

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

Consolidated Financial Statements  
for the year ended 31 December 2017  
and Independent Auditor's Report

Translation from the Russian original

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Public Joint Stock Company "Territorial Generating Company № 1" (PJSC "TGC-1")

### Opinion

We have audited the consolidated financial statements of PJSC "TGC-1" (OGRN 1057810153400, Bld. B, 6 Bronevaya Ulitsa, Saint-Petersburg, 198188, Russian Federation) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements for the year ended 31 December 2017, which comprise a summary of significant accounting policies and other explanatory information.

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

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

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

#### *Estimation of allowance for doubtful debts*

We paid special attention to the issue of determining the allowance for doubtful debts because the appraisal process is complex and requires management to make significant judgments.

Our audit procedures for management's assessment of impairment of accounts receivable included a review of the analysis of the probability of debt repayment by management, taking into account the assessment of the counterparty's solvency and the deterioration occurring at the reporting date, subsequent payment after the balance sheet date, availability of security for payment and its quality and other factors, considered by management, as well as analysis of the receivables turnover, results of which were used, including for verify the analysis of the probability of debt repayment conducted by management, and verification of the adequacy of disclosure of information on impairment of receivables in Note 14 to the consolidated financial statements.

Based on the results of the conducted procedures, there were no significant inconsistencies.

### ***Assessment of impairment of property, plant and equipment***

At each reporting date the Group assesses whether there is any indication of impairment of property, plant and equipment. This annual impairment test was significant to our audit because the impairment test procedure is a complex process that involves management's use of significant judgments and is based on assumptions that are influenced by projected future market and economic conditions that are inherently are indeterminate.

Our audit procedures included, but not be limited to, the involvement of an valuation expert to assist us in assessing the assumptions and methodology used by the Group. We also focused our audit procedures on the adequacy of the Group's disclosure of assumptions to which the results of the impairment test are the most sensitive and have the most significant effect on the determination of the recoverable amount of property, plant and equipment. In the course of our audit, we also received and verified the existence of plans for the completion and further use of the objects of unfinished capital investments (planning and survey works and equipment for installation) that were not moving for a long period; studied the results of the stock take procedures of objects of incomplete capital investments; have checked the accuracy of writing off on the financial result the value of objects for which there are no plans exist for completion and further use of such objects.

The results of the impairment test are presented in Note 7 in the consolidated financial statements.

As a result of the conducted procedures, we did not find any significant inconsistencies.

### **Other Information**

General Director (management) is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Translation from the Russian original

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

The translation is true and correct.

The engagement partner on the audit resulting in this independent auditor's report is



A. Baliakin

Audit company:

BDO Unicon Aktsionernoe Obshchestvo

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Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: 11603059593

7 March 2018

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JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017  
(in thousands of Russian Roubles)

	Notes	31 December 2017	31 December 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	133 411 806	132 468 741
Investment property		163 424	191 924
Intangible assets		1 417 030	779 445
Investments in associates	8	371 926	395 151
Deferred income tax assets	9	461 550	526 907
Other non-current assets	10	1 019 458	1 087 518
<b>Total non-current assets</b>		<b>136 845 194</b>	<b>135 449 686</b>
<b>Current assets</b>			
Cash and cash equivalents	11	6 975 598	3 354 882
Short-term investments	12	10 144	4 370
Trade and other receivables	14	16 678 334	17 583 729
Current income tax prepayments		50 364	473 162
Inventories	15	3 117 999	2 768 011
<b>Total current assets</b>		<b>26 832 439</b>	<b>24 184 154</b>
Non-current assets held for sale	13	110 070	137 114
<b>TOTAL ASSETS</b>		<b>163 787 703</b>	<b>159 770 954</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		(71 760)	52 151
Retained earnings		53 740 611	47 464 616
<b>Equity attributable to the Company's owners</b>		<b>107 829 983</b>	<b>101 677 899</b>
Non-controlling interest	33	8 629 256	8 305 973
<b>TOTAL EQUITY</b>		<b>116 459 239</b>	<b>109 983 872</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term borrowings	17	16 351 350	17 022 529
Deferred income tax liabilities	9	11 081 932	10 952 740
Post-employment benefits obligations	19	1 138 739	923 938
Other non-current liabilities	18	58 219	115 052
<b>Total non-current liabilities</b>		<b>28 630 240</b>	<b>29 014 259</b>
<b>Current liabilities</b>			
Short-term borrowings	20	8 358 294	10 129 851
Trade and other payables	21	7 843 745	9 433 751
Current income tax payable		896 669	3 691
Other taxes payable	22	1 599 516	1 205 530
<b>Total current liabilities</b>		<b>18 698 224</b>	<b>20 772 823</b>
<b>TOTAL LIABILITIES</b>		<b>47 328 464</b>	<b>49 787 082</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>163 787 703</b>	<b>159 770 954</b>

Approved for issue and signed on 7 March 2018.

General Director

A. V. Barvinok

Chief Accountant

R. V. Stanishevskaya

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR 2017  
 (in thousands of Russian Roubles)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
<b>Revenue</b>			
Sales of electricity		50 693 819	43 956 494
Sales of heat		35 275 073	33 702 402
Other sales	23	1 425 810	1 232 206
<b>Total revenue</b>		<b>87 394 702</b>	<b>78 891 102</b>
Government grants	24	71 283	269 320
Operating expenses	25	(76 007 497)	(69 802 169)
Impairment loss reversed/(recognized) during the year	7	-	(1 312 851)
Other operating income	26	527 329	555 525
<b>Total operating expenses</b>		<b>(75 408 885)</b>	<b>(70 290 175)</b>
<b>Operating profit</b>		<b>11 985 817</b>	<b>8 600 927</b>
Finance income	27	328 572	272 242
Finance costs	27	(1 794 864)	(2 406 699)
<b>Finance costs, net</b>		<b>(1 466 292)</b>	<b>(2 134 457)</b>
<b>Profit before income tax</b>		<b>10 519 525</b>	<b>6 466 470</b>
Income tax expense	9	(2 592 026)	(1 142 297)
<b>Profit for the year</b>		<b>7 927 499</b>	<b>5 324 173</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of post-employment benefits obligations		(147 434)	80 892
Income tax on remeasurement of post-employment benefit obligations		26 345	(13 962)
<b>Other comprehensive income for the year</b>		<b>(121 089)</b>	<b>66 930</b>
<b>Total comprehensive income for the year</b>		<b>7 806 410</b>	<b>5 391 103</b>
<b>Profit is attributable to:</b>			
Owners of the TGC-1		7 607 038	5 386 680
Non-controlling interests		320 461	(62 507)
<b>Profit for the year</b>		<b>7 927 499</b>	<b>5 324 173</b>
<b>Total comprehensive income is attributable to:</b>			
Owners of the TGC-1		7 483 127	5 450 503
Non-controlling interests		323 283	(59 400)
<b>Total comprehensive income for the year</b>		<b>7 806 410</b>	<b>5 391 103</b>
Earnings per ordinary share for profit attributable to owners of the TGC-1, basic and diluted (in Russian Roubles)	28	0.0020	0.0014

Approved for issue and signed on 7 March 2018.

General Director

A. V. Barvinok

Chief Accountant

R. V. Stanishevskaya



JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 2017  
(in thousands of Russian Roubles)

	Attributable to owners of the Company								
	Share capital	Share premium	Merger reserve	Other reserves	Effect of measurements of post-employment benefits obligations	Retained earnings	Total	Non-controlling interest	Total equity
<b>Balance at 1 January 2016</b>	<b>38 543 414</b>	<b>22 913 678</b>	<b>(6 086 949)</b>	<b>(1 209 011)</b>	<b>(11 672)</b>	<b>43 014 555</b>	<b>97 164 015</b>	<b>8 365 373</b>	<b>105 529 388</b>
Comprehensive income for the year	-	-	-	-	-	5 386 680	5 386 680	(62 507)	5 324 173
Profit for the year	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	77 208	-	77 208	3 684	80 892
Measurements of post-employment benefits obligations	-	-	-	-	(13 385)	-	(13 385)	(577)	(13 962)
Income tax on other comprehensive income	-	-	-	-	63 823	-	63 823	3 107	66 930
<i>Total other comprehensive expense</i>	-	-	-	-	<b>63 823</b>	-	<b>63 823</b>	<b>(59 400)</b>	<b>5 391 103</b>
<b>Total comprehensive income for the year</b>	-	-	-	-	<b>63 823</b>	<b>5 386 680</b>	<b>5 450 503</b>	<b>(59 400)</b>	<b>5 391 103</b>
Transactions with owners	-	-	-	-	-	(936 619)	(936 619)	-	(936 619)
Dividends	-	-	-	-	-	(936 619)	(936 619)	-	(936 619)
<b>Total transactions with owners</b>	-	-	-	-	-	<b>(936 619)</b>	<b>(936 619)</b>	-	<b>(936 619)</b>
<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 year	-	-	-	-	-	7 607 038	7 607 038	320 461	7 927 499
Profit for the year	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	(150 810)	-	(150 810)	3 376	(147 434)
Measurements of post-employment benefits obligations	-	-	-	-	26 899	-	26 899	(554)	26 345
Income tax on other comprehensive income	-	-	-	-	(123 911)	-	(123 911)	2 822	(121 089)
<i>Total other comprehensive income</i>	-	-	-	-	<b>(123 911)</b>	-	<b>(123 911)</b>	<b>323 283</b>	<b>7 806 410</b>
<b>Total comprehensive income for the year</b>	-	-	-	-	<b>(123 911)</b>	<b>7 607 038</b>	<b>7 483 127</b>	<b>323 283</b>	<b>7 806 410</b>
Transactions with owners	-	-	-	-	-	(1 331 043)	(1 331 043)	-	(1 331 043)
Dividends	-	-	-	-	-	(1 331 043)	(1 331 043)	-	(1 331 043)
<b>Total transactions with owners</b>	-	-	-	-	-	<b>(1 331 043)</b>	<b>(1 331 043)</b>	-	<b>(1 331 043)</b>
<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>

Approved for issue and signed on 7 March 2018.

General Director

A. V. Barvinok

Chief Accountant

R. V. Stanishhevskaya

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2017  
 (in thousands of Russian Roubles)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
<b>Cash flows from operating activities</b>			
Profit before income tax		10 519 525	6 466 470
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	7	8 333 074	7 546 003
Amortisation of intangible assets	25	105 259	123 983
Amortisation of investment property	25	16 098	14 063
Impairment loss recognized during the year	7	-	1 312 851
Finance expense, net	27	1 466 292	2 134 457
Change in provision for impairment of accounts receivable	25	1 744 527	2 961 136
Loss on disposals of property, plant and equipment	25	551 315	291 781
Increase of post-employment benefits obligations	19	67 367	46 098
Other non-cash items		12 528	137 095
<b>Operating cash flows before working capital changes</b>		<b>22 815 985</b>	<b>21 033 937</b>
Increase in trade and other receivables	10, 14	(1 100 583)	(5 831 633)
Increase in inventories	15	(339 000)	(202 694)
(Decrease) Increase in trade and other payables	21	(1 372 386)	3 317 711
Increase in other taxes payable	22	393 986	119 257
<b>Cash generated from operations</b>		<b>20 398 002</b>	<b>18 436 578</b>
Income taxes paid		(1 051 497)	(1 368 692)
Interest paid		(2 137 979)	(2 905 681)
<b>Net cash from operating activities</b>		<b>17 208 526</b>	<b>14 162 205</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(9 522 231)	(9 218 408)
Proceeds from sale of property, plant and equipment		151 877	129 994
Purchase of intangible assets		(758 944)	(64 227)
Interest received		161 416	203 380
<b>Net cash used in investing activities</b>		<b>(9 967 882)</b>	<b>(8 949 261)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		34 044 585	40 542 906
Repayments of borrowings		(36 465 238)	(42 992 724)
Dividends paid to the Company's shareholders		(1 331 043)	(936 619)
<b>Net cash from financing activities</b>		<b>(3 751 696)</b>	<b>(3 386 437)</b>
<b>Net increase in cash and cash equivalents</b>		<b>3 488 948</b>	<b>1 826 507</b>
Effect of exchange rate changes on cash and cash equivalents		131 768	(172 776)
<b>Cash and cash equivalents at the beginning of the year</b>		<b>3 354 882</b>	<b>1 701 151</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>6 975 598</b>	<b>3 354 882</b>

Approved for issue and signed on 7 March 2018.

General Director

A. V. Barvinok

Chief Accountant

R. V. Stanishevskaya

## Note 1. The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2017 for Public Joint-Stock Company (PJSC) Territorial Generating Company № 1 (here in after "TGC-1", or the "Company") and its subsidiaries (the "Group").

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

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

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

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

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

The Russian government directly affects the Group's operations through the Federal 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 OJSC "System Operator of Unified Energy System", a state-controlled company.

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

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

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.

As described in Note 30, the government’s economic, social and other policies could have a material effect on Group operations.

### ***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***

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

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

### ***Consolidated financial statements***

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

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

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

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

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

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

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.

At 31 December 2017, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar (USD) was USD 1 = RUB 57.6002 (31 December 2016: USD 1 = RUB 60.6569), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 68.8668 (31 December 2016: EUR 1 = RUB 63.8111).

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

	<u>Useful lives in years</u>
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 32).

### **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. See effect of these critical accounting estimates and assumptions in Note 7.

#### ***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.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2017 would be an increase of RUB 893 851 thousand or a decrease it by RUB 766 413 thousand (for the year ended 31 December 2016: increase by RUB 639 584 thousand or decrease by RUB 543 407 thousand).

#### ***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 31).

#### ***Pension obligation***

The principal actuarial assumptions used to calculate the defined benefit obligation as at 31 December 2017 are listed in Note 19.

#### **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 following new amendments and interpretations became effective for the Group from 1 January 2017, but did not have material effect on consolidated financial statements of the Group:

- *IAS 7 Statement of Cash Flows - Disclosure Initiative Amendments (effective for annual periods beginning on or after 1 January 2017);*
- *Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017);*
- *Disclosure of interests in other entities - Amendments to IFRS 12 (effective for annual periods beginning on or after 1 January 2017).*

Certain new standards, amendments and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted.

- *IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018);*
- *IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018);*
- *IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019);*
- *IFRS 17 Insurance Contracts (effective 1 January 2021);*
- *IFRIC 22 Foreign Currency Translations and Advance Consideration (effective 1 January 2018);*
- *IFRIC 23 Uncertainty over Income Tax Positions (effective 1 January 2019);*
- *Amendments to IFRS 2 classification and Measurement of Share-based payment Transactions (effective 1 January 2018);*
- *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective 1 January 2018);*
- *Amendments to IAS 40: Transfers of Investment Property (effective 1 January 2018);*
- *Annual Improvements to IFRS Standards 2014-2016 cycle dealing with matters in IFRS 1 First-time Adoption and IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2018);*
- *Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective 1 January 2019);*
- *Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective 1 January 2019).*

These standards, except *IFRS 16 Leases*, will not have effect on consolidated financial statements of the Group in future periods. The Group is currently assessing the impact of *IFRS 16 Leases* on its financial statements.



## 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 31 December 2017 and 31 December 2016 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 years ended at 31 December 2017 and 2016, and had significant outstanding balances as at 31 December 2017 and 31 December 2016 are detailed below.

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

Transactions with PJSC Gazprom and its subsidiaries were as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
<b>Revenue</b>		
Sales of electricity	985 687	756 462
Sales of heat	463 371	405 305
Other sales	18 582	44 659
<b>Total sales</b>	<b>1 467 640</b>	<b>1 206 426</b>
<b>Purchases</b>		
Purchases of fuel	(28 083 441)	(26 091 853)
Purchases of property, plant and equipment, construction in progress, intangible assets	(4 823 956)	(4 278 502)
<i>Including capitalised expenses of the borrowings</i>	<i>(129 573)</i>	<i>(107 332)</i>
Purchases of supplies	(591 312)	(227 376)
Purchases of electricity	(119 139)	(96 395)
Interest expense	(847 284)	(1 067 193)
Other	(3 073 221)	(1 050 737)
<b>Total purchases</b>	<b>(37 538 353)</b>	<b>(32 584 680)</b>
<b>Income</b>		
Interest income	74 192	114 824
Other income	23 482	63 254
<b>Total income</b>	<b>97 674</b>	<b>178 078</b>

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

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

	31 December 2017	31 December 2016
Borrowings (loans and bonds)	6 147 764	11 061 784
Loans issued	10 144	-
Long-term receivables	-	183 277
Long-term advances to suppliers	764 664	806 200
Advances under capital construction, included in property, plant and equipment	277 788	46 573
Trade and other receivables	1 517 518	382 116
Long-term payables	31 993	80 885
Trade and other payables	1 756 280	4 233 262
Cash and cash equivalents	545 997	2 209 567

**Note 6. Adoption of New or Revised Standards and Interpretations (continued)**

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

Impairment provision for Gazprom group are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Provision for impairment as at 1 January	1 060	-
Impairment loss recognised during the period	-	1 060
Impairment loss reversed during the period	(1 060)	-
Consumed during the period	-	-
<b>Provision for impairment as at 31 December</b>	<b>-</b>	<b>1 060</b>

**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:

	Year ended 31 December 2017	Year ended 31 December 2016
<b>Sales</b>		
Sales of heat	16 065 804	15 672 953
Sales of electricity	10 252 657	8 026 508
Other sales	62 682	151 867
<b>Total sales</b>	<b>26 381 143</b>	<b>23 851 328</b>
<b>Expenses</b>		
Water usage expenses	(2 834 916)	(2 598 124)
Purchases of supplies	(2 791 135)	(1 159 404)
Heat distribution	(848 171)	(780 244)
Security services	(392 184)	(384 531)
Interest expenses	(241 884)	(309 676)
Electricity purchases	(160 959)	(141 357)
Purchases of property, plant and equipment, construction in progress, intangible assets	(138 171)	(262 371)
<i>Including capitalised expenses of borrowings</i>	(121 085)	(212 878)
Operating lease	(120 984)	(116 875)
Transportation expenses	(6 657)	(8 890)
Interest income	5 299	14 157
Other operating expenses	(793 839)	(784 696)
<b>Total purchases</b>	<b>(8 323 601)</b>	<b>(5 323 114)</b>

Other operating expenses are mainly presented by expenses under the agreement with the System Operator of United Energy System for the year ended 31 December 2017 in amount of RUB 745 564 thousand (for the year ended 31 December 2016 - RUB 741 660 thousand).

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

	31 December 2017	31 December 2016
Borrowings	10 769 667	10 982 769
Trade and other receivables	9 179 184	9 204 388
Cash and cash equivalents	2 230 659	1 062 759
Trade and other payables	920 222	822 876

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

***State-controlled entities (continued)***

Movements in impairment provision for receivables in respect to State-controlled entities are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Provision for impairment as at 1 January	3 180 960	1 738 677
Impairment loss recognised during the period	1 588 810	1 504 052
Impairment loss reversed during the period	(191 113)	(61 412)
Consumed during the period	(62 627)	(357)
<b>Provision for impairment as at 31 December</b>	<b>4 516 030</b>	<b>3 180 960</b>

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:

	Year ended 31 December 2017	Year ended 31 December 2016
Sales of electricity	27 329 319	25 308 549
Electricity purchases	(5 125 557)	(4 546 499)

The Group had the following significant balances with CFS:

	31 December 2017	31 December 2016
Trade and other receivables	1 070 539	999 524
Trade and other payables	243 219	217 417

***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:

	Year ended 31 December 2017	Year ended 31 December 2016
Sales of electricity (Fortum Power and Heat OY)	358 261	373 006
Sales of heat (LLC TGC Service and JSC Hibinskaya Heating Company)	78 625	77 463
Other income (LLC TGC Service and JSC Hibinskaya Heating Company)	7 271	11 117
Purchases of property, plant and equipment, construction in progress, intangible assets	(1 104 801)	(398 394)
Purchases of supplies (LLC TGC Service)	(1 351)	(4 235)
Repairs and maintenance (LLC TGC Service)	(1 164 414)	(1 201 742)
Heat distribution (JSC Hibinskaya Heating Company)	(709 112)	(633 350)
Other expenses (LLC TGC Service)	(36 994)	(54 311)

**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:

	31 December 2017	31 December 2016
Trade and other receivables (LLC TGC Service)	229 070	270 081
Trade and other receivables (Fortum Power and Heat OY)	27 703	52 227
Trade and other receivables (JSC Hibinskaya Heating Company)	12 272	17 793
Advances under capital construction, included in property, plant and equipment (LLC TGC Service)	108 153	49 773
Accounts payable (LLC TGC Service)	(659 559)	(449 633)
Accounts payable (JSC Hibinskaya Heating Company)	(94 948)	(87 996)

Transactions and balances with the non-state pension fund of the electrical energy industry and the non-state pension fund Gazfond are disclosed in Note 19.

As at 31 December 2017, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment connected to related parties in the amount of RUB 9 178 891 thousand (31 December 2016: 7 842 220 RUB thousand). Sales commitments are disclosed in Note 29.

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.

	Year ended 31 December 2017	Year ended 31 December 2016
PJSC Gazprom and its subsidiaries	6 915 103	7 072 836
State-controlled entities	67 519	97 690
Other related parties	2 196 269	671 694
<b>Total</b>	<b>9 178 891</b>	<b>7 842 220</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:

	Year ended 31 December 2017	Year ended 31 December 2016
Salaries	105 138	97 608
Short-term bonuses	78 492	79 978
Benefits to the Board of Directors	31 250	28 432
Termination benefits	11 725	1 279
<b>Total</b>	<b>226 605</b>	<b>207 297</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:

	31 December 2017	31 December 2016
Payables to key management	5 478	3 113
<b>Total</b>	<b>5 478</b>	<b>3 113</b>

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**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 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)	-	(221 500)	224 966	-	-
Balance as at 31 December 2016 (including effect of reclassifications)	28 369 324	15 851 072	54 201 331	51 813 089	17 633 540	36 978 145	10 594 715	215 441 216
Additions	24 433	-	67 579	411 682	-	341 479	9 235 802	10 080 975
Transfers	973 800	81 873	1 490 868	1 326 004	500 702	3 262 942	(7 636 189)	-
Disposals	(12 665)	(238)	(1 383 807)	(515 700)	(57 818)	(282 674)	(626 832)	(2 879 734)
Reclassification to non-current assets held for sale	-	-	-	-	-	(7 956)	-	(7 956)
<b>Balance as at 31 December 2017</b>	<b>29 354 892</b>	<b>15 932 707</b>	<b>54 375 971</b>	<b>53 035 075</b>	<b>18 076 424</b>	<b>40 291 936</b>	<b>11 567 496</b>	<b>222 634 501</b>
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	-	20 319	(23 482)	-	-
Balance as at 31 December 2016 (including effect of reclassifications)	(9 307 731)	(8 190 983)	(21 678 416)	(24 069 330)	(4 615 252)	(14 940 278)	(170 485)	(82 972 475)
Charge for the year	(642 216)	(245 797)	(2 563 754)	(1 568 930)	(678 430)	(2 633 947)	-	(8 333 074)
Disposals	9 574	238	1 312 388	347 536	41 280	208 211	163 627	2 082 854
<b>Balance as at 31 December 2017</b>	<b>(9 940 373)</b>	<b>(8 436 542)</b>	<b>(22 929 782)</b>	<b>(25 290 724)</b>	<b>(5 252 402)</b>	<b>(17 366 014)</b>	<b>(6 858)</b>	<b>(89 222 695)</b>
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
<b>Net book value as at 31 December 2017</b>	<b>19 414 519</b>	<b>7 496 165</b>	<b>31 446 189</b>	<b>27 744 351</b>	<b>12 824 022</b>	<b>22 925 922</b>	<b>11 560 638</b>	<b>133 411 806</b>

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**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 2015	26 219 763	15 811 362	51 967 059	46 704 320	16 963 634	32 036 783	17 985 696	207 688 617
Additions	471	-	5 792	499 167	464	162 416	9 278 256	9 946 566
Transfers	2 347 120	39 710	2 315 694	5 923 121	919 476	4 825 338	(16 370 459)	-
Disposals	(151 067)	-	(83 748)	(1 313 519)	(28 534)	(227 208)	(308 049)	(2 112 125)
Reclassification to non-current assets held for sale	(46 963)	-	-	-	-	(44 150)	9 271	(81 842)
<b>Balance as at 31 December 2016</b>	<b>28 369 324</b>	<b>15 851 072</b>	<b>54 204 797</b>	<b>51 813 089</b>	<b>17 855 040</b>	<b>36 753 179</b>	<b>10 594 715</b>	<b>215 441 216</b>
Accumulated depreciation (including impairment)								
Balance as at 31 December 2015	(8 968 562)	(8 036 173)	(19 449 075)	(22 163 393)	(3 996 146)	(12 857 892)	(184 211)	(75 655 452)
Effect of reclassifications	92 451	38 210	(43 886)	(90 789)	(17 634)	21 648	-	-
Balance as at 31 December 2015	(8 876 111)	(7 997 963)	(19 492 961)	(22 254 182)	(4 013 780)	(12 836 244)	(184 211)	(75 655 452)
Charge for the year	(626 910)	(254 457)	(2 260 720)	(1 487 041)	(654 442)	(2 262 433)	-	(7 546 003)
Disposals	107 339	-	80 950	1 143 977	14 092	157 599	8 024	1 511 981
Reclassification to non-current assets held for sale	23 469	-	-	-	-	6 381	-	29 850
Impairment loss (recognized)/reversed during the year	64 482	61 437	(8 848)	(1 472 084)	18 559	17 901	5 702	(1 312 851)
<b>Balance as at 31 December 2016</b>	<b>(9 307 731)</b>	<b>(8 190 983)</b>	<b>(21 681 579)</b>	<b>(24 069 330)</b>	<b>(4 635 571)</b>	<b>(14 916 796)</b>	<b>(170 485)</b>	<b>(82 972 475)</b>
Net book value as at 31 December 2015 (including effect of reclassification)	17 343 652	7 813 399	32 474 098	24 450 138	12 949 854	19 200 539	17 801 485	132 033 165
Net book value as at 31 December 2016	19 061 593	7 660 089	32 523 218	27 743 759	13 219 469	21 836 383	10 424 230	132 468 741

## 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 31 December 2017 the advances given to contractors, which amounted to RUB 1 500 758 thousand, net of VAT (as at 31 December 2016: RUB 954 618 thousand), are recognised within the construction in progress balance.

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

The total amount of capitalised interests that were calculated using 9.22% capitalization rate for the year ended 31 December 2017 is RUB 280 809 thousand (10.24% capitalization rate for the year ended 31 December 2016: RUB 537 126 thousand). The payment of capitalised interests is recorded in Consolidated Statement of Cash Flow in respect of operating activities.

Non-cash additions to property, plant and equipment equal to RUB 538 119 thousand (in 2016 - RUB 602 785 thousand). Non-cash additions to property, plant and equipment in 2017 mostly relate to mutual settlements and property, plant and equipment, received in the network of compensation agreements (in 2016 mostly relate to mutual settlements and property, plant and equipment, received in the network of compensation agreements).

### **Impairment**

Management determined whether there was any indication of impairment of the Group's property, plant and equipment as at 31 December 2017.

The determination of indication of impairment was performed for six cash-generating units: the Thermal Power Plants (TPP) of the Nevsky branch, the Hydro-electric Power Stations (HPS) of the Nevsky branch, St Petersburg Heating Grid, Kolsky and Karelsky branches and the Murmanskaya TPP.

The cash generating units are the same as the reportable segment to which the assets belong (Note 32).

As a result of the impairment test, impairment loss was not recognised as at 31 December 2017.

The following key parameters were used in forecasting the further cash flows: forecasts of electricity and capacity prices and heat tariffs, cost of fuel and planned production volumes for forecasting period.

The indexes used by management in forecasting cash flows were based on the Parameters of Forecasting Ministry of Economic Development of the Russian Federation for periods 2018 - 2020 on 18 September 2017 and on the Parameters of consensus forecast of «Bloomberg», «The Economist Intelligence Unit», «Global Insight» and Ministry of Economic Development of the Russian Federation.

The impairment test as at 31 December 2017 based on Gordon model with five years forecast period and terminal cost with four percent growth rate for terminal period.

**Note 7. Property, Plant and Equipment (continued)**

***Impairment (continued)***

Management made the following key assumptions when estimating the value in use of property, plant and equipment and determining the levels of impairment provisions as at 31 December 2017: the average remaining useful lives have been estimated by management for separate cash generating units on the basis of a report by a consortium of independent appraisers as at 31 December 2006 and taking into account the latest capital investment programme of the Group in respect of information about investments, required for maintaining useful lives, confirming the relevance of the report's conclusions above, and were as follows:

<b>Name of cash generating unit</b>	<b>Average remaining useful lives, years</b>
Kolsky branch	26
Karelsky branch	24
Nevsky branch HPS	23
Nevsky branch TPP	25
St Petersburg Heating Grid	18
Murmanskaya TPP	11

However, the calculation of the recoverable amounts from cash-generating units is highly sensitive to the pre-tax discount rate and change of forecasted tariffs. Pre-tax discount rate (based on weighted average cost of capital) was 13.37% in 2018-2022.

If the pre-tax discount rate was 1 percent higher in the forecasted period, there would be total impairment loss of RUB 5 007 655 thousand recognised as at 31 December 2017. If the electricity and heat tariffs were 5 percent lower in the forecasted period, there would be total impairment loss of RUB 13 489 406 thousand recognised as at 31 December 2017. If decrease remaining useful lives of property, plant and equipment for 5 years, change in recoverable amounts caused the impairment provision of RUB 8 412 661 thousand recognized as at 31 December 2017.

As at 31 December 2016 as a result of the impairment test, value in use for St Petersburg Heating Grid (reportable segment - St Petersburg Heating Grid) was in the amount of RUB 27 680 510 thousand and impairment loss was recognised in the amount of RUB 1 596 580 thousand. Value in use for Karelsky branch (reportable segment - Karelsky branch) was in the amount of RUB 8 593 885 thousand and impairment loss was reversed in the amount of RUB 278 026 thousand. In addition, as at 31 December 2016 the impairment loss was recognised for property, plant and equipment, reclassified to assets held for sale in the amount of RUB 9 271 thousand and impairment loss was reversed for construction in progress in the amount of RUB 14 974 thousand.



## 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:

	31 December 2017	31 December 2016
Investments in LLC TGC Service	-	34 750
Investments in JSC HHC	371 926	360 401
<b>Total investments</b>	<b>371 926</b>	<b>395 151</b>

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

At 31 December 2017, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	% interest held	Country of incorporation
LLC TGC Service	1 922 106	1 911 974	3 333 940	17 077	26%	Russia
JSC HHC	2 128 359	1 384 506	751 446	23 050	50%	Russia
<b>Total</b>	<b>4 050 465</b>	<b>3 296 480</b>	<b>4 085 386</b>	<b>40 127</b>		

At 31 December 2016, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	% interest held	Country of incorporation
LLC TGC Service	1 525 386	1 532 331	2 299 234	53 609	26%	Russia
JSC HHC	2 375 869	1 655 065	699 229	(28 662)	50%	Russia
<b>Total</b>	<b>3 901 255</b>	<b>3 187 396</b>	<b>2 998 463</b>	<b>24 947</b>		

Management could not reliably estimate the fair value of the Group's investment in shares of associates. TGC Service is a Limited Liability Company, so it doesn't issue shares. Shares of JSC Hibinskaya Heating Company are not quoted and recent trade prices are not publicly accessible. The investment is carried at acquisition cost including Group's equity in profit or loss and other comprehensive income of associates.

## Note 9. Income Taxes

Income tax expense comprises the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Current income tax charge	(2 371 132)	(1 116 832)
Deferred income tax charge	131 400	(25 465)
Effect of change in income tax rate, recorded in profit and losses	(352 294)	-
<b>Total Income/(expense) tax charge, recorded in profit and losses</b>	<b>(2 592 026)</b>	<b>(1 142 297)</b>
Movement during the year, recorded in other comprehensive income	26 345	(13 962)
<b>Total Income/(expense) tax charge, recorded in other comprehensive income</b>	<b>26 345</b>	<b>(13 962)</b>
<b>Total income tax charge</b>	<b>(2 565 681)</b>	<b>(1 156 259)</b>

The Group's companies applied the following tax rates in 2017: PJSC "TGC-1" - 17.8%, PJSC "Murmanskaya TPP" - 20%, JSC "St Petersburg Heating Grid" - 16.55% (2016: PJSC "TGC-1" - 17.2%, PJSC "Murmanskaya TPP" - 20%, JSC "St Petersburg Heating Grid" - 15.55%).

Reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2017	Year ended 31 December 2016
<b>Profit before tax</b>	<b>10 519 525</b>	<b>6 466 470</b>
Theoretical tax charge at the statutory tax rate of 20%	(2 103 905)	(1 293 294)
Tax effects of items which are non-deductible for income tax purposes	(337 608)	(3 162)
Effect of tax benefit applying	201 781	154 159
Effect of change in income tax rate	(352 294)	-
<b>Total Income/(expense) tax charge, recorded in profit and losses</b>	<b>(2 592 026)</b>	<b>(1 142 297)</b>
<b>Other comprehensive income</b>	<b>(147 434)</b>	<b>80 892</b>
Theoretical tax charge at the statutory tax rate of 20%	29 487	(16 178)
Effect of tax benefit applying	(2 815)	2 216
Effect of change in income tax rate	(327)	-
<b>Total Income/(expense) tax charge, recorded in other comprehensive income</b>	<b>26 345</b>	<b>(13 962)</b>
<b>Total income tax charge</b>	<b>(2 565 681)</b>	<b>(1 156 259)</b>

### *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 31 December 2017: PJSC «TGC-1» - 17.8%, PJSC «Murmanskaya TPP» - 20%, JSC «St Petersburg Heating Grid» - 16.55% (as at 31 December 2016: JSC «TGC-1» - 17.2%, PJSC «Murmanskaya TPP» - 20%, JSC «St Petersburg Heating Grid» - 15.55%). 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.

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

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

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.

Deferred income tax liabilities						
	31 December 2017	Recognised in profit or losses	Effect of change in income tax rate, recorded in profit and losses	Movement during the year, recorded in other comprehensive income	Effect of change in income tax rate, recorded in other comprehensive income	31 December 2016
Property, plant and equipment	(11 361 680)	(205 176)	(348 039)	-	-	(10 808 465)
Trade and other receivables	(52 508)	410 697	(15 612)	-	-	(447 593)
Trade and other payables	53 080	7 901	1 751	-	-	43 428
Pension liabilities	186 783	11 308	5 758	24 375	(327)	145 669
Other	92 393	(25 676)	3 848	-	-	114 221
<b>Total deferred income tax liability</b>	<b>(11 081 932)</b>	<b>199 054</b>	<b>(352 294)</b>	<b>24 375</b>	<b>(327)</b>	<b>(10 952 740)</b>

Deferred income tax liabilities				
	31 December 2016	Recognised in profit or losses	Movement during the year, recorded in other comprehensive income	31 December 2015
Property, plant and equipment	(10 808 465)	(234 044)	-	(10 574 421)
Trade and other receivables	(447 593)	(1 043)	-	(446 550)
Trade and other payables	43 428	14 703	-	28 725
Pension liabilities	145 669	6 849	(11 946)	150 766
Other	114 221	97 987	-	16 234
<b>Total deferred income tax liability</b>	<b>(10 952 740)</b>	<b>(115 548)</b>	<b>(11 946)</b>	<b>(10 825 246)</b>

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

*Deferred income tax assets and liabilities (continued)*

Deferred income tax assets				
	31 December 2017	Recognised in profit or losses	Recognised in other compre- hensive income	31 December 2016
Property, plant and equipment	(19 024)	(9 105)	-	(9 919)
Tax loss carried forward	13 495	13 495	-	-
Trade and other receivables	441 813	(73 246)	-	515 059
Trade and other payables	8 371	542	-	7 829
Pension liabilities	16 895	660	2 297	13 938
<b>Total deferred income tax assets</b>	<b>461 550</b>	<b>(67 654)</b>	<b>2 297</b>	<b>526 907</b>

Deferred income tax assets				
	31 December 2016	Recognised in profit or losses	Recognised in other compre- hensive income	31 December 2015
Property, plant and equipment	(9 919)	(16 506)	-	6 587
Trade and other receivables	515 059	103 480	-	411 579
Trade and other payables	7 829	2 295	-	5 534
Pension liabilities	13 938	815	(2 016)	15 139
<b>Total deferred income tax assets</b>	<b>526 907</b>	<b>90 084</b>	<b>(2 016)</b>	<b>438 839</b>

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

	31 December 2017	31 December 2016
Long-term receivables net of provision for impairment of RUB 892 519 thousand (31 December 2016: RUB 0 thousand)	250 424	275 376
Advances to suppliers	764 664	812 142
Loan issued	4 370	-
<b>Total other non-current assets</b>	<b>1 019 458</b>	<b>1 087 518</b>

**Note 11. Cash and Cash Equivalents**

	31 December 2017	31 December 2016
Cash in bank and in hand in RUB	4 860 439	2 307 892
Foreign currency accounts in EUR	2 115 159	1 046 990
<b>Total cash and cash equivalents</b>	<b>6 975 598</b>	<b>3 354 882</b>

Non-cash transactions from financing activities are presented in the reconciliation of liabilities from financing transactions overleaf in the table below:

	Long-term loans and borrowings	Short-term loans and borrowings	Total
As at 1 January 2017	17 022 529	10 129 851	27 152 380
Cash Flows	7 019 769	(11 505 652)	(4 485 883)
Non-cash flows:			
Effects of foreign exchange	24 160	24 847	49 007
Loans and borrowings classified as non-current at 31 December 2016, becoming current during 2017	(7 715 108)	7 715 108	-
Interest accruing in period	-	1 994 140	1 994 140
<b>As at 31 December 2017</b>	<b>16 351 350</b>	<b>8 358 294</b>	<b>24 709 644</b>

**Note 11. Cash and Cash Equivalents (continued)**

	Long-term loans and borrowings	Short-term loans and borrowings	Total
As at 1 January 2016	16 807 500	13 030 655	29 838 155
Cash Flows	11 396 626	(16 662 649)	(5 266 023)
Non-cash flows:			
Effects of foreign exchange	(182 371)	(73 037)	(255 408)
Loans and borrowings classified as non-current at 31 December 2015, becoming current during 2016	(10 999 226)	10 999 226	-
Interest accruing in period	-	2 835 656	2 835 656
As at 31 December 2016	17 022 529	10 129 851	27 152 380

**Note 12. Short-term Investments**

	31 December 2017	31 December 2016
Investments in Dubrovskaya LLC	-	-
Loan issued	-	4 370
<b>Total short-term investments</b>	-	<b>4 370</b>

As at 31 December 2017 impairment loss for CJSC "Energoinvest" was in the amount of RUB 29 651 thousand.

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

As at 31 December 2017 the property, plant and equipment with a total net book value amounting to RUB 110 070 thousand were classified as assets held for sale (31 December 2016: RUB 137 114 thousand). Movements of non-current assets held for sale for current and prior periods were as follows:

31 December 2017	Sale	Classification as assets held for sale	31 December 2016
110 070	(34 999)	7 955	137 114

  

31 December 2016	Sale	Classification as assets held for sale	31 December 2015
137 114	(130 724)	51 992	215 846

**Note 14. Trade and other receivables**

	31 December 2017	31 December 2016
Trade receivables, net of provision for impairment of RUB 8 040 152 (31 December 2016: RUB 7 805 692 thousand)	13 861 078	14 250 663
Other receivables, net of provision for impairment of RUB 103 671 (31 December 2016: RUB 77 231 thousand)	1 535 520	600 913
<b>Total financial receivables</b>	<b>15 396 598</b>	<b>14 851 576</b>
Value-added tax receivables	148 841	188 026
Advances to suppliers	1 120 197	2 529 530
Other taxes receivable	12 698	14 597
<b>Total trade and other receivables</b>	<b>16 678 334</b>	<b>17 583 729</b>

**Note 14. Trade and other receivables (continued)**

Total financial receivables by customer type are presented in the table below:

	31 December 2017	31 December 2016
Ultimate domestic customers	11 683 780	11 776 027
Wholesale customers	2 580 912	1 983 775
Free market	1 070 539	999 524
Export customers	61 367	92 250
<b>Total</b>	<b>15 396 598</b>	<b>14 851 576</b>

Total financial receivables on a contract basis as at the reporting date are presented in the table below:

	Fully performing	Past due but not impaired	Impaired
Total financial receivables as at 31 December 2017	11 296 786	4 350 236	9 036 342
Total financial receivables as at 31 December 2016	9 673 646	5 453 306	7 882 923

Fully performing trade receivables involve a number of independent customers who have no recent history of default. Individually insignificant end-user customers make up the majority of performing trade receivables; therefore the credit risk is widely spread.

Past due but not impaired financial receivables have the following ageing structure:

	31 December 2017	31 December 2016
Up to 45 days	2 078 783	2 269 233
From 45 to 90 days	538 783	386 984
More than 90 days	1 732 670	2 797 089
<b>Total</b>	<b>4 350 236</b>	<b>5 453 306</b>

Impaired financial receivables represent overdue accounts receivables from customers which are not expected to be settled. Reversal relates to previously impaired financial receivables which have been collected in current year or expected to be collected in 2018.

Movements in impairment provision for financial receivables are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Provision for impairment as at 1 January	7 882 923	5 321 370
Impairment loss recognised during the period	2 171 985	3 142 282
Impairment loss reversed during the period	(437 124)	(199 870)
Consumed	(581 442)	(380 859)
<b>Provision for impairment as at 31 December</b>	<b>9 036 342</b>	<b>7 882 923</b>
Account receivable directly written-off to profit and loss	9 667	18 724

Increase of impairment provision for financial receivables in 2017 caused by deterioration of collectability of ultimate domestic customers and wholesale customers, including the volatility of economic situation in Russian Federation (Note 2).

## Note 15. Inventories

	31 December 2017	31 December 2016
Fuel	2 428 773	2 095 129
Spare parts	145 247	109 480
Raw materials and other supplies	543 979	563 402
<b>Total inventories</b>	<b>3 117 999</b>	<b>2 768 011</b>

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

## Note 16. Share capital

### *Share capital*

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

### *Share premium*

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

### *Merger reserve*

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

### *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.

At the General Shareholders' Meeting held on 19 June 2017, the decision was made to pay a total of RUB 1 331 043 thousand in annual dividends for 2016 (2016: RUB 936 619 thousand for 2015).

**Note 17. Long-term Borrowings**

	31 December 2017	31 December 2016
Bank borrowings and bonds issued	16 351 350	17 022 529
<b>Total long-term borrowings</b>	<b>16 351 350</b>	<b>17 022 529</b>

	Currency	Contractual interest rate	Maturity	31 December 2017		31 December 2016	
				Carrying amounts	Fair values	Carrying amounts	Fair values
Long-term bonds (03)	RUB	6.9%	2021	2 004 540	1 859 243	2 008 680	2 008 680
Long-term bonds (04)	RUB	6.9%	2022	2 049 900	1 844 888	2 103 380	2 103 380
Gazprombank	RUB	10-10.9%	2017	-	-	2 751 461	2 714 466
Gazprom	RUB	7.92%	2022	4 900 000	4 418 487	-	-
Bank Rossiya		8.9%	2020	3 098 000	3 040 631	-	-
Sberbank RF	RUB	8.05-8.4%	2019	4 561 342	4 491 424	4 185 800	4 084 552
NORDIC Investment Bank	RUB	ЕВРИБОР + 3%	2019	639 773	639 773	889 134	889 134
ROSBANK	RUB	11.5%	2017	-	-	106 633	105 379
VTB	RUB	7.9-8.10%	2018	6 208 325	6 131 582	6 550 181	6 400 774
				<b>23 461 880</b>	<b>22 426 028</b>	<b>18 595 269</b>	<b>18 306 365</b>
Less: current portion							
Long-term bonds (03)	RUB	6.9%	2021	(4 540)	(4 540)	(8 680)	(8 680)
Long-term bonds (04)	RUB	6.9%	2022	(49 900)	(49 900)	(103 380)	(103 380)
Gazprombank	RUB	10-10.9%	2018	-	-	(353 461)	(353 461)
Sberbank RF	RUB	8.05-8.4%	2019	(525 839)	(522 399)	(685 800)	(685 800)
ROSBANK	RUB	11.5%	2017	-	-	(106 633)	(105 379)
VTB	RUB	7.9-8.10%	2018	(6 208 325)	(6 131 582)	(14 678)	(14 678)
NORDIC Investment Bank	EUR	ЕВРИБОР + 3%	2019	(321 926)	(321 926)	(300 108)	(300 108)
<b>Total long-term bank borrowings and bonds issued</b>				<b>16 351 350</b>	<b>15 395 681</b>	<b>17 022 529</b>	<b>16 734 879</b>

The exposure of the Group's borrowings to interest rate changes at the end of the reporting period is disclosed in Note 31.

**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. There were no breaches of covenants in 2017 and 2016.



#### Note 18. Other Non-Current Liabilities

	31 December 2017	31 December 2016
Long-term accounts payable	58 219	115 052
<b>Total other non-current liabilities</b>	<b>58 219</b>	<b>115 052</b>

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

#### Note 19. Post-Employment Benefits Obligations

The Group operates defined benefit and defined contribution pension plans. The Group has a contract with the “Non-state pension fund of the electrical energy industry” (“NPFE”) for some of these pension plans and contracts with NPF “Gazfond” (“Gazfond”). The Group runs the other plans independently of external pension funds. Defined contribution pension plans are considered immaterial for disclosure.

Through the “Gazfond”, the defined benefit pension plan provides for the payment, on retirement, of monthly pension benefits. The Group makes annual contributions to the solidarity account in the non-state pension fund. Contribution size is defined by the Group’s budget and is considered to be at least enough to finance running pension benefits. No part of this contribution is recognised as plan asset as far as the Group can recall this money. Pension benefits are paid from the solidarity account on a “pay-as-you-go” basis.

Through the “NPFE”, the defined benefit pension plan provides for the payment, on retirement, of monthly pension benefits. Upon retirement the pension liability of the Group is completely settled by contributions to individual account of each individual participant. Contribution size is defined by the Group’s budget and is considered to be at least enough to finance running pension benefits. There are no accumulations on the individual accounts of active employees of the plan and therefore there are no plan assets.

In addition to the NPFE and Gazfond pension plan, the Group provides defined-benefit financial support to old-age pensioners, who have completed certain service periods with the Group, and other post-employment benefits such as lump-sum payments on retirement, lump-sum financial aid, etc.

As at 31 December 2017 the Group engaged an independent actuarial company to evaluate its pension liabilities.

The tables below provide information about the benefit obligations, plan assets and actuarial estimates used for the year ended 31 December 2017 and 31 December 2016.

Pension plan was qualified as unfunded, plan assets are considered null.

**Note 19. Post-Employment Benefits Obligations (continued)**

The principal actuarial assumptions are as follows:

Principal actuarial assumptions (%):	31 December 2017	31 December 2016
Discount rate for benefits at accumulation phase	7.5%	8.5%
Indexation of fixed benefits	4.3%	5%
Life expectancy at age of 55 (women), years	31.6	25.9
Life expectancy at age 60 (men), years	22.7	16.2
	Curve in depend on service (annual average rate)	Curve in depend on age (annual average rate)
Personnel rotation	4.6%	4.5%

Changes in the present value of the Group's defined benefit obligations are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
<b>Benefit obligations as at the beginning of the period</b>	<b>923 938</b>	<b>958 732</b>
Current service cost	39 695	34 960
Interest cost	72 749	89 476
(Gain)/loss from remeasurements of post-employment benefit obligations	170 429	(90 501)
Actuarial (gain)/losses - changes in financial assumptions	36 535	(83 727)
Actuarial (gain)/losses - changes in demographic assumptions	136 273	-
Actuarial (gain)/losses - adjustments	(2 379)	(6 774)
Program benefits	(68 072)	(68 729)
<b>Benefit obligations as at the end of the period</b>	<b>1 138 739</b>	<b>923 938</b>

Amounts recognised in profit or loss in the Consolidated Statement of Profit or Loss and Other Comprehensive Income:

	Year ended 31 December 2017	Year ended 31 December 2016
Cost of service:		
Current service cost	39 695	34 960
Interest expenses, net	72 749	89 476
(Gain)/loss from remeasurements of post-employment benefit obligations	22 995	(9 609)
Actuarial (gain)/losses - changes in financial assumptions	2 330	(5 784)
Actuarial (gain)/losses - changes in demographic assumptions	32 951	-
Actuarial (gain)/losses - adjustments	(12 286)	(3 825)
<b>Total pension expenses, net</b>	<b>135 439</b>	<b>114 827</b>

**Note 19. Post-Employment Benefits Obligations (continued)**

Amounts recognised in other comprehensive income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, that will not be reclassified to profit or loss:

	Year ended 31 December 2017	Year ended 31 December 2016
Loss/(gain)/loss from remeasurements of post-employment benefit obligations	147 434	(80 892)
Actuarial losses/(gain) - changes in financial assumptions	34 205	(77 943)
Actuarial losses - changes in demographic assumptions	103 322	-
Actuarial (gain)/losses - adjustments	9 907	(2 949)
<b>Total comprehensive income</b>	<b>147 434</b>	<b>(80 892)</b>

Best estimate of contributions expected to be paid to the plan during the annual period beginning after 31 December 2017 equals to RUB 72 780 thousands.

Information about estimated maturity thresholds of the defined benefit obligations is presented below:

	Not later than one year	Later than one year and not later than two years	Later than one year and not later than five years	Later than five years	Total
NPO	19 144	17 234	47 712	184 354	268 444
Lump sum benefits	33 255	33 326	99 825	243 847	410 253
Monthly benefits	20 381	20 040	55 482	364 139	460 042
<b>Total</b>	<b>72 780</b>	<b>70 600</b>	<b>203 019</b>	<b>792 340</b>	<b>1 138 739</b>

Sensitivity analysis results of the defined benefit obligations as at 31 December 2017 is presented below. Sensitivity analysis was calculated for four parameters: discount rate, indexed fixed benefits, life expectancy and personnel rotation.

	Decrease	Calculated rate	Increase
<b>Discount rate</b>	6.5%	7.5%	8.5%
absolute value	1 287 716	1 138 739	1 017 377
change in obligations (%)	13.0%	-	(11.0%)
<b>Indexation of fixed benefits</b>	3.3%	4,3%	5.3%
absolute value	1 012 927	1 138 739	1 291 182
change in obligations (%)	(11.0%)	-	13.0%

	Increase of life expectancy for 10% in each age	Calculated rate	Decrease of life expectancy for 10% in each age
<b>Life expectancy</b>			
55 women	30.8	31.6	32.5
60 men	21.7	22.7	23.7
absolute value	1 114 961	1 138 739	1 164 386
change in obligations (%)	(-2.1%)	-	2.3%

	Increase of personnel rotation for 1%	Calculated rate	Decrease of personnel rotation for 1%
<b>Personnel rotation</b>			
absolute value	1 128 419	1 138 739	1 149 387
change in obligations (%)	(0.9%)	-	0.9%

## Note 20. Short-Term Borrowings

	31 December 2017	31 December 2016
Bank borrowings and bonds issued	8 358 294	10 129 851
<b>Total short-term borrowings</b>	<b>8 358 294</b>	<b>10 129 851</b>

Name of lender	Currency	Contractual interest rate	31 December 2017		31 December 2016	
			Carrying amounts	Fair values	Carrying amounts	Fair values
Gazprom	RUB	10.5%	-	-	7 500 000	7 473 820
Gazprombank	RUB	10-10.5%	1 247 764	1 247 764	810 323	805 796
VTB	RUB	10.65-11.9%	-	-	246 788	242 878
<b>Current portion of long-term borrowings:</b>						
Long-term bonds (03)	RUB	6.9%	4 540	4 540	8 680	8 680
Long-term bonds (04)	RUB	6.9%	49 900	49 900	103 380	103 380
Sberbank RF	RUB	8.05-8.4%	525 839	522 399	685 800	685 800
Gazprombank	RUB	9.2-9.5%	-	-	353 461	353 461
ROSBANK	RUB	11.5%	-	-	106 633	105 379
NORDIC Investment Bank	EUR	ЕВРИБОР+3%	321 926	321 926	300 108	300 108
VTB	RUB	9.6-9.65%	6 208 325	6 131 582	14 678	14 678
<b>Total bank borrowings and bonds issued</b>			<b>8 358 294</b>	<b>8 278 111</b>	<b>10 129 851</b>	<b>10 093 980</b>

## Note 21. Trade and other payables

	31 December 2017	31 December 2016
Trade accounts payable	4 090 222	3 758 463
Accounts payable for capital construction	1 358 094	1 692 314
Accrued liabilities and other payables	359 743	2 221 501
<b>Total financial payables</b>	<b>5 808 059</b>	<b>7 672 278</b>
Advances from customers	1 528 443	1 257 235
Current employee benefits	507 243	504 238
<b>Total trade and other payables</b>	<b>7 843 745</b>	<b>9 433 751</b>

## Note 22. Other Taxes Payable

	31 December 2017	31 December 2016
VAT payable	856 984	657 886
Property tax	439 280	273 563
Employee taxes	192 763	204 218
Personal Income Tax	64 163	61 610
Other taxes	46 326	8 253
<b>Total taxes payable</b>	<b>1 599 516</b>	<b>1 205 530</b>

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

### Note 23. Other Sales

	31 December 2017	31 December 2016
Connection of customers to heating network	993 148	961 059
Installation of heating meters	101 996	13 349
Maintenance of electrical facilities	66 959	87 254
Water usage	31 150	32 720
Handling of heating oil	30 444	18 576
Revenue from transit of rail cars	2 846	22 422
Other	199 267	96 826
<b>Total other sales</b>	<b>1 425 810</b>	<b>1 232 206</b>

### Note 24. Government Grants

In 2017 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 71 283 thousand (in 2016 - RUB 269 320 thousand).

### Note 25. Operating Expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Fuel	31 893 100	29 487 690
Depreciation of property, plant and equipment	8 333 074	7 546 003
Employee benefits	7 620 292	7 274 256
Electricity, capacity and heat purchases	7 059 650	6 168 569
Repairs and maintenance	3 537 516	3 496 192
Water usage expenses	2 837 862	2 600 231
Heat and electricity distribution	2 598 791	2 128 372
Operating lease expenses	2 518 214	466 165
Taxes other than income tax	1 778 263	1 389 781
Provision for impairment of accounts receivable	1 744 527	2 961 136
Other materials	848 440	813 100
Fees of electricity market operators	821 119	813 995
Gain on disposal of property, plant and equipment	551 315	291 781
Security expenses	550 195	538 664
IT services	331 592	871 494
Insurance cost	286 192	285 617
Fees of electricity market operators	255 027	247 689
Telecommunication expenses	235 900	232 920
Amortisation of intangible assets	105 259	123 983
Consulting, legal and audit expenses	85 748	167 846
Amortisation of investment property	16 098	14 063
Provision for inventories	-	71 678
Other operating expenses	1 999 323	1 810 944
<b>Total operating expenses</b>	<b>76 007 497</b>	<b>69 802 169</b>

Employee benefits are generally presented by wages and salaries. Social insurance contributions are included in "Employee benefits" in the amount of RUB 1 724 226 thousand (in 2016 - in the amount of RUB 1 643 768 thousand).

In 2017 amount of RUB 457 394 thousand of purchases and sales was settled by mutual cancellation (in 2016 - RUB 404 906 thousand).

## Note 26. Other Operating Income

	Year ended 31 December 2017	Year ended 31 December 2016
Operating lease income	174 597	185 150
Insurance	144 604	114 093
Fines and penalties	131 167	196 903
Written-off trade and other payables	11 409	9 775
Gain on sale of inventory	6 813	10 572
Other operating income	58 739	39 032
<b>Total other operating income</b>	<b>527 329</b>	<b>555 525</b>

## Note 27. Finance Income and Finance Costs

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income	161 416	203 380
Exchange differences (net)	79 153	57 217
Effect of discounting of financial instruments	88 003	11 645
<b>Finance income</b>	<b>328 572</b>	<b>272 242</b>
Interest expense	(1 786 080)	(2 388 006)
Effect of discounting of financial instruments	(8 784)	(18 693)
<b>Finance costs</b>	<b>(1 794 864)</b>	<b>(2 406 699)</b>

## Note 28. Earnings per Share

	Year ended 31 December 2017	Year ended 31 December 2016
Profit attributable to owners of the Company	7 607 038	5 386 680
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>0.0014</b>

## Note 29. 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 31 December 2017, were: 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy (as at 31 December 2016 - 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy).

## Note 29. Commitments (continued)

### *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 31 December 2017, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment in the amount of RUB 13 223 650 thousand (31 December 2016: RUB 12 178 796 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.

### *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:

	31 December 2017	31 December 2016
Not later than one year	103 934	100 365
Later than one year and not later than five years	396 638	389 312
Later than five years	2 612 342	2 565 098
<b>Total operating lease</b>	<b>3 112 914</b>	<b>3 054 775</b>

## Note 30. Contingencies

### *Political environment*

The Group's operations and earnings continue, intermittently and to varying degrees, to be affected by ongoing political, legislative, fiscal and regulatory developments (including those related to environmental protection) in Russia.

### *Insurance*

The insurance industry in the Russian Federation is in the process of development, and many forms of insurance protection common in developed markets are not yet generally available.

The Group has limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to risks for which it does not have insurance.

Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain operating assets could have a material adverse effect on the Group's operations and financial position.

### *Legal proceedings*

The Group is a party to certain legal proceedings arising in the ordinary course of business. It is management's view that there are no current legal proceedings or other claims outstanding and not provided for which, on their conclusion, will have an adverse material effect on the Group's financial standing.

### **Note 30. Contingencies (continued)**

#### ***Tax legislation***

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As at 31 December 2017 and 31 December 2016 the Group estimates that it has no potential liabilities from exposure to probable or possible tax risks.

In addition, tax and other legislation do not specifically address all the aspects of the Group's reorganisation related to the electricity and utilities sector reforms. Therefore, the various interpretations, transactions and resolutions that were part of the reorganisation and reform process may give rise to tax/legal challenges.

#### ***Environmental matters***

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately.

The Group owns the ash dumps on the territory of Russian Federation. In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" the Group has a liability for a land reclamation in respect of the lands used as the ash dumps. The Group's management considers that the liability cannot be reliably estimated because there are no plans on transferring the station on other types of fuel resulting in impossibility of definition the terms of ash dumps liquidation and land reclamation works. The Group's management also considers that estimated liability for the land reclamation does not influence significantly the Group's Statements of Financial Position, Profit or Loss and Other Comprehensive Income and Cash Flows. Management believes that there are no other legal or contractual obligations related to decommissioning or other disposal of assets.

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



## Note 31. Financial Risk Management

Within the Group, the risk management function is carried out with regard to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure remains within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

### Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Financial assets, which potentially subject the Group to credit risk exposure, consist principally of trade receivables.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

Cash transactions are conducted through high-credit-quality financial institutions. Cash is placed in financial institutions, which are considered at time of deposit to be at minimal risk of default.

The table below shows the rating of and balances with major banks at the reporting dates:

	Rating agency	National scale ratings	Long-term RDE* in foreign currency	31 December 2017	31 December 2016
<b>Cash at bank and cash equivalents</b>					
Bank Rossiya	Expert RA	RuAA	-	4 197 004	80 381
Sberbank RF	Moody's	-	Ba2	2 132 184	1 052 794
Gazprombank	Moody's	-	Ba2	545 997	2 209 567
VTB	PA/Moody's	ruAAA	Ba2	98 475	9 965
Other	-	-	-	1 938	2 175
<b>Total cash at bank and cash equivalents</b>				<b>6 975 598</b>	<b>3 354 882</b>

\* Rating of default of the emitent

At the reporting date there were no significant credit risk concentrations. The maximum exposure to credit risk at the reporting date without taking account of any collateral held is as follows:

	31 December 2017	31 December 2016
Cash and cash equivalents (Note 11)	6 975 598	3 354 882
Short - term investments (Note 12)	10 144	4 370
Total short-term financial receivables (Note 14)	15 396 598	14 851 576
Total long-term financial receivables (Note 10)	1 019 458	1 087 518
<b>Total</b>	<b>23 401 798</b>	<b>19 298 346</b>

**Note 31. Financial Risk Management (continued)**

**Market risk**

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that is deemed acceptable, and this is monitored on a daily basis. However, the use of this approach does not prevent losses outside these limits in the event of more significant market movements.

Sensitivities to the market risks detailed below are based on a change in one factor while all other factors remain constant. In practice this is unlikely to occur and there may be correlations between changes in some factors- such as, for example, changes in interest rate and foreign currency rates.

**Currency risk**

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates in its financial position and cash flows. As at 31 December 2017, the Group had the following currency positions:

	RUB	USD	EUR	Total
<b>Monetary financial assets</b>				
Cash and cash equivalents	4 860 439	-	2 115 159	6 975 598
Total short-term financial receivables	15 335 230	-	61 367	15 396 597
Advances to suppliers	1 117 553	2 645	-	1 120 198
Total long-term financial receivables	1 019 458	-	-	1 019 458
<b>Total financial assets</b>	<b>22 332 680</b>	<b>2 645</b>	<b>2 176 526</b>	<b>24 511 851</b>
<b>Monetary financial liabilities</b>				
Long-term borrowings	(16 033 503)	-	(317 847)	(16 351 350)
Short-term borrowings	(8 036 368)	-	(321 926)	(8 358 294)
Advances from customers	(1 528 360)	-	(83)	(1 528 443)
Total other financial liabilities	(5 866 278)	-	-	(5 866 278)
<b>Total financial liabilities</b>	<b>(31 464 509)</b>	<b>-</b>	<b>(639 856)</b>	<b>(32 104 365)</b>
<b>Net balance sheet position</b>	<b>(9 131 829)</b>	<b>2 645</b>	<b>1 536 670</b>	<b>(7 592 514)</b>

As at 31 December 2016, the Group had the following currency positions:

	RUB	USD	EUR	Total
<b>Monetary financial assets</b>				
Cash and cash equivalents	2 307 892	-	1 046 990	3 354 882
Total short-term financial receivables	14 756 500	2 826	92 250	14 851 576
Total long-term financial receivables	1 087 518	-	-	1 087 518
<b>Total financial assets</b>	<b>18 151 910</b>	<b>2 826</b>	<b>1 139 240</b>	<b>19 293 976</b>
<b>Monetary financial liabilities</b>				
Long-term borrowings	(16 433 503)	-	(589 026)	(17 022 529)
Short-term borrowings	(9 829 743)	-	(300 108)	(10 129 851)
Total other financial liabilities	(7 787 330)	-	-	(7 787 330)
<b>Total financial liabilities</b>	<b>(34 050 576)</b>	<b>-</b>	<b>(889 134)</b>	<b>(34 939 710)</b>
<b>Net balance sheet position</b>	<b>(15 898 666)</b>	<b>2 826</b>	<b>250 106</b>	<b>(15 645 734)</b>

**Note 31. Financial Risk Management (continued)**

**Currency risk (continued)**

As at 31 December 2017, if the Russian Rouble had weakened/strengthened by 30% (2016: 30%) against the EURO with all other variables remaining constant, the year's profit would have been RUB 461 001 thousand (2016: RUB 75 032 thousand) lower/higher.

As at 31 December 2017, if the Russian Rouble had weakened/strengthened by 30% against the US Dollar with all other variables remaining constant, the year's profit would have been RUB 793 thousand lower/higher (2017: RUB 848 thousand).

Since the Group does not hold any financial instruments attributed to equity, the effect of changes to the interest rate on equity would be the same as that on post-tax profit.

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's liquidity risk management includes maintaining sufficient cash to fund operations and the investment programme, and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities, dividing them into relevant maturity groupings based on the remaining period to the contractual maturity date in the consolidated statement of financial position and the contractual undiscounted amounts.

	Carrying amount	Contractual cash flows							
		Total	0 - 6 m	6 - 12 m	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
<b>As at 31 December 2017</b>									
Long-term and short-term bonds	8 954 440	11 417 055	330 080	275 440	547 680	547 680	2 547 680	7 168 495	-
Long-term and short-term loans	15 755 204	17 160 774	8 471 738	650 250	4 717 044	3 321 742	-	-	-
Total other financial liabilities	5 866 278	5 870 791	3 224 188	2 583 871	39 524	13 506	7 779	1 923	-
<b>Total financial liabilities</b>	<b>30 575 922</b>	<b>34 448 620</b>	<b>12 026 006</b>	<b>3 509 561</b>	<b>5 304 248</b>	<b>3 882 928</b>	<b>2 555 459</b>	<b>7 170 418</b>	<b>-</b>
<b>As at 31 December 2016</b>									
Long-term and short-term bonds	11 612 060	13 485 300	8 177 720	137 640	275 280	275 280	275 280	2 275 280	2 068 820
Long-term and short-term loans	15 540 320	17 601 390	1 979 544	1 876 464	11 851 857	1 893 525	-	-	-
Total other financial liabilities	7 787 330	7 800 626	3 573 046	4 099 232	73 432	31 968	13 330	7 695	1 923
<b>Total financial liabilities</b>	<b>34 939 710</b>	<b>38 887 316</b>	<b>13 730 310</b>	<b>6 113 336</b>	<b>12 200 569</b>	<b>2 200 773</b>	<b>288 610</b>	<b>2 282 975</b>	<b>2 070 743</b>

## Note 31. Financial Risk Management (continued)

### *Interest rate risk*

The Group's operating profits and cash flows from operating activity are largely independent of changes in market interest rates. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

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

	Carrying amount	
	31 December 2017	31 December 2016
<b>Fixed rate instruments</b>		
Long-term loans and borrowings	12 033 503	12 433 503
Short-term loans and borrowings	7 981 928	9 717 683
<b>Variable rate instruments</b>		
Long-term loans and borrowings	4 317 847	4 589 026
Short-term loans and borrowings	376 366	412 168
<b>Total financial instruments</b>	<b>24 709 644</b>	<b>27 152 380</b>

The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

A general increase/decrease of seven percent (as at 31 December 2016 seven percent) in interest rates would have decreased/increased the Group's profit after income tax for the year ended 31 December 2017 by approximately RUB 333 173 thousand (for the year ended 31 December 2016: RUB 362 421 thousand). The effect on equity (retained earnings) would be the same as on post-tax profit.

### *Fair value sensitivity analysis for fixed rate instruments*

In 2017 the Group did not hold any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group did not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rate at the reporting date would not affect profit or loss.

### *Fair values*

Management believes that the fair values of the Group's other financial assets and liabilities approximate their carrying values as of both year ends, except fair value of borrowings as at 31 December 2017 (Note 17).

### *Capital management*

The Group's companies complies with the capital requirements for the joint-stock companies set by the legislation of the Russian Federation:

- share capital cannot be less than 1000 sizes of the minimum wage on the date of registration of the company;
- in case exceeding the amount of the share capital over the net assets, calculated based on the local legislation, the share capital should be decreased to the value of net assets;
- if a minimum level of share capital exceeds the amount of net assets, calculated based on the local legislation, the company should be liquidated.

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

### **Note 31. Financial Risk Management (continued)**

#### ***Capital management (continued)***

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or issue new shares. The amount of capital defined as equity attributable to shareholders that the Group managed as of 31 December 2017 was RUB 107 829 983 thousand (2016: RUB 101 677 899 thousand). Capital management is linked to maintaining certain financial ratios to comply with bank-imposed covenants (Notes 17 and 20).

### **Note 32. Segment Information**

The Group generates its revenues from electricity and heat power generation in one geographical segment: the Russian Federation (Note 3). The Group's major customers are regional electricity wholesalers. The Group has no single customer that accounts for 10% or more of its total revenue.

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The functions of the CODM are performed by Company's Management Board.

The Group's primary activity is producing electricity and heatpower and capacity. The technology of electricity and heatpower production does not allow the segregation of electricity and heatpower segments.

The Group's segments are strategic business units that focus on different customers. They are managed separately due to significant decentralisation and the distances that separate Company branches. The Group uses six primary reportable segments: TPP of Nevsky branch, HPS of Nevsky branch, St. Petersburg Heating Grid, Kolsky branch, Karelsky branch, Murmanskaya TPP. All reportable segments are located within the Russian Federation. In evaluating segment results and allocating the Group's economic resources the Management Board uses the financial information provided below prepared in accordance with Russian Accounting Standards (RAS). Differences between the above-mentioned financial indicators analysed by the Management Board and IFRS financial information are caused by different approaches applied in IFRS and RAS. The main differences relate to the respective carrying values of property, plant and equipment.

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**Note 32. Segment Information (continued)**

Year ended 31 December 2017	TPP of Nevsky branch	HPS of Nevsky branch	St. Petersburg Heating Grid	Kolsky branch	Karelsky branch	Murman- skaya TPP	Unallocated segments	Total segments	Eliminations	Adjustments	Total operating segments
	50 889 089	4 964 216 358 261	8 495 894 -	11 099 212 1 003 931	8 033 525 -	5 607 187 -	7 865 114 -	96 954 237 1 362 192	(9 589 342) -	29 807 -	87 394 702 1 362 192
	6 732 983	431 774	2 449 688	726 306	448 339	43 862	85 717	10 918 669	-	(2 585 595)	8 333 074
	4 216 917	3 245 939	523 231	3 798 229	1 998 289	155 692	(4 460 952)	9 477 345	(210 595)	1 252 775	10 519 525
<b>Year ended 31 December 2016</b>											
	44 316 668	4 478 730 373 006	7 864 018 -	11 108 581 875 678	7 259 487 -	5 619 840 -	7 348 048 -	87 995 372 1 248 684	(8 808 100) -	(296 170) -	78 891 102 1 248 684
	6 201 735	409 874	2 277 689	694 092	400 141	43 286	68 192	10 095 009	-	(2 549 006)	7 546 003
	2 359 237	2 871 016	320 825	4 522 241	1 215 033	306 853	(6 513 076)	5 082 129	(106 372)	1 490 713	6 466 470
Other material non- cash items:											
Impairment loss (recognized)/reversed	(9 271)	-	(1 596 580)	-	278 026	14 974	-	(1 312 851)	-	-	(1 312 851)

**Note 32. Segment Information (continued)**

A reconciliation of management financial information prepared based on RAS to IFRS figures is provided as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Reclassification of government grant of Murmanskaya TPP from revenue to other income	(30 254)	(255 663)
Other adjustments	60 061	(40 507)
	<b>29 807</b>	<b>(296 170)</b>
Depreciation adjustment	2 585 595	2 549 006
Reclassification of government grant of Murmanskaya TPP from revenue to other income	30 254	255 663
Reversal/(Charge) of property, plant and equipment impairment, net	-	(1 312 851)
Actuarial losses	(67 365)	(46 097)
Effect of discounting	79 218	(7 048)
Income of share revaluation of Murmanskaya TPP	(2 035 502)	-
Other adjustments	630 768	348 210
	<b>1 222 968</b>	<b>1 786 883</b>
<b>Total adjustments to profit before income tax</b>	<b>1 252 775</b>	<b>1 490 713</b>

Segment's assets are disclosed below:

	31 December 2017	31 December 2016
TPP of Nevsky branch	54 846 394	58 434 040
HPS of Nevsky branch	8 724 655	8 652 583
St. Petersburg Heating Grid	41 730 522	41 110 956
Kolsky branch	13 110 121	12 845 800
Karelsky branch	6 376 082	5 891 298
Murmanskaya TPP	3 532 493	2 873 916
Unallocated segments	42 323 133	37 432 867
<b>Total segments</b>	<b>170 643 400</b>	<b>167 241 460</b>
Eliminations	(20 439 250)	(18 094 467)
Adjustments	13 583 553	10 623 961
<b>Total assets</b>	<b>163 787 703</b>	<b>159 770 954</b>

A reconciliation of management financial information prepared based on RAS to IFRS figures is provided as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Property, plant and equipment adjustment	15 196 485	12 141 121
Deferred tax assets	(4 496)	12 462
Discounting of accounts receivables and investments	(118 531)	(206 534)
Other adjustments	(1 489 905)	(1 323 088)
<b>Total assets adjustments</b>	<b>13 583 553</b>	<b>10 623 961</b>

### Note 32. Segment Information (continued)

Unallocated assets are the assets which cannot be directly related to a particular operating segment, and also those which from the decision-making perspective fall outside the operating segment's control. These assets include short-and long-term trade receivables, cash in bank, deposits, inventories and fixed assets which are the subject to headquarter control.

The Group's management does not review the information relating to the operating segment's liabilities in order to make decisions about resource allocation since a significant proportion of the payment transactions are centralised.

### Note 33. Non-Controlling Interest

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

	Place of business (and country of incorporation if different)	Proportion of non- controlling interest	Profit or (loss) attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
<b>Year ended</b>					
<b>31 December 2017</b>					
JSC St Petersburg					
Heating Grid	Saint-Petersburg	25%	319 266	8 628 457	-
PJSC Murmanskaya TPP	Murmansk	1,3%	1 194	799	-
<b>Total</b>			<b>320 460</b>	<b>8 629 256</b>	
<b>Year ended</b>					
<b>31 December 2016</b>					
JSC St Petersburg					
Heating Grid	Saint-Petersburg	25%	(99 517)	8 306 247	-
PJSC Murmanskaya TPP	Murmansk	1,3%	37 010	(274)	-
<b>Total</b>			<b>(62 507)</b>	<b>8 305 973</b>	

The summarised financial information of JSC St Petersburg Heating Grid and PJSC Murmanskaya TPP was as follows at 31 December 2017:

	Current assets	Non- current assets	Current liabilities	Non- current liabilities	Revenue	Profit/ (loss)	Total compre- hensive income	Cash flows
<b>Year ended 31 December 2017</b>								
JSC St Petersburg Heating Grid								
	1 635 865	32 154 036	3 030 230	5 592 690	8 539 885	1 277 065	1 288 842	40 493
PJSC Murmanskaya TPP								
	2 169 685	1 454 422	1 925 058	1 371 173	5 571 209	90 482	81 292	101 367
<b>Total</b>	<b>3 805 550</b>	<b>33 608 458</b>	<b>4 955 288</b>	<b>6 963 863</b>	<b>14 111 094</b>	<b>1 367 547</b>	<b>1 370 134</b>	<b>141 860</b>
<b>Year ended 31 December 2016</b>								
JSC St Petersburg Heating Grid								
	1 454 348	30 895 872	3 614 104	4 647 379	7 878 469	(398 067)	(386 073)	(17 713)
PJSC Murmanskaya TPP								
	1 735 821	1 241 091	1 373 940	1 356 389	5 327 356	241 092	249 154	(37 683)
<b>Total</b>	<b>3 190 169</b>	<b>32 136 963</b>	<b>4 988 044</b>	<b>6 003 768</b>	<b>13 205 825</b>	<b>(156 975)</b>	<b>(136 919)</b>	<b>(55 396)</b>

There are no significant restrictions for entity's ability to access or use the assets and settle the liabilities of the Group.



**Note 34. Events after the Reporting Period**

***Borrowings***

During the period between reporting date and signing date, the Group received long-term borrowings of RUB 3 860 000 thousand and short-term borrowings of RUB 1 258 900 thousand.

During the period between reporting date and signing date, the Group repaid borrowings a total of RUB 11 222 303 thousand.

Approved for issue and signed on 7 March 2018.

General Director



A. V. Barvinok

Chief Accountant



R. V. Stanishevskaya