 16.55%).

### *Deferred income tax assets and liabilities*

Differences between IFRS and Russian statutory tax calculation cause temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred income tax assets and liabilities were measured at the following tax rates as at 30 June 2018: PJSC «TGC-1» - 17.19%, PJSC «Murmanskaya TPP» - 20%, JSC «St Petersburg Heating Grid» - 15.58% (as at 31 December 2017: JSC «TGC-1» - 17.8%, PJSC «Murmanskaya TPP» - 20%, JSC «St Petersburg Heating Grid» - 16.55%). Management considers the rates to be applied to the period when the assets are realised and liabilities are settled.

Since 2014, PJSC «TGC-1» applies income tax exemption in accordance to law of Saint-Petersburg from 14.07.1995 № 81-11.

In the context of the Group's current structure, the tax losses and current tax assets of different consolidated entities may not be offset against the current tax liabilities and taxable profits of other consolidated entities and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred income tax assets and liabilities are offset only when they relate to the same taxable entity.



**Note 9. Income Taxes (continued)**

**Deferred income tax assets and liabilities (continued)**

Deferred income tax liabilities						
	30 June 2018	Recognised in profit or losses	Effect of change in income tax rate, recorded in profit and losses	Movement during the year, recorded in equity	Effect of change in income tax rate, recorded in equity	31 December 2017
Property, plant and equipment	(11 059 320)	(61 175)	363 535	-	-	(11 361 680)
Trade and other receivables	(158 756)	(151 048)	1 776	43 024	-	(52 508)
Trade and other payables	62 636	11 403	(1 847)	-	-	53 080
Pension liabilities	180 100	-	(6 237)	-	(446)	186 783
Other	50 332	(39 478)	(2 583)	-	-	92 393
<b>Total deferred income tax liability</b>	<b>(10 925 008)</b>	<b>(240 298)</b>	<b>354 644</b>	<b>43 024</b>	<b>(446)</b>	<b>(11 081 932)</b>

Deferred income tax liabilities						
	30 June 2017	Recognised in profit or losses	Effect of change in income tax rate, recorded in profit and losses	Movement during the year, recorded in equity	Effect of change in income tax rate, recorded in equity	31 December 2016
Property, plant and equipment	(11 323 158)	(166 783)	(347 910)	-	-	(10 808 465)
Trade and other receivables	(512 026)	(48 821)	(15 612)	-	-	(447 593)
Trade and other payables	58 306	13 129	1 749	-	-	43 428
Pension liabilities	150 771	-	5 429	-	(327)	145 669
Other	114 526	(3 543)	3 848	-	-	114 221
<b>Total deferred income tax liability</b>	<b>(11 511 581)</b>	<b>(206 018)</b>	<b>(352 496)</b>	<b>-</b>	<b>(327)</b>	<b>(10 952 740)</b>

**Note 9. Income Taxes (continued)**

*Deferred income tax assets and liabilities (continued)*

Deferred income tax assets				
	30 June 2018	Recognised in profit or losses	Recognised in in equity	31 December 2017
Property, plant and equipment	(21 187)	(2 163)	-	(19 024)
Tax loss carried forward	32 375	18 880	-	13 495
Trade and other receivables	462 753	(10 876)	31 816	441 813
Trade and other payables	10 985	2 614	-	8 371
Pension liabilities	16 895	-	-	16 895
<b>Total deferred income tax assets</b>	<b>501 821</b>	<b>8 455</b>	<b>31 816</b>	<b>461 550</b>

Deferred income tax assets				
	30 June 2017	Recognised in profit or losses	Recognised in equity	31 December 2016
Property, plant and equipment	(15 670)	(5 751)	-	(9 919)
Tax loss carried forward	40 235	40 235	-	-
Trade and other receivables	476 824	(38 235)	-	515 059
Trade and other payables	10 851	3 022	-	7 829
Pension liabilities	13 938	-	-	13 938
<b>Total deferred income tax assets</b>	<b>526 178</b>	<b>(729)</b>	<b>-</b>	<b>526 907</b>

**Note 10. Other Non-Current Assets**

	30 June 2018	31 December 2017
Long-term receivables net of provision for impairment of RUB 1 008 623 thousand (31 December 2017: RUB 892 519 thousand)	237 782	250 424
Advances to suppliers	771 073	764 664
Loan issued	-	4 370
<b>Total other non-current assets</b>	<b>1 008 855</b>	<b>1 019 458</b>

**Note 11. Cash and Cash Equivalents**

	30 June 2018	31 December 2017
Cash in bank and in hand in RUB	759 270	4 860 439
Foreign currency accounts in EUR	2 828 396	2 115 159
<b>Total cash and cash equivalents</b>	<b>3 587 666</b>	<b>6 975 598</b>

**Note 12. Short-term Investments**

	30 June 2018	31 December 2017
Loan issued	10 144	10 144
<b>Total short-term investments</b>	<b>10 144</b>	<b>10 144</b>

As at 30 June 2018 impairment loss for CJSC “Energoinvest” was in the amount of RUB 29 651 thousand.

### Note 13. Non-current Assets Held for Sale

As at 30 June 2018 the property, plant and equipment with a total net book value amounting to RUB 108 341 thousand were classified as assets held for sale (31 December 2017: RUB 110 070 thousand). Movements of non-current assets held for sale for current and prior periods were as follows:

30 June 2018	Sale	Classification as assets held for sale	31 December 2017
108 341	1 729	-	110 070

30 June 2017	Sale	Classification as assets held for sale	31 December 2016
136 599	515	-	137 114

### Note 14. Trade and other receivables

	30 June 2018	31 December 2017
Trade receivables, net of provision for impairment of RUB 7 915 819 (31 December 2017: RUB 8 040 152 thousand)	10 759 733	13 861 078
Other receivables, net of provision for impairment of RUB 103 412 (31 December 2017: RUB 103 671 thousand)	1 081 801	1 535 520
<b>Total financial receivables</b>	<b>11 841 534</b>	<b>15 396 598</b>
Value-added tax receivables	92 549	148 841
Advances to suppliers	474 397	1 120 197
Other taxes receivable	7 170	12 698
<b>Total trade and other receivables</b>	<b>12 415 650</b>	<b>16 678 334</b>

### Note 15. Inventories

	30 June 2018	31 December 2017
Fuel	2 252 644	2 428 773
Raw materials and other supplies	664 596	543 979
Spare parts	239 567	145 247
<b>Total inventories</b>	<b>3 156 807</b>	<b>3 117 999</b>

Raw materials and other supplies are recorded net of provision for impairment in the amount of RUB 1 771 thousand (31 December 2017: RUB 1 771 thousand).

### Note 16. Share capital

#### *Share capital*

The Group's share capital as at 30 June 2018 and as at 31 December 2017 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 June 2018 and as at 31 December 2017 the merger reserve amounted to RUB 6 086 949 thousand.

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 (in thousands of Russian Roubles)

**Note 16. 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 17. Long-term Borrowings**

	30 June 2018	31 December 2017
Bank borrowings and bonds issued	10 166 443	16 351 350
<b>Total long-term borrowings</b>	<b>10 166 443</b>	<b>16 351 350</b>

	Currency	Contractual interest rate	Maturity	30 June 2018		31 December 2017	
				Carrying amounts	Fair values	Carrying amounts	Fair values
Long-term bonds (03)	RUB	4.0%	2021	2 002 420	1 750 265	2 004 540	1 859 243
Long-term bonds (04)	RUB	4.0%	2022	2 028 740	1 719 961	2 049 900	1 844 888
Gazprom	RUB	7.92%	2022	2 900 000	2 716 029	4 900 000	4 418 487
Bank Rossiya		8.5%	2020	3 098 000	3 128 697	3 098 000	3 040 631
Sberbank RF	RUB	7.8-7.9%	2019	500 321	497 499	4 561 342	4 491 424
NORDIC Investment Bank	RUB	ЕВРИБОР + 3%	2019	508 530	508 530	639 773	639 773
VTB	RUB	7.9%	2018	-	-	6 208 325	6 131 582
				<b>11 038 011</b>	<b>10 320 981</b>	<b>23 461 880</b>	<b>22 426 028</b>
Less: current portion							
Long-term bonds (03)	RUB	4.0%	2021	(2 420)	(2 420)	(4 540)	(4 540)
Long-term bonds (04)	RUB	4.0%	2022	(28 740)	(28 740)	(49 900)	(49 900)
Sberbank RF	RUB	7.8-7.9%	2019	(500 321)	(497 499)	(525 839)	(522 399)
NORDIC Investment Bank	EUR	ЕВРИБОР + 3%	2019	(340 087)	(340 087)	(321 926)	(321 926)
VTB	RUB	7.9%	2018	-	-	(6 208 325)	(6 131 582)
<b>Total long-term bank borrowings and bonds issued</b>				<b>10 166 443</b>	<b>9 452 235</b>	<b>16 351 350</b>	<b>15 395 681</b>

**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 18. Other Non-Current Liabilities**

	30 June 2018	31 December 2017
Long-term accounts payable	80 836	58 219
<b>Total other non-current liabilities</b>	<b>80 836</b>	<b>58 219</b>

### Note 19. Short-Term Borrowings

	30 June 2018	31 December 2017
Bank borrowings and bonds issued	1 913 449	8 358 294
<b>Total short-term borrowings</b>	<b>1 913 449</b>	<b>8 358 294</b>

Name of lender	Currency	Contractual interest rate	30 June 2018		31 December 2017	
			Carrying amounts	Fair values	Carrying amounts	Fair values
Gazprombank	RUB	9.25-9.5%	1 041 881	1 041 881	1 247 764	1 247 764
<b>Current portion of long-term borrowings:</b>						
Long-term bonds (03)	RUB	4.0%	2 420	2 420	4 540	4 540
Long-term bonds (04)	RUB	4.0%	28 740	28 740	49 900	49 900
Sberbank RF	RUB	7.8-7.9%	500 321	497 499	525 839	522 399
NORDIC Investment Bank	EUR	ЕВРИБОР+3%	340 087	340 087	321 926	321 926
VTB	RUB	7.9%	-	-	6 208 325	6 131 582
<b>Total bank borrowings and bonds issued</b>			<b>1 913 449</b>	<b>1 910 627</b>	<b>8 358 294</b>	<b>8 278 111</b>

### Note 20. Trade and other payables

	30 June 2018	31 December 2017
Trade accounts payable	2 446 887	4 090 222
Accounts payable for capital construction	1 120 577	1 358 094
Accrued liabilities and other payables	2 378 924	359 743
<b>Total financial payables</b>	<b>5 946 388</b>	<b>5 808 059</b>
Advances from customers	2 407 353	1 528 443
Current employee benefits	520 512	507 243
<b>Total trade and other payables</b>	<b>8 874 253</b>	<b>7 843 745</b>

### Note 21. Other Taxes Payable

	30 June 2018	31 December 2017
VAT payable	953 308	856 984
Property tax	529 769	439 280
Employee taxes	276 431	192 763
Personal Income Tax	58 345	64 163
Other taxes	41 100	46 326
<b>Total taxes payable</b>	<b>1 858 953</b>	<b>1 599 516</b>

As at 30 June 2018 and as at 31 December 2017 the Group had no past due tax liabilities.

### Note 22. Other Sales

	Six months ended 30 June 2018	Six months ended 30 June 2017
Connection of customers to heating network	275 577	214 717
Maintenance of electrical facilities	29 605	30 284
Installation of heating meters	16 417	60 343
Handling of heating oil	18 834	13 097
Water usage	13 694	8 726
Revenue from transit of rail cars	943	1 961
Other	79 637	64 773
<b>Total other sales</b>	<b>434 707</b>	<b>393 901</b>

### Note 23. Government Grants

During six months 2018 Group received a grant for the compensation of income in relation to providing heating services (sales to consumers of heat) per tariffs that don't cover expenses from Murmansk Region budget for a total amount of RUB 64 653 thousand (six months 2017 - RUB 37 985 thousand).

### Note 24. Operating Expenses

	Six months ended 30 June 2018	Six months ended 30 June 2017
Fuel	18 813 741	17 052 279
Employee benefits	4 224 335	4 036 880
Depreciation of property, plant and equipment	3 785 337	4 014 633
Electricity, capacity and heat purchases	3 674 959	3 566 514
Water usage expenses	1 475 616	1 374 774
Operating lease expenses	1 395 696	1 058 814
Heat and electricity distribution	1 300 359	1 244 542
Repairs and maintenance	1 293 890	1 283 682
Taxes other than income tax	1 019 409	932 696
Fees of electricity market operators	417 104	412 451
Other materials	330 895	295 519
IT services	256 341	154 255
Security expenses	231 954	270 745
Acceptance of payments	184 023	175 189
Insurance cost	143 846	144 206
Telecommunication expenses	123 941	111 770
Amortisation of intangible assets	77 971	45 163
Consulting, legal and audit expenses	32 663	31 860
Amortisation of investment property	7 468	7 002
Other operating expenses	544 960	867 834
<b>Total operating expenses</b>	<b>39 334 508</b>	<b>37 080 808</b>

### Note 25. Other Operating Income

	Six months ended 30 June 2018	Six months ended 30 June 2017
Fines and penalties	109 267	68 943
Operating lease income	86 057	81 839
Other operating income	85 709	5 528
<b>Total other operating income</b>	<b>281 033</b>	<b>156 310</b>

## Note 26. Finance Income and Finance Costs

	Six months ended 30 June 2018	Six months ended 30 June 2017
Interest income	83 293	111 274
Exchange differences (net)	108 445	64 771
Effect of discounting of financial instruments	6 911	107 569
<b>Finance income</b>	<b>198 649</b>	<b>283 614</b>
Interest expense	(533 420)	(1 030 037)
Effect of discounting of financial instruments	-	(4 692)
<b>Finance costs</b>	<b>(533 420)</b>	<b>(1 034 729)</b>

## Note 27. Earnings per Share

	Six months ended 30 June 2018	Six months ended 30 June 2017
Profit attributable to owners of the Company	7 774 956	5 689 012
Weighted average number of ordinary shares issued (thousands)	3 854 341 417	3 854 341 417
<b>Earnings per ordinary share attributable to the owners of the Company after tax - basic and diluted - in Russian Roubles</b>	<b>0,0020</b>	<b>0,0015</b>

## Note 28. Commitments

### *Sales commitments*

The Group entities sell electricity, capacity and heat in the wholesale market's regulated and free trading sectors. Regulated sector contracts are primarily signed with trading companies. Tariffs for electricity, capacity and heat sold under regulated delivery contracts are set by the FTS. Electricity can be bought in the free trading sector under contracts with JSC FSC in order to fulfil obligations under regulated contracts.

Long-term contracts with JSC FSC and short-term bilateral contracts with market entities were concluded for electricity, capacity and heat sales (not covered by regulated contracts) in the free trading market.

The Group also concluded export contracts with Fortum Power and Heat OY and RAO Nordic Oy. The Group's sales commitments under these contracts, as at 30 June 2018, were: 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy (as at 31 December 2017 - 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy).

### *Fuel commitments*

The Group has also concluded a number of fuel supply contracts. The main gas supplier is LLC Gazprom Mezhrefiongaz St Petersburg (a state controlled subsidiary of Gazprom Group) and the main coal supplier is JSC «Russian coal». The prices for natural gas and coal set in these contracts are mainly determined on the basis of tariffs established by the FTS, published inflation rates and current market prices.

### *Contractual capital commitments*

As at 30 June 2018, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment in the amount of RUB 12 204 518 thousand (31 December 2017: RUB 13 223 650 thousand).

The Group has already allocated the necessary resources to meet these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

**Note 28. Commitments (continued)**

***Operating lease***

The Group leases a number of land plots owned by local authorities under operating leases. Land lease commitments are determined by lease agreements and current cadastral values and are as follows:

	30 June 2018	31 December 2017
Not later than one year	109 019	103 934
Later than one year and not later than five years	411 797	396 638
Later than five years	2 740 723	2 612 342
<b>Total operating lease</b>	<b>3 261 539</b>	<b>3 112 914</b>

**Note 29. Events after the Reporting Period**

***Borrowings***

During the period between reporting date and signing date, the Group received short-term borrowings of RUB 154 200 thousand.

During the period between reporting date and signing date, the Group repaid short-term borrowings a total of RUB 375 000 thousand.

Approved for issue and signed on 3 August 2018.

Deputy Director General of economics and finance

A. V. Goncharov

Chief Accountant

R. V. Stanishevskaya