

Translation from the Russian original

**PUBLIC JOINT STOCK COMPANY
TERRITORIAL GENERATING
COMPANY NO. 1 AND ITS SUBSIDIARIES**

Consolidated Financial Statements
for the year ended 31 December 2019
and Independent Auditor's Report



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Translation from the Russian original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of PJSC "Territorial Generating Company No. 1"

Opinion

We have audited the consolidated financial statements of PJSC "Territorial Generating Company No.1" (OGRN 1057810153400, Build. 2A, 16 Dobrolyubova Avenue, Saint-Petersburg, 198188, Russian Federation) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 2019, 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 impairment of financial assets

We paid special attention to the issue of determining the allowance for impairment of financial assets because the appraisal process is complex and requires management to make significant judgments (Note 14 to the consolidated financial statements).

Our audit procedures for management estimates in respect of accounts receivable impairment have included:

- review of application of the “expected credit losses” model in relation to Group accounts receivable;
- review of aggregation of the trade receivables based on the general credit risk characteristics, type of debt and terms of delay;
- review of calculation of the expected rates of losses for accounts receivable based on historical data.

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

Assessment of impairment of property, plant and equipment

At each reporting date, the Group checks for signs of impairment of property, plant and equipment and, if necessary, conducts appropriate testing. 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 checking the initial data for the test and analyzing cash flows, to which the results of the impairment test are the most sensitive and which have the most significant effect on determining the recoverable amount of property, plant and equipment

The results of the impairment test and the key assumptions used are presented in Note 7 to the consolidated financial statements.

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

Other Information

Management company LLC Gazprom Energoholding (management) is responsible for the other information. The other information comprises the information included in the Annual report, Issuer's quarterly report for the 1st quarter of 2020, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report, Issuer's quarterly report for the 1st quarter of 2020 are 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, Issuer's quarterly report for the 1st quarter of 2020, 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

Management company LLC Gazprom Energoholding 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.

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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.

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.B. Baliakin

Audit company:

BDO Unicon Aktsionernoe Obshchestvo

Main State Registration Number: 1037739271701

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Member of the Self-regulatory organization of auditors Association "Sodruzhestvo"

Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: 12006020340

10 March 2020

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JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019
(in thousands of Russian Roubles)

| | Notes | 31 December 2019 | 31 December 2018 |
|--|-------|--------------------|--------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 148 606 618 | 138 343 333 |
| Investment property | | 164 166 | 174 440 |
| Intangible assets | 8 | 3 107 630 | 2 258 148 |
| Investments in associates | 9 | 421 325 | 410 718 |
| Deferred income tax assets | 10 | 315 755 | 499 538 |
| Other non-current assets | 11 | 1 445 199 | 255 568 |
| Total non-current assets | | 154 060 693 | 141 941 745 |
| Current assets | | | |
| Cash and cash equivalents | 12 | 880 717 | 6 866 953 |
| Short-term investments | 13 | 10 009 551 | 4 370 |
| Trade and other receivables | 14 | 13 715 453 | 14 950 000 |
| Current income tax prepayments | | 156 503 | 17 643 |
| Inventories | 15 | 3 613 153 | 4 013 641 |
| Total current assets | | 28 375 377 | 25 852 607 |
| Non-current assets held for sale | | 68 139 | 117 440 |
| TOTAL ASSETS | | 182 504 209 | 167 911 792 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| 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 | 16 | (1 209 011) | (1 209 011) |
| Effect of remeasurements of post-employment benefits obligations | | (57 726) | 110 689 |
| Retained earnings | | 68 649 133 | 61 638 117 |
| Equity attributable to the Company's owners | | 122 752 539 | 115 909 938 |
| Non-controlling interest | 30 | 8 920 732 | 8 932 605 |
| TOTAL EQUITY | | 131 673 271 | 124 842 543 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Long-term borrowings | 17 | 4 000 000 | 11 598 000 |
| Deferred income tax liabilities | 10 | 10 328 460 | 10 777 059 |
| Post-employment benefits obligations | 19 | 1 158 573 | 895 250 |
| Other non-current liabilities | 18 | 7 553 591 | 130 231 |
| Total non-current liabilities | | 23 040 624 | 23 400 540 |
| Current liabilities | | | |
| Short-term borrowings | 17 | 13 257 860 | 7 461 589 |
| Trade and other payables | 20 | 13 514 383 | 10 518 874 |
| Current income tax payable | | 32 454 | 626 612 |
| Other taxes payable | 21 | 985 617 | 1 061 634 |
| Total current liabilities | | 27 790 314 | 19 668 709 |
| TOTAL LIABILITIES | | 50 830 938 | 43 069 249 |
| TOTAL EQUITY AND LIABILITIES | | 182 504 209 | 167 911 792 |

Approved for issue and signed on 10 March 2020.

Deputy Director General of economics and finance

A. V. Goncharov

Chief Accountant

R. V. Stanishevskaya

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
 CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR 2019
 (in thousands of Russian Roubles)

| | Notes | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--|-------|--------------------------------|--------------------------------|
| Revenue | 22 | 97 255 648 | 92 455 180 |
| Operating expenses | 23 | (85 599 003) | (77 428 990) |
| Impairment gain/(loss) on financial assets | | 491 902 | (2 116 843) |
| Operating profit | | 12 148 547 | 12 909 347 |
| Finance income | 24 | 538 965 | 1 702 601 |
| Finance costs | 24 | (2 359 508) | (2 335 020) |
| Finance costs, net | | (1 820 543) | (632 419) |
| Share of profit of associates | | 10 607 | 38 791 |
| Profit before income tax | | 10 338 611 | 12 315 719 |
| Income tax expense | 10 | (2 348 385) | (1 894 317) |
| Profit for the year | | 7 990 226 | 10 421 402 |
| Other comprehensive (expense)/income | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Remeasurements of post-employment benefits obligations | | (211 475) | 225 343 |
| Income tax on remeasurement of post-employment benefit obligations | | 36 505 | (41 051) |
| Other comprehensive (expense)/income for the year including tax | | (174 970) | 184 292 |
| Total comprehensive income for the year | | 7 815 256 | 10 605 694 |
| Profit/(loss) is attributable to: | | | |
| Owners of the TGC-1 | | 8 927 941 | 10 118 216 |
| Non-controlling interests | | (937 715) | 303 186 |
| Profit for the year | | 7 990 226 | 10 421 402 |
| Total comprehensive income/(expense) is attributable to: | | | |
| Owners of the TGC-1 | | 8 759 526 | 10 300 665 |
| Non-controlling interests | | (944 270) | 305 029 |
| Total comprehensive income for the year | | 7 815 256 | 10 605 694 |
| Earnings per ordinary share for profit attributable to owners of the TGC-1, basic and diluted (in Russian Roubles) | 25 | 0.0023 | 0.0026 |

Approved for issue and signed on 10 March 2020.

Deputy Director General of economics and finance



A. V. Goncharov

Chief Accountant



R. V. Stanishevskaya

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 2019
(in thousands of Russian Roubles)

| | Attributable to owners of the Company | | | | | | | Total equity | |
|--|---------------------------------------|---------------|----------------|----------------|--|-------------------|-------------|--------------|--------------------------|
| | Share capital | Share premium | Merger reserve | Other reserves | Effect of post-employment benefits obligations | Retained earnings | Total | | Non-controlling interest |
| Balance at 31 December 2017 | 38 543 414 | 22 913 678 | (6 086 949) | (1 209 011) | (71 760) | 53 740 611 | 107 829 983 | 8 629 256 | 116 459 239 |
| Effect of changes in accounting policies | - | - | - | - | - | (332 846) | (332 846) | (1 680) | (334 526) |
| Balance at 1 January 2018 | 38 543 414 | 22 913 678 | (6 086 949) | (1 209 011) | (71 760) | 53 407 765 | 107 497 137 | 8 627 576 | 116 124 713 |
| Comprehensive income for the year | - | - | - | - | - | 10 118 216 | 10 118 216 | 303 186 | 10 421 402 |
| Profit for the year | - | - | - | - | - | 10 118 216 | 10 118 216 | 303 186 | 10 421 402 |
| Other comprehensive income | - | - | - | - | 223 145 | - | 223 145 | 2 198 | 225 343 |
| Measurements of post-employment benefits obligations | - | - | - | - | (40 696) | - | (40 696) | (355) | (41 051) |
| Income tax on other comprehensive income | - | - | - | - | 182 449 | - | 182 449 | 1 843 | 184 292 |
| Total other comprehensive income | - | - | - | - | 182 449 | - | 182 449 | 1 843 | 184 292 |
| Total comprehensive income for the year | - | - | - | - | 182 449 | 10 118 216 | 10 300 665 | 305 029 | 10 605 694 |
| Transactions with owners | - | - | - | - | - | (1 887 864) | (1 887 864) | - | (1 887 864) |
| Dividends | - | - | - | - | - | (1 887 864) | (1 887 864) | - | (1 887 864) |
| Total transactions with owners | - | - | - | - | - | (1 887 864) | (1 887 864) | - | (1 887 864) |
| Balance at 31 December 2018 | 38 543 414 | 22 913 678 | (6 086 949) | (1 209 011) | 110 689 | 61 638 117 | 115 909 938 | 8 932 605 | 124 842 543 |
| Comprehensive income/(expense) for the year | - | - | - | - | - | 8 927 941 | 8 927 941 | (937 715) | 7 990 226 |
| Profit for the year | - | - | - | - | - | 8 927 941 | 8 927 941 | (937 715) | 7 990 226 |
| Other comprehensive expense | - | - | - | - | (203 665) | - | (203 665) | (7 810) | (211 475) |
| Measurements of post-employment benefits obligations | - | - | - | - | 35 250 | - | 35 250 | 1 255 | 36 505 |
| Income tax on other comprehensive expense | - | - | - | - | (168 415) | - | (168 415) | (6 555) | (174 970) |
| Total other comprehensive expense | - | - | - | - | (168 415) | - | (168 415) | (6 555) | (174 970) |
| Total comprehensive income/(expense) for the year | - | - | - | - | (168 415) | 8 927 941 | 8 759 526 | (944 270) | 7 815 256 |
| Transactions with owners | - | - | - | - | - | 567 603 | 567 603 | 932 397 | 1 500 000 |
| Change in ownership of subsidiary | - | - | - | - | - | (2 484 528) | (2 484 528) | - | (2 484 528) |
| Dividends | - | - | - | - | - | - | - | - | - |
| Total transactions with owners | - | - | - | - | - | (1 916 925) | (1 916 925) | 932 397 | (984 528) |
| Balance at 31 December 2019 | 38 543 414 | 22 913 678 | (6 086 949) | (1 209 011) | (57 726) | 68 649 133 | 122 752 539 | 8 920 732 | 131 673 271 |

Approved for issue and signed on 10 March 2020.

Deputy Director General of economics and finance

Chief Accountant

A. V. Goncharov

R. V. Stanishevskaya

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
 CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2019
 (in thousands of Russian Roubles)

| | Notes | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|-------|--------------------------------|--------------------------------|
| Cash flows from operating activities | | | |
| Profit before income tax | | 10 338 611 | 12 315 719 |
| <i>Adjustments for:</i> | | | |
| Depreciation and amortisation | 7 | 10 351 111 | 7 977 570 |
| Finance income | 24 | (538 965) | (1 702 601) |
| Finance expense | 24 | 2 359 508 | 2 335 020 |
| Impairment (gain)/loss on financial assets | | (491 902) | 2 116 843 |
| Impairment loss on non-financial assets | 23 | 5 168 841 | - |
| Loss on disposals of property, plant and equipment | 23 | 400 994 | 180 736 |
| Increase/(decrease) of post-employment benefits obligations | | 51 849 | (18 146) |
| Other non-cash items | | (25 874) | 258 842 |
| Operating cash flows before working capital changes | | 27 614 173 | 23 463 983 |
| Increase in trade and other receivables | 11,14 | (596 716) | (1 239 538) |
| Decrease/(Increase) in inventories | 15 | 362 843 | (882 870) |
| (Decrease)/Increase in trade and other payables | 20 | (164 416) | 1 747 664 |
| Decrease in other taxes payable | 21 | (76 017) | (537 882) |
| Cash generated from operations | | 27 139 867 | 22 551 357 |
| Income taxes paid | | (3 309 713) | (2 997 026) |
| Interest paid | | (1 678 336) | (1 262 938) |
| Net cash from operating activities | | 22 151 818 | 18 291 393 |
| Cash flows from investing activities | | | |
| Proceeds from repayment of borrowings | | 1 246 | - |
| Purchase of property, plant and equipment | | (13 229 252) | (10 934 064) |
| Proceeds from sale of property, plant and equipment | | 159 019 | 136 613 |
| Borrowings issued | | (9 994 043) | - |
| Purchase of intangible assets | | (394 964) | (460 840) |
| Interest received | | 239 645 | 145 289 |
| Net cash used in investing activities | | (23 218 349) | (11 113 002) |
| Cash flows from financing activities | | | |
| Proceeds from subsidiary share issue | | 1 500 000 | - |
| Proceeds from borrowings | | 12 761 669 | 16 755 200 |
| Repayments of borrowings | | (14 536 644) | (22 469 214) |
| Repayments of lease liabilities | | (1 842 807) | - |
| Dividends paid to the Company's shareholders | | (2 484 528) | (1 887 864) |
| Net cash from financing activities | | (4 602 310) | (7 601 878) |
| Net decrease in cash and cash equivalents | | (5 668 841) | (423 487) |
| Effect of exchange rate changes on cash and cash equivalents | | (317 395) | 314 842 |
| Cash and cash equivalents at the beginning of the year | | 6 866 953 | 6 975 598 |
| Cash and cash equivalents at the end of the year | | 880 717 | 6 866 953 |

Approved for issue and signed on 10 March 2020.

Deputy Director General of economics and finance



A. V. Goncharov

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) recognized taking into account the requirements of the Russian Federation legislation and explanations of the IFRIC approved by the Committee on International Financial Reporting (“IASB”) for the year ended 31 December 2019 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. The Company is a joint stock company with the responsibility of shareholders within the limits of their shares and was established in accordance with the Russian Federation legislation.

“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 its subsidiaries. All Group companies are registered in the Russian Federation.

| Subsidiary | % of ownership as at 31 December | |
|--------------------------------|----------------------------------|---------|
| | 2019 | 2018 |
| PJSC Murmanskaya TPP | 98.8536 | 98.6791 |
| JSC St Petersburg Heating Grid | 71.5734 | 74.9997 |
| LLC St Petersburg Heating Grid | 71.5734 | 74.9997 |

In 2019 JSC received the budget funding of Saint-Petersburg under reconstruction heat grids in the amount of RUB 1 500 000 thousand. Budget funding resulted to state ownership for the part of share capital of JSC and reducing of TGC-1 share to 71.5734%.

As at 31 December 2019 the Group includes 53 power plants. The Group’s principal business activity is production and sale of electric energy, heat energy and capacity. 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 16 Dobrolyubova prospect, 2A building, St. Petersburg, Russian Federation, 197198.

Note 2. The economic environment of the Group’s operating activity

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. Ongoing fluctuations 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 created impairment provisions of fixed assets, short-term investments, trade and other receivables and inventories, taking into account the economic situation and prospects at the end of the reporting period.

Note 2. Operating environment of the Group (continued)

Government relations and current regulation

As at 31 December 2019 the Group is controlled by the Gazprom Group (51.79% of shares) via its subsidiary Gazprom Energoholding LLC (as at 31 December 2018 - 51.79% stake).

In September 2019 the Extraordinary General Shareholders Meeting decided to delegate the authorities of the single executive body of PJSC TGC-1 to management company LLC Gazprom energoholding.

As at 31 December 2019 the Group's other significant shareholder is Fortum Power and Heat Oy - 29.45% of shares (as at 31 December 2018 - 29.45% of shares). The Gazprom Group is controlled by the government of the Russian Federation, and consequently, the government of the Russian Federation is the Group's ultimate controlling party as at 31 December 2019 and 31 December 2018.

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.

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.

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.

Note 3. Summary of Significant Accounting Policies (continued)

Seasonality

Demand for electricity and heat is influenced by both the season of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. Similar, though less severe, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and purchases of electricity. This seasonality does not impact on the revenue or cost recognition policies of the Group.

Consolidated financial statements

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

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

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

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

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

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.

Note 3. Summary of Significant Accounting Policies (continued)

Presentation currency

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

Foreign currency translation

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

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

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

As at 31 December 2019, 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 61.9057 (31 December 2018: USD 1 = RUB 69.4706), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 69.3406 (31 December 2018: EUR 1 = RUB 79.4605).

Associates

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

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

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

Note 3. Summary of Significant Accounting Policies (continued)

Disposals of subsidiaries, associates or joint ventures

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

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

Financial instruments - key measurement terms

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

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

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

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

Note 3. Summary of Significant Accounting Policies (continued)

Classification and measurement of financial assets

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

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

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

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

Trade and other receivables and loans issued are carried at amortised cost using the effective interest method.

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.

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

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

- Financial assets measured subsequently at fair value with changes recognised through profit or loss

Financial assets that do not meet the criteria of recognition as financial assets measured at amortised cost or measured at fair value through other comprehensive income are measured at fair value through profit or loss. The Group does not have such category of financial assets.

Impairment of financial assets

The Group applies the expected credit loss model to financial assets measured at amortised cost or at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets.

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

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

For trade receivables measurement based on lifetime expected credit losses is applied. For assessment of expected credit losses trade receivables are grouped based on characteristics of general credit risk, type of receivables and default period. The Group calculates expected rates of credit losses for accounts receivables based on historic data that assume reasonable approximation of rates for actual losses taking into account external factors and projected values. The credit losses in respect of trade and other receivables are presented separately in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

Note 3. Summary of Significant Accounting Policies (continued)

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

The Group's financial liabilities include trade and other payables and borrowings.

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

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

Property, plant and equipment

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:

| Type of facility | Useful lives, years |
|--------------------------|---------------------|
| 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.

Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. Another words the Group estimates if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies unified approach to recognizing and estimation of all lease agreements excluding short-term leases that expired within twelve months and leases in which the underlying asset has a low cost. Short-term lease payments and payments on lease with a low cost asset are recognized as an expense on a straight-line basis over the lease term.

Right-of-use assets. The Group recognizes the right-of-use assets at the commencement date of the lease (the date on which an underlying asset is available for use). The right-of-use assets are initially measured at the present value less any accumulated depreciation and any accumulated impairment losses adjusted for any remeasurement of the lease liability. The cost of the right-of-use assets comprises the amount of the initial measurement of the lease liability, lease payments at or before the commencement date and initial direct costs incurred by the lessee. The initial cost of right-of-use assets includes the amount of the initial estimate of the lease liability, initial direct costs and rental payments made before or at the commencement date, less any lease incentives received. The right-of-use assets are depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group presents right-of-use assets in property, plant and equipment.

Note 3. Summary of Significant Accounting Policies (continued)

Leases (continued)

The lease liability. At the commencement date, the Group recognizes the lease liabilities estimated at the present value of the lease payments that should be paid over the lease term. The lease payments comprise fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be payable under residual value guarantees. Variable lease payments that don't depend on an index or a rate are recognized as an expense (less the expenses for inventories production) in the period in which the event or condition that triggers those payments occurs.

The Group discounts the lease payments using incremental borrowing rate at the commencement date because the interest rate implicit in the lease agreement cannot be readily determined.

After the commencement date, the Group increases the carrying amount of the lease liability to reflect interest on the lease liability and reduces it to reflect the lease payments made. The Group remeasures the carrying amount of the lease liability to reflect any lease modifications, change in the lease term, change in the lease payments (for example a change in future lease payments resulting from a change in an index or a rate used to determine those payments) or a change in the assessment of an option to purchase the underlying asset.

The Group presents short-term lease liabilities in trade and other payables and long-term lease liabilities in other non-current liabilities.

Intangible assets

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

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

| | Useful lives in years |
|---|------------------------------|
| Software licences | 2-10 |
| 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.

Note 3. Summary of Significant Accounting Policies (continued)

Income taxes (continued)

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.

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.

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.

Note 3. Summary of Significant Accounting Policies (continued)

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.

Borrowing costs

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

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

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.

Revenue amounts are presented net of VAT. Revenues are measured at the fair value of the consideration received or receivable.

The Group's major sources of revenue are sale of electricity, capacity and heat.

In accordance to contractual terms the Group collects payment for electricity and capacity within 21 days, and for heat - within 10-15 days.

The Group collects its revenue from sales of electricity and capacity through activity on the wholesale electricity and capacity market.

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.

Note 3. Summary of Significant Accounting Policies (continued)

Offsetting

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

Segment reporting

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

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

Changes in presentation

In order to be in accordance with the parent's company disclosure, Group revised revenue disclosure for 2018 and indicated effect of reclassification of government grants from other sales to sales of heat (Note 22). The Group also presented separately finance expense (Note 24). The most significant impact on the Consolidated Statement of Profit or Loss and Other Comprehensive Income had disclosing separately of exchange differences for the comparable period in the amount of RUB 1 535 818 thousand in respect of finance income and 1 309 749 RUB thousand in respect of finance expense.

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 2019 would be an increase of RUB 879 161 thousand or a decrease it by RUB 845 841 thousand (for the year ended 31 December 2018: increase by RUB 607 227 thousand or decrease by RUB 592 430 thousand).

Recoverability of accounts receivable

For all trade receivables the Group applies simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics, type of products or services and the days past due. The Group calculates expected loss rates for trade receivables based on historical data which are a reasonable approximation of current loss rates including external factors and forecasted values (Note 28).

Pension obligation

The principal actuarial assumptions used to calculate the defined benefit obligation as at 31 December 2019 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 2019, and had the following impact on consolidated financial statements of the Group:

Adoption of new IFRS standards

IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases in financial statements in respect of lease agreements. The standard requires lessees to recognize a right-of-use asset and lease liability for the most lease agreements.

Assets in the form of a right-of-use are initially measured at historical cost and amortized to earlier of the following dates: the useful life expiration date of the asset in the form of a right-of-use or the lease expiration date. The cost of the right-of-use assets comprise the amount of the initial measurement of the lease liability, lease payments at or before the commencement date and initial direct costs incurred by the lessee.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date and subsequently measured at amortized cost with interest expenses recognized in finance costs of consolidated statement of comprehensive income.

In accordance to transitional provisions of IFRS 16 the Group applied modified retrospective approach with cumulative effect of initial applying of the standard recognized as at 1 January 2019. The Group used the permitted practical expedient and did not apply IFRS 16 to the lease agreements for which term ended within 12 months of the transition date, and also applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

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

Application of new IFRSs (continued)

The effect of initial applying of IFRS 16 «Lease» on the Consolidated Statement of Financial Position is presented at the table below:

| | 31 December 2018 | Impact of initial applying of IFRS 9 | 1 January 2019 (restated) |
|--------------------------------------|---------------------|---|------------------------------|
| Property, plant and equipment | 138 343 333 | 11 165 323 | 149 508 656 |
| Total non-current assets | 138 343 333 | 11 165 323 | 149 508 656 |
| Total assets | 138 343 333 | 11 165 323 | 149 508 656 |
| Other non-current liabilities | 130 231 | 9 220 918 | 9351 149 |
| Total non-current liabilities | 130 231 | 9 220 918 | 9351 149 |
| Trade and other payables | 10 518 874 | 1 944 405 | 12 463 279 |
| Total current liabilities | 10 518 874 | 1 944 405 | 12 463 279 |
| Total liabilities | 10 649 105 | 11 165 323 | 21 814 428 |
| Total equity and liabilities | 10 649 105 | 11 165 323 | 21 814 428 |

The Group indicated RUB 1 409 382 thousand and RUB 724 152 thousand as depreciation of property, plant and equipment and finance costs respectively for the lease agreements in accordance with IFRS 16 “Leases” in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019.

The total amount of cash decrease in respect of lease agreements was RUB 1 842 807 thousand for repayment of lease agreements and RUB 724 152 thousand for interest paid on lease.

The reconciliation of operating lease commitments, disclosed in the consolidated financial statements for the year ended 31 December 2018 and the lease liability recognised as at 1 January 2019 is presented below:

| | |
|--|-------------------|
| Operating lease liability as at 31 December 2018, disclosed applying IAS 17 | 3 235 431 |
| Effect of discounting of lease liability as t at 1 January 2019 | (4 215 931) |
| Effect of extension and indexation judgments applying to the lease agreements as t at 1 January 2019 | 12 145 823 |
| Additional liabilities relating to applying of IFRS 16 as at 1 January 2019 | 11 165 323 |
| Previously recognised liability as at 31 December 2018 | - |
| Lease liability as t at 1 January 2019 according to IFRS 16 | 11 165 323 |

As a discount rate the Group used Government Bond Zero Coupon Yield Rate including risk premium, adjusted to the correction factor, and internal rate of return according to lease agreement comprising information about percent amount included in lease payment.

The weighted average incremental borrowing rate applied by the Group to lease liabilities at the date of initial application was 7 %.

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

Application of Interpretations and Amendments to IFRS Standards

A number of interpretations and amendments to current IFRSs became effective for the periods beginning on or after 1 January 2019:

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

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

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

The amendments to IFRS 9 Financial Instruments. These amendments enable to measure at amortised cost some prepayable financial assets with negative compensation (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019).

Annual Amendments to current IFRSs, 2015-2017 - amendments to IFRS 3, IFRS 11, IAS 12, IAS 23 (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019).

The amendments to IAS 19 Employee Benefits (issued in February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs.

The Group has worked through the mentioned amendments when producing its consolidated financial statements. The amendments didn't have any significant impact on consolidated financial statements.

New standards, clarifications and amendments, issued but not in effect

Certain changes to existing standards have been issued that are mandatory for the annual periods beginning after 1 January 2020 or after this date. In particular, the Group did not early apply the following changes to the standards. The most significant, except IFRS 17 are as follows:

- Changes to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (the amendment - the definition of the term "materiality")
- Amendments to IFRS 3 Business Combinations (amendment - the definition of the term "business");
- Revised conceptual basis of financial statements;
- IFRS 17 "Insurance contracts"

The Group is currently assessing the impact of these new standards and amendments on its financial statements.

Note 6. Related Parties transactions

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.

As at 31 December 2019 and 31 December 2018 the Government of the Russian Federation 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 2019 and 2018, and had significant outstanding balances as at 31 December 2019 and 31 December 2018 are detailed below.

PJSC Gazprom and its subsidiaries and affiliates

Transactions with PJSC Gazprom and its subsidiaries were as follows:

Revenue

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--------------------------|--------------------------------|--------------------------------|
| Electricity and capacity | 856 341 | 989 663 |
| Heating | 380 432 | 461 144 |
| Other sales | 26 069 | 30 410 |
| Total | 1 262 841 | 1 481 217 |

Operating expenses

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|------------------------------------|--------------------------------|--------------------------------|
| Fuel | (30 210 122) | (29 293 082) |
| Repairs, maintenance and service | (292 849) | (270 887) |
| Other materials | - | - |
| Electricity and capacity purchases | (90 468) | (142 538) |
| Operating lease | (80 668) | (2 382 152) |
| Other operating expenses | (1 496 808) | (859 955) |
| Total | (32 170 914) | (32 948 614) |

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

Finance Income and Finance Costs

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--|--------------------------------|--------------------------------|
| Finance income | | |
| Interest income | 30 416 | 13 643 |
| Total finance income | 30 416 | 13 643 |
| Finance costs | | |
| Interest expense on loans and borrowings | (189 566) | (326 301) |
| Interest expense on lease | (488 496) | - |
| Total finance costs | (678 062) | (326 301) |

Note 6. Related Parties transactions (continued)

PJSC Gazprom and its subsidiaries and affiliates (continued)

Balances

| | 31 December 2019 | 31 December 2018 |
|--|---------------------|---------------------|
| Short-term investments | 10 006 428 | - |
| Long-term trade and other receivables | 843 444 | - |
| Short-term trade and other receivables | 214 707 | 1 461 749 |
| Advances for capital construction, included in property, plant and equipment | 2 651 284 | 1 057 807 |
| Cash and cash equivalents | 240 493 | 669 |
| Total assets | 13 956 356 | 2 520 225 |
| Long-term borrowings and loans | - | 1 800 000 |
| Short-term borrowings and loans | 1 248 266 | 1 247 827 |
| Long-term trade and other payables | 164 581 | 112 920 |
| Short-term trade and other payables | 1 586 064 | 1 991 620 |
| Short-term for capital construction | 2 179 898 | 1 477 030 |
| Long-term lease liability | 5 834 490 | - |
| Short-term lease liability | 2 176 303 | - |
| Total liabilities | 13 189 601 | 6 629 397 |

Purchase of non-current and current assets

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|--------------------------------|--------------------------------|
| Purchases of property, plant and equipment | (8 058 336) | (8 113 694) |
| <i>including capitalized borrowing costs from related parties</i> | <i>(1 702)</i> | <i>(3 102)</i> |
| Purchases of materials and other assets | (186 032) | (652 893) |
| Total | (8 244 368) | (8 766 587) |

State-controlled entities (excluding companies of Gazprom Group)

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:

Revenue

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--------------------------|--------------------------------|--------------------------------|
| Electricity and capacity | 10 812 368 | 9 854 630 |
| Heating | 21 808 799 | 16 950 747 |
| Other sales | 30 412 | 79 944 |
| Total | 32 651 579 | 26 885 321 |

Note 6. Related Parties transactions (continued)

State-controlled entities (excluding companies of Gazprom Group) (continued)

Operating expenses

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--------------------------------------|--------------------------------|--------------------------------|
| Electricity distribution | (126 519) | (199 100) |
| Heat distribution | (615 453) | (847 375) |
| Water usage | (3 152 846) | (3 030 678) |
| Fees of electricity market operators | (858 279) | (820 688) |
| Security and fire safety | (505 895) | (398 470) |
| Electricity and capacity purchases | (342 921) | (275 357) |
| Operating lease | - | (127 773) |
| Other operating expenses | (13 632) | (177 655) |
| Total | (5 615 546) | (5 877 096) |

Finance Income and Finance Costs

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--|--------------------------------|--------------------------------|
| Finance income | | |
| Interest income | 8 706 | 34 081 |
| Total finance income | 8 706 | 34 081 |
| Finance costs | | |
| Interest expense on loans and borrowings | (199 171) | (285 804) |
| Interest expense on lease | (136 137) | - |
| Total finance costs | (335 308) | (285 804) |

Balances

| | 31 December 2019 | 31 December 2018 |
|--|---------------------|---------------------|
| Long-term trade and other receivables gross | 629 314 | 216 396 |
| Expected credit loss on long-term trade and other receivables | (756 994) | (728 751) |
| Short-term trade and other receivables gross | 9 927 314 | 9 507 116 |
| Expected credit loss on short-term trade and other receivables | (4 495 795) | (4 070 244) |
| Cash and cash equivalents | 1 271 | 4 207 890 |
| Total assets | 5 305 110 | 9 132 407 |
| Short-term borrowings and loans | 8 864 534 | 8 512 596 |
| Short-term trade and other payables | 1 238 872 | 1 235 520 |
| Long-term lease liability | 1 126 409 | - |
| Short-term lease liability | 71 301 | - |
| Total liabilities | 11 301 115 | 9 748 116 |

Purchase of non-current and current assets

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|--------------------------------|--------------------------------|
| Purchases of property, plant and equipment <i>including capitalized borrowing costs from related parties</i> | 127 309 22 252 | 103 113 71 234 |
| Purchases of materials and other assets | 3 864 981 | 4 208 039 |
| Total | 3 992 291 | 4 311 152 |

Note 6. Related Parties transactions (continued)

State-controlled entities (excluding companies of Gazprom Group) (continued)

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.

Other transactions

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|-------------------------------------|-----------------------------------|-----------------------------------|
| Impairment loss on financial assets | (490 722) | (289 181) |

The Group had the following significant transactions with CFS, presented below:

| | 31 December 2019 | 31 December 2018 |
|---------------------------------------|---------------------|---------------------|
| Sales of electricity and capacity | 28 980 531 | 28 319 953 |
| Purchases of electricity and capacity | (5 472 236) | (5 588 166) |

Balances

| | 31 December 2019 | 31 December 2018 |
|--|---------------------|---------------------|
| Short-term trade and other receivables | 1 036 025 | 1 211 340 |
| Short-term trade and other payables | 270 311 | 253 282 |

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).

Revenue

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--------------------------|--------------------------------|--------------------------------|
| Electricity and capacity | 889 487 | 1 191 875 |
| Heating | 84 705 | 77 812 |
| Other sales | 5 823 | 7 407 |
| Total | 980 016 | 1 277 094 |

Operating expenses

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|----------------------------------|--------------------------------|--------------------------------|
| Repairs, maintenance and service | (1 616 808) | (1 012 102) |
| Heat distribution | (665 010) | (679 147) |
| Other operating expenses | (17 874) | (39 129) |
| Total | (2 299 692) | (1 730 378) |

Note 6. Related Parties transactions (continued)

Transactions with other related parties (continued)

Balances

| | 31 December 2019 | 31 December 2018 |
|--|---------------------|---------------------|
| Short-term trade and other receivables | 28 177 | 488 690 |
| Advances for capital construction, included in property, plant and equipment | 11 749 | 147 551 |
| Total assets | 39 926 | 636 240 |
| Short-term trade and other payables | 886 664 | 752 347 |
| Short-term lease liability | 62 601 | - |
| Total liabilities | 949 265 | 752 347 |

Purchase of non-current and current assets

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--|--------------------------------|--------------------------------|
| Purchases of property, plant and equipment | (709 949) | (1 179 847) |
| Purchases of materials and other assets | (18 110) | (886) |
| Total | (728 058) | (1 180 733) |

Amount of outstanding contractual commitments for the construction of property, plant and equipment

As at 31 December 2019, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment in respect of related parties in the amount of RUB 11 961 129 thousand (as at 31 December 2018: RUB 8 592 067 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.

| | 31 December 2019 | 31 December 2018 |
|-----------------------------------|-------------------|------------------|
| PJSC Gazprom and its subsidiaries | 11 039 060 | 8 122 367 |
| State-controlled entities | 84 060 | 63 009 |
| Other related parties | 838 009 | 406 691 |
| Total | 11 961 129 | 8 592 067 |

Note 6. Related Parties transactions (continued)

Transactions with the key management personnel

Short-term compensation for services of key management personnel includes compensation to the members of the Board of Directors and members of Management Board before delegating the authorities of the single executive body to the management company LLC Gazprom Energoholding at 30 September 2019 for their services at the management positions on a regular basis and comprised of a monthly salary, bonuses, taxes charge and other obligatory payments to relevant budgets, medical insurance costs.

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

Key management compensation in types is presented below:

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|------------------------------------|-----------------------------------|-----------------------------------|
| Salaries | 107 195 | 120 683 |
| Short-term bonuses | 53 210 | 75 922 |
| Benefits to the Board of Directors | 27 974 | 28 969 |
| Termination benefits | 19 236 | 1 284 |
| Total | 207 616 | 226 858 |

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.

As at 31 December 2019 the payables to key management amounted to RUB 2 492 thousand (as at 31 December 2018: RUB 3 617 thousand).

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Note 7. Property, Plant and Equipment

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

| Cost | Right-of-use assets | Production buildings | Hydrotechnical buildings | Generating equipment | Heating networks | Electricity transmission equipment | Other | Construction in progress | Total |
|---|------------------------|-------------------------|-----------------------------|-------------------------|---------------------|--|--------------|-----------------------------|---------------|
| Balance as at 31 December 2018 | - | 29 724 877 | 15 934 500 | 55 936 128 | 56 192 957 | 18 377 437 | 43 536 731 | 15 225 184 | 234 927 814 |
| Effect of initial applying of IFRS 16 | 11 165 323 | - | - | - | - | - | - | - | 11 165 323 |
| Balance as at 1 January 2019 | 11 165 323 | 29 724 877 | 15 934 500 | 55 936 128 | 56 192 957 | 18 377 437 | 43 536 731 | 15 225 184 | 246 093 137 |
| Additions | 207 274 | - | - | - | 266 146 | - | 204 835 | 14 098 236 | 14 776 491 |
| Transfers | - | 483 165 | 156 798 | 1 202 584 | 2 157 606 | 253 579 | 4 592 095 | (8 845 827) | - |
| Disposals | - | (21 640) | (111) | (39 271) | (2 931 038) | (21 791) | (109 680) | (127 999) | (3 251 530) |
| Reclassification from non-current assets held for sale | - | - | - | - | - | - | 36 731 | - | 36 731 |
| Balance as at 31 December 2019 | 11 372 597 | 30 186 402 | 16 091 187 | 57 099 441 | 55 685 671 | 18 609 225 | 48 260 712 | 20 349 594 | 257 654 829 |
| Accumulated depreciation (including impairment) | | | | | | | | | |
| Balance as at 31 December 2018 | - | (10 336 406) | (8 690 736) | (24 794 735) | (26 790 198) | (5 762 402) | (20 203 205) | (6 799) | (96 584 481) |
| Charge for the period | (1 409 382) | (496 982) | (249 415) | (2 240 161) | (1 718 632) | (550 860) | (3 367 316) | - | (10 032 748) |
| Disposals | - | 8 353 | 1 | 24 184 | 2 586 308 | 3 995 | 68 217 | - | 2 691 058 |
| Impairment loss recognised/reversed during the period | (76 023) | (137 644) | - | (88 762) | (4 024 473) | (1 806) | (125 037) | (666 765) | (5 120 510) |
| Reclassification from non-current assets held for sale | - | - | - | - | - | - | (1 530) | - | (1 530) |
| Balance as at 31 December 2019 | (1 485 405) | (10 962 679) | (8 940 150) | (27 099 474) | (29 946 995) | (6 311 073) | (23 628 871) | (673 564) | (109 048 211) |
| Net book value as at 31 December 2018 | - | 19 388 471 | 7 243 764 | 31 141 393 | 29 402 759 | 12 615 035 | 23 333 526 | 15 218 385 | 138 343 333 |
| Effect of initial applying of IFRS 16 | 11 165 323 | - | - | - | - | - | - | - | 11 165 323 |
| Balance as at 1 January 2019 | 11 165 323 | 19 388 471 | 7 243 764 | 31 141 393 | 29 402 759 | 12 615 035 | 23 333 526 | 15 218 385 | 149 508 657 |
| Net book value as at 31 December 2019 | 9 887 192 | 19 223 723 | 7 151 037 | 29 999 967 | 25 738 676 | 12 298 152 | 24 631 841 | 19 676 030 | 148 606 618 |

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 2017 | 29 354 892 | 15 932 707 | 54 375 971 | 53 035 075 | 18 076 424 | 40 291 936 | 11 567 496 | 222 634 501 |
| Additions | 439 | - | 3 058 | 1 088 305 | - | 597 737 | 11 567 697 | 13 257 236 |
| Transfers | 503 446 | 1 793 | 1 568 096 | 2 239 760 | 310 142 | 2 833 945 | (7 457 182) | - |
| Disposals | (29 810) | - | (10 069) | (170 183) | (8 109) | (119 553) | (452 827) | (790 551) |
| Reclassification to non-current assets held for sale | (104 090) | - | (928) | - | (1 020) | (67 334) | - | (173 372) |
| Balance as at 31 December 2018 | 29 724 877 | 15 934 500 | 55 936 128 | 56 192 957 | 18 377 437 | 43 536 731 | 15 225 184 | 234 927 814 |
| Accumulated depreciation (including impairment) | | | | | | | | |
| Balance as at 31 December 2017 | (9 940 373) | (8 436 542) | (22 929 782) | (25 290 724) | (5 252 402) | (17 366 014) | (6 858) | (89 222 695) |
| Charge for the year | (496 982) | (254 194) | (1 875 578) | (1 653 978) | (515 941) | (2 971 478) | - | (7 768 151) |
| Disposals | 1 608 | - | 9 697 | 154 504 | 4 921 | 77 841 | - | 248 571 |
| Reclassification to non-current assets held for sale | 99 341 | - | 928 | - | 1 020 | 56 446 | - | 157 735 |
| Impairment loss recognised during the year | - | - | - | - | - | - | 59 | 59 |
| Balance as at 31 December 2018 | (10 336 406) | (8 690 736) | (24 794 735) | (26 790 198) | (5 762 402) | (20 203 205) | (6 799) | (96 584 481) |
| Net book value as at 31 December 2017 (including effect of reclassifications) | 19 414 519 | 7 496 165 | 31 446 189 | 27 744 351 | 12 824 022 | 22 925 922 | 11 560 638 | 133 411 806 |
| Net book value as at 31 December 2018 | 19 388 471 | 7 243 764 | 31 141 393 | 29 402 759 | 12 615 035 | 23 333 526 | 15 218 385 | 138 343 333 |

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 2019 the advances given to contractors, which amounted to RUB 2 839 158 thousand, net of VAT (as at 31 December 2018: RUB 1 305 922 thousand), are recognised within the construction in progress balance.

As at 31 December 2019 and 31 December 2018 the Group had no property, plant and equipment pledged as collateral according to loan agreements.

The total amount of capitalised interests that were calculated using 7.25% capitalization rate for the year ended 31 December 2019 is RUB 151 515 thousand (7.26% capitalization rate for the year ended 31 December 2018: RUB 214 576 thousand). The payment of capitalised interests is recorded in Consolidated Statement of Cash Flow in respect of operating activities.

Right-of-use assets

As at 31 December 2019 the property, plant and equipment include the right-of-use assets in the amount of RUB 9 887 192 thousand, primarily related to the land plots, generating equipment and office buildings. The right-of-use assets is as follows:

| | Production buildings | Generating equipment | Electricity transmission equipment | Other | Total |
|---|----------------------|----------------------|------------------------------------|------------------|--------------------|
| Cost | | | | | |
| Initial recognition as at 1 January 2019 | 1 063 986 | 8 950 023 | 43 452 | 1 107 862 | 11 165 323 |
| Additions from the conclusion of new lease agreements | 397 903 | - | 19 526 | 207 066 | 624 495 |
| Effect of modification lease agreements | (29 553) | - | (11 259) | (64 329) | (105 141) |
| Early derecognition lease agreements | (104 845) | - | - | (207 235) | (312 080) |
| Balance as at 31 December 2019 | 1 327 491 | 8 950 023 | 51 719 | 1 043 364 | 11 372 597 |
| Accumulated depreciation and impairment | | | | | |
| Charge for the year | (225 627) | (1 118 753) | (11 053) | (53 949) | (1 409 382) |
| Impairment loss recognised | (51 068) | - | - | (24 955) | (76 023) |
| Balance as at 31 December 2019 | (276 695) | (1 118 753) | (11 053) | (78 904) | (1 485 405) |
| Carrying amounts as at 31 December 2019 | 1 050 796 | 7 831 270 | 40 666 | 964 460 | 9 887 192 |

Note 7. Property, Plant and Equipment (continued)

Impairment

The determination of indication of impairment was performed for five 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.

The cash generating units are the same as the reportable segment to which the assets belong (Note 29).

As a result of the impairment test, including right-of-use assets, impairment loss was recognised for St Petersburg Heating Grid (reportable segment - St Petersburg Heating Grid) in respect of property, plant and equipment in the amount of RUB 5 044 572 thousand, in respect of the right of use assets in the amount of RUB 76 023 thousand and in respect of intangible assets in the amount of RUB 48 331 thousand.

The recoverable amount of the groups, generating cash flows, was determined as value in use. The Group determined value in use of each group as present value of forecasted cash flows, discounted using a discount rate calculated on the basis of average weighted cost of capital of the Group, corrected if necessary, including risks, connected with features of the Group's activities, that cash-generating groups of assets relate. The following key parameters were used in forecasting the further cash flows: forecasts of electricity and capacity prices, heat tariffs and prices of fuel and planned production volumes for forecasting period.

As at 31 December 2019 the pre-tax discount rate amounted 13.56% for St Petersburg Heating Grid and 11.73% for other cash-generating units. As at 31 December 2018 the pre-tax discount rate amounted 13.22% for all cash-generating units.

As at 31 December 2019 the Gordon model with 15 years forecast period and terminal cost with 2.9 percent growth rate for terminal period used for St Petersburg Heating Grid, the Gordon model with 20 years forecast period and terminal cost with 2.9 percent growth rate for terminal period used for TPP of the Nevsky branch and the Gordon model with 5 years forecast period and terminal cost with 3.92 percent growth rate for terminal period - for other cash-generating units.

As at 31 December 2018 the Gordon model with 5 years forecast period and terminal cost with 4 percent growth rate for terminal period used for all cash-generating units.

For the impairment test of St Petersburg Heating Grid the Group also used the parameters of investment program of St Petersburg Heating Grid, including the amounts and plan of future capital investments and budget funding as the grants received for the compensation of the capital investments in according to Heat supply plan of Saint-Petersburg approved by the Ministry of Energy.

The calculation of the recoverable amounts from cash-generating units is highly sensitive to the pre-tax discount rate and change of forecasted tariffs. If the pre-tax discount rate used in calculation as at 31 December 2019 was 1 percent higher in the forecasted period, there would be impairment loss recognised for St Petersburg Heating Grid in the amount of RUB 7 558 825 thousand, and for TPP of the Nevsky branch in the amount of RUB 6 411 937 thousand .

As at 31 December 2018 there was no impairment of property, plant and equipment.

Note 8. Intangible assets

| | Software | Other intangible assets | Total |
|--|------------------|----------------------------|------------------|
| Balance as of 1 January 2019 | 2 212 816 | 45 332 | 2 258 148 |
| Additions | 1 041 169 | 159 972 | 1 201 141 |
| Charge for the year | (279 659) | (23 669) | (303 328) |
| Impairment loss recognised during the year | (24 532) | (23 799) | (48 331) |
| Balance as of 31 December 2019 | 2 949 794 | 157 836 | 3 107 630 |

| | Software | Other intangible assets | Total |
|---------------------------------------|------------------|----------------------------|------------------|
| Balance as of 1 January 2018 | 1 381 693 | 35 337 | 1 417 030 |
| Additions | 1 375 300 | 13 066 | 1 388 366 |
| Disposals | (352 833) | (47) | (352 880) |
| Charge for the year | (191 344) | (3 024) | (194 368) |
| Balance as of 31 December 2018 | 2 212 816 | 45 332 | 2 258 148 |

As 31 December 2019 as a result of the impairment test impairment loss was recognised for intangible assets of St Petersburg Heating Grid (reportable segment - St Petersburg Heating Grid) in the amount of RUB 48 331 thousand.

As at 31 December 2018 there was no impairment of intangible assets.

Note 9. Investments in Associate

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. As the Group's share of losses in LLC «TGC Service» exceeded its interest in the associate, the Group derecognised further losses.

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

| | 31 December 2019 | 31 December 2018 |
|--------------------------------|---------------------|---------------------|
| Investments in LLC TGC Service | - | 10 249 |
| Investments in JSC HHC | 421 325 | 400 469 |
| Total investments | 421 325 | 410 718 |

Note 9. Investments in Associate (continued)

As at 31 December 2019 and 31 December 2018 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.

As at 31 December 2019, 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 | 2 048 036 | 2 492 279 | 3 109 849 | (501 635) | 26% | Russia |
| JSC HHC | 1 640 239 | 797 590 | 709 350 | 41 711 | 50% | Russia |
| Total | 3 688 275 | 3 289 869 | 3 819 199 | (459 924) | | |

As at 31 December 2018, 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 | 1 923 201 | 1 865 810 | 3 002 810 | 47 260 | 26% | Russia |
| JSC HHC | 1 876 258 | 1 075 320 | 704 906 | 47 963 | 50% | Russia |
| Total | 3 799 459 | 2 941 130 | 3 707 716 | 95 223 | | |

Management could not reliably estimate the fair value of the Group's investment in shares of associates. As TGC Service is a Limited Liability Company, 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 10. Income Taxes

Income tax expense comprises the following:

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--|-----------------------------------|-----------------------------------|
| Current income tax charge | (2 576 695) | (2 203 389) |
| Deferred income tax charge | 353 637 | (45 572) |
| Effect of change in income tax rate, recorded in profit and losses | (125 327) | 354 644 |
| Total expense tax charge, recorded in profit and losses | (2 348 385) | (1 894 317) |
| Movement during the year, recorded in other comprehensive income | 36 505 | (41 051) |
| Total (expense)/income tax charge, recorded in other comprehensive income | 36 505 | (41 051) |
| Total expense tax charge | (2 311 880) | (1 935 368) |

The Group's companies applied the following tax rates in 2019: PJSC "TGC-1" - 17.25%, PJSC "Murmanskaya TPP" - 20%, JSC "St Petersburg Heating Grid" - 17.59% (2018: PJSC "TGC-1" - 17.2%, PJSC "Murmanskaya TPP" - 20%, JSC "St Petersburg Heating Grid" - 15.55%).

Note 10. Income Taxes (continued)

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

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--|-----------------------------------|-----------------------------------|
| Profit before tax | 10 338 611 | 12 315 719 |
| Theoretical tax charge at the statutory tax rate of 20% | (2 067 722) | (2 463 144) |
| Tax effects of items which are non-deductible for income tax purposes | (81 958) | (70 962) |
| Effect of tax benefit applying | (73 378) | 285 145 |
| Effect of change in income tax rate | (125 327) | 354 644 |
| Total expense tax charge, recorded in profit and losses | (2 348 385) | (1 894 317) |
| Other comprehensive income | (211 475) | 225 343 |
| Theoretical tax charge at the statutory tax rate of 20% | 42 295 | (45 069) |
| Effect of tax benefit applying | (5 356) | 4 464 |
| Effect of change in income tax rate | (434) | (446) |
| Total (expense)/Income tax charge, recorded in other comprehensive income | 36 505 | (41 051) |
| Total expense tax charge | (2 311 880) | (1 935 368) |

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 2019: PJSC «TGC-1» - 17.25%, PJSC «Murmanskaya TPP» - 20%, JSC «St Petersburg Heating Grid» - 17.59% (as at 31 December 2018: 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.

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

Note 10. Income Taxes (continued)

Deferred income tax assets and liabilities (continued)

| Deferred income tax liabilities | | | | | | | |
|--|---------------------|--------------------------------------|--|---|---|--|---------------------|
| | 31 December 2019 | Recognised in profit or losses | Effect of change in income tax rate, recorded in profit and losses | Movement during the year, recorded in other comprehensi ve income | Effect of change in income tax rate, recorded in other comprehensi ve income | Effect of initial applying of IFRS 16 recognized in the opening balance | 31 December 2018 |
| Property, plant and equipment | (14 426 578) | (1 112 729) | (125 370) | - | - | (1 921 552) | (11 266 927) |
| Trade and other receivables | 408 812 | 154 067 | 29 | - | - | - | 254 716 |
| Trade and other payables | 3 484 060 | 1 513 090 | 1 221 | - | - | 1 921 552 | 48 197 |
| Pension liabilities | 187 172 | 8 959 | 1 704 | 33 771 | (434) | - | 143 172 |
| Other | 18 074 | (22 798) | (2 911) | - | - | - | 43 783 |
| Total deferred income tax liability | (10 328 460) | 540 589 | (125 327) | 33 771 | (434) | - | (10 777 059) |

| Deferred income tax liabilities | | | | | | | |
|--|---------------------|--------------------------------------|--|---|---|---|---------------------|
| | 31 December 2018 | Recognised in profit or losses | Effect of change in income tax rate, recorded in profit and losses | Movement during the year, recorded in other comprehensi ve income | Effect of change in income tax rate, recorded in other comprehensi ve income | Effect of initial applying of IFRS 9 recognized in the opening balance | 31 December 2017 |
| Property, plant and equipment | (11 266 927) | (268 780) | 363 535 | - | - | - | (11 361 680) |
| Trade and other receivables | 254 716 | 262 423 | 1 776 | - | - | 43 024 | (52 508) |
| Trade and other payables | 48 197 | (3 036) | (1 847) | - | - | - | 53 080 |
| Pension liabilities | 143 172 | (2 502) | (6 237) | (34 428) | (446) | - | 186 783 |
| Other | 43 783 | (46 026) | (2 583) | - | - | - | 92 393 |
| Total deferred income tax liability | (10 777 059) | (57 921) | 354 644 | (34 428) | (446) | 43 024 | (11 081 932) |

Note 10. Income Taxes (continued)

Deferred income tax assets and liabilities (continued)

| Deferred income tax assets | | | | | |
|---|---------------------|-----------------------------------|--|--|---------------------|
| | 31 December 2019 | Recognised in profit or losses | Recognised in other compre- hensive income | Effect of initial applying of IFRS 16 recognized in the opening balance | 31 December 2018 |
| Property, plant and equipment | (77 809) | (44 231) | - | (6 305) | (27 273) |
| Tax loss carried forward | - | - | - | - | - |
| Trade and other receivables | 358 762 | (148 177) | - | - | 506 939 |
| Trade and other payables | 20 180 | 5 474 | - | 6 305 | 8 401 |
| Pension liabilities | 14 622 | (17) | 3 168 | - | 11 471 |
| Other | - | - | - | - | - |
| Total deferred income tax assets | 315 755 | (186 951) | 3 168 | - | 499 538 |

| Deferred income tax assets | | | | | |
|---|---------------------|-----------------------------------|--|---|---------------------|
| | 31 December 2018 | Recognised in profit or losses | Recognised in other compre- hensive income | Effect of initial applying of IFRS 9 recognized in the opening balance | 31 December 2017 |
| Property, plant and equipment | (27 273) | (8 249) | - | - | (19 024) |
| Tax loss carried forward | - | (13 495) | - | - | 13 495 |
| Trade and other receivables | 506 939 | 33 310 | - | 31 816 | 441 813 |
| Trade and other payables | 8 401 | 30 | - | - | 8 371 |
| Pension liabilities | 11 471 | 753 | (6 177) | - | 16 895 |
| Total deferred income tax assets | 499 538 | 12 349 | (6 177) | 31 816 | 461 550 |

Note 11. Other Non-Current Assets

| | 31 December 2019 | 31 December 2018 |
|--|---------------------|---------------------|
| Long-term receivables gross | 1 606 277 | 983 852 |
| Advances to suppliers | 602 753 | - |
| Loans issued | - | - |
| Total financial receivables gross | 2 209 030 | 983 852 |
| Provision for impairment of financial assets | (764 297) | (728 751) |
| Total financial receivables net | 1 444 733 | 255 101 |
| VAT in prepayments on capital construction | 466 | 467 |
| Total other non-current assets | 1 445 199 | 255 568 |

Note 12. Cash and Cash Equivalents

| | 31 December 2019 | 31 December 2018 |
|--|---------------------|---------------------|
| Cash in bank and in hand in RUB | 880 717 | 4 191 977 |
| Foreign currency accounts in EUR | - | 2 674 976 |
| Total cash and cash equivalents | 880 717 | 6 866 953 |

As at 31 December 2019 cash and cash equivalents comprise restricted cash in the amount of RUB 587 157 thousand, provided for JSC St Petersburg Heating Grid as budget funding of investment program.

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 | Dividends | Lease liabilities | Total |
|----------------------------------|--------------------------------------|-------------|----------------------|-------------------|
| As at 1 January 2019 | 19 059 589 | - | 11 165 323 | 30 224 912 |
| Cash Flows | (2 656 517) | (2 484 528) | (2 566 959) | (7 708 004) |
| Non-cash flows: | | | | |
| Effects of foreign exchange | (34 125) | - | - | (34 125) |
| Interest costs | 888 913 | - | 724 152 | 1 613 065 |
| Dividends declared | - | 2 484 528 | - | 2 484 528 |
| Modifications and new agreements | - | - | 207 275 | 207 275 |
| As at 31 December 2019 | 17 257 860 | - | 9 529 791 | 26 787 651 |

| | Long-term loans and borrowings | Dividends | Lease liabilities | Total |
|-------------------------------|--------------------------------------|-------------|----------------------|-------------------|
| As at 1 January 2018 | 24 709 644 | - | - | 24 709 644 |
| Cash Flows | (6 816 988) | (1 887 864) | - | (8 704 852) |
| Non-cash flows: | | | | |
| Effects of foreign exchange | 91 024 | - | - | 91 024 |
| Interest costs | 1 075 909 | - | - | 1 075 909 |
| Dividends declared | - | 1 887 864 | - | 1 887 864 |
| As at 31 December 2018 | 19 059 589 | - | - | 19 059 589 |

Note 13. Short-term Investments

As at 31 December 2019 short-term investments in the amount of RUB 10 009 551 thousand are mainly loan issued PJSC Gazprom with an interest rate from 6.52 to 6.58%. The related party's information is disclosed in Note 6.

As at 31 December 2018 short-term investments were a loan LLC Dubrovskaya TPP in the amount of RUB 4 370 thousand.

Note 14. Trade and other receivables

| | 31 December 2019 | 31 December 2018 |
|--|---------------------|---------------------|
| Trade receivables gross | 21 635 683 | 23 077 958 |
| Other receivables gross | 369 026 | 402 030 |
| Total financial receivables gross | 22 004 709 | 23 479 988 |
| Provision for impairment of financial assets | (9 173 645) | (10 237 933) |
| Total financial receivables net | 12 831 064 | 13 242 055 |
| Value-added tax receivables | 94 149 | 198 471 |
| Advances to suppliers | 708 651 | 1 501 061 |
| Other taxes receivable | 81 589 | 8 413 |
| Total trade and other receivables | 13 715 453 | 14 950 000 |

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

| | 31 December 2019 | 31 December 2018 |
|-----------------------------|---------------------|---------------------|
| Ultimate domestic customers | 9 688 772 | 9 935 091 |
| Wholesale customers | 2 065 184 | 1 834 634 |
| Free market | 1 036 025 | 1 211 340 |
| Export customers | 41 083 | 260 990 |
| Total | 12 831 064 | 13 242 055 |

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 2019 | 8 629 190 | 5 043 854 | 9 937 941 |
| Total financial receivables as at 31 December 2018 | 9 372 520 | 4 124 636 | 10 966 684 |

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 ageing following structure:

| Period | Nominal value 31 December | | Allowance for expected credit losses 31 December | | Carrying amount 31 December | |
|---------------------------------|------------------------------|-------------------|--|-------------------|--------------------------------|-------------------|
| | 2019 r | 2018 r | 2019 r | 2018 r | 2019 r | 2018 r |
| Not overdue | 8 973 827 | 9 598 758 | 344 637 | 226 238 | 8 629 190 | 9 372 520 |
| Overdue up to 180 days | 4 055 117 | 3 066 846 | 362 247 | 316 288 | 3 692 870 | 2 750 558 |
| Overdue from 181 to 365 days | 1 627 281 | 1 676 026 | 276 297 | 301 948 | 1 350 984 | 1 374 078 |
| Overdue more than year | 8 954 760 | 10 122 210 | 8 954 760 | 10 122 210 | - | - |
| Итого | 23 610 985 | 24 463 840 | 9 937 941 | 10 966 684 | 13 673 044 | 13 497 156 |

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 2020.

Note 14. Trade and other receivables (continued)

Movements in impairment provision for financial receivables are as follows:

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|-----------------------------------|-----------------------------------|
| Provision for impairment as at 1 January | 10 966 684 | 9 036 342 |
| Impairment loss recognized as at 1 January 2018 (impact of initial applying of IFRS 9) | - | 409 366 |
| Impairment loss recognised during the period | 1 712 895 | 2 791 879 |
| Impairment loss reversed during the period | (2 242 385) | (709 811) |
| Consumed | (499 253) | (561 092) |
| Provision for impairment as at 31 December | 9 937 941 | 10 966 684 |
| Account receivable directly written-off to profit and loss | 37 587 | 34 775 |

Note 15. Inventories

| | 31 December 2019 | 31 December 2018 |
|----------------------------------|---------------------|---------------------|
| Fuel | 2 878 602 | 3 296 301 |
| Spare parts | 169 372 | 176 545 |
| Raw materials and other supplies | 565 179 | 540 795 |
| Total inventories | 3 613 153 | 4 013 641 |

Raw materials and other supplies are recorded net of provision for impairment in the amount of RUB 257 thousand (31 December 2018: RUB 1 771 thousand).

Note 16. Share capital

Share capital

The Group's share capital as at 31 December 2019 and as at 31 December 2018 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 2019 and as at 31 December 2018 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 11 June 2019, the decision was made to pay a total of RUB 2 484 528 thousand in annual dividends for 2017 (2018: RUB 1 887 864 thousand for 2017). The amount of dividends distributed for one share is 0.000644605 roubles.

Note 17. Borrowings

| | 31 December 2019 | 31 December 2018 |
|---|-------------------|-------------------|
| Long-term borrowings | | |
| Bank borrowings | - | 5 798 000 |
| Bonds | 4 000 000 | 4 000 000 |
| Borrowings | - | 1 800 000 |
| Total long-term bank borrowings and bonds issued | 4 000 000 | 11 598 000 |
| Short-term bank borrowings | | |
| Bank borrowings | 10 112 800 | 6 552 851 |
| Current portion of long-term bank borrowings | 3 098 000 | 876 698 |
| Current portion of long-term bonds | 47 060 | 32 040 |
| Total short-term bank borrowings | 13 257 860 | 7 461 589 |

The terms and conditions of outstanding liabilities at the reporting date are as follows:

| | Currency | Contractual interest rate | Maturity | 31 December 2019 | 31 December 2018 |
|------------------------|----------|---------------------------|-----------|-------------------|-------------------|
| Bank borrowings | | | | | |
| PJSC Sberbank RF | RUB | 6.76-6.9% | 2020 | 8 864 534 | 901 409 |
| Bank Rossiya | RUB | 7.50% | 2020 | 3 098 000 | 3 098 000 |
| Gazprombank JSC | RUB | 8.7-8.8% | 2020 | 1 248 266 | 1 247 827 |
| PJSC Sberbank RF | EUR | 8.15% | 2019 | - | 5 305 024 |
| Bank VTB (PJSC) | RUB | 8.75-9.0% | 2019 | - | 2 306 163 |
| NORDIC Investment Bank | RUB | EURIBOR + 3% | 2019 | - | 369 126 |
| Bonds | | | | | |
| Bonds 03 | RUB | CPI+1.5% | 2020-2021 | 2 004 440 | 2 002 860 |
| Bonds 04 | RUB | CPI+1.5% | 2020-2022 | 2 042 620 | 2 029 180 |
| Borrowings | | | | | |
| PJSC Gazprom | RUB | 7.76% | 2019 | - | 1 800 000 |
| Total | | | | 17 257 860 | 19 059 589 |

Fair values of the Group's borrowings approximate their carrying values as of both year ends and are not disclosed.

Note 18. Other Non-Current Liabilities

| | 31 December 2019 | 31 December 2018 |
|--|------------------|------------------|
| Long-term accounts payable | 289 421 | 130 231 |
| Long-term lease liability | 7 264 171 | - |
| Total other non-current liabilities | 7 553 591 | 130 231 |

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 2019 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 2019 and 31 December 2018.

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

The principal actuarial assumptions are as follows:

| | 31 December 2019 | 31 December 2018 |
|--|---|---|
| Principal actuarial assumptions: | | |
| Discount rate for benefits at accumulation phase | 6.5% | 8.8% |
| Indexation of fixed benefits | 4% | 4.1% |
| Life expectancy table | Adjusted mortality table of urban population of Northwestern Federal District 2016, the correction factor 0,5 | Adjusted mortality table of urban population of Northwestern Federal District 2016, the correction factor 0,5 |
| Retirement age | Curve in depend on age | Curve in depend on age |
| Personnel rotation | Curve in depend on service | Curve in depend on service |

Note 19. Post-Employment Benefits Obligations (continued)

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

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--|-----------------------------------|-----------------------------------|
| Benefit obligations as at the beginning of the period | 895 250 | 1 138 739 |
| Current service cost | 31 394 | 68 166 |
| Interest cost | 72 642 | 79 982 |
| Past service cost | - | (78 671) |
| Loss/(gain) from remeasurements of post-employment benefit obligations | 229 061 | (240 660) |
| Actuarial losses/(gain) - changes in financial assumptions | 254 440 | (171 426) |
| Actuarial losses - adjustments | (25 379) | (69 234) |
| Program benefits | (69 774) | (72 306) |
| Benefit obligations as at the end of the period | 1 158 573 | 895 250 |

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

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--|-----------------------------------|-----------------------------------|
| Cost of service: | 31 394 | (10 505) |
| Current service cost | 31 394 | 68 166 |
| Past service cost | - | (78 671) |
| Interest expenses, net | 72 642 | 79 982 |
| Loss/(gain) from remeasurements of post-employment benefit obligations | 17 586 | (15 318) |
| Actuarial losses/(gain) - changes in financial assumptions | 20 585 | (11 090) |
| Actuarial gain - adjustments | (2 999) | (4 228) |
| Total pension expenses, net | 121 622 | 54 159 |

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 2019 | Year ended 31 December 2018 |
|--|-----------------------------------|-----------------------------------|
| Loss/(gain) from remeasurements of post-employment benefit obligations | 211 475 | (225 343) |
| Actuarial losses/(gain) - changes in financial assumptions | 233 854 | (160 336) |
| Actuarial losses - adjustments | (22 379) | (65 007) |
| Total comprehensive (expense)/income | 211 475 | (225 343) |

Best estimate of contributions expected to be paid to the plan during the annual period beginning after 31 December 2019 equals to RUB 78 318 thousand.

Note 19. Post-Employment Benefits Obligations (continued)

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 | 18 851 | 14 953 | 39 364 | 185 182 | 258 350 |
| Lump sum benefits | 36 839 | 34 195 | 106 598 | 244 792 | 422 424 |
| Monthly benefits | 22 628 | 22 199 | 96 035 | 336 937 | 477 799 |
| Total | 78 318 | 71 347 | 241 997 | 766 911 | 1 158 573 |

Sensitivity analysis results of the defined benefit obligations as at 31 December 2019 is presented below. Sensitivity analysis was calculated for three parameters: discount rate, indexed fixed benefits and personnel rotation.

| | Decrease | Calculated rate | Increase |
|-------------------------------------|-----------|-----------------|-----------|
| Discount rate | 5.5% | 6.5% | 7.5% |
| absolute value | 1 321 786 | 1 158 573 | 1 027 453 |
| change in obligations (%) | 14.1% | - | (11.3)% |
| Indexation of fixed benefits | 3% | 4% | 5% |
| absolute value | 1 023 461 | 1 158 573 | 1 023 461 |
| change in obligations (%) | (11.7%) | - | 14.3% |

| | Increase of personnel rotation for 10% | Calculated rate | Decrease of personnel rotation for 10% |
|---------------------------|--|-----------------|--|
| Personnel rotation | | | |
| absolute value | 1 149 523 | 1 158 573 | 1 167 939 |
| change in obligations (%) | 0.8% | - | (0.8)% |

Note 20. Trade and other payables

| | 31 December 2019 | 31 December 2018 |
|---|-------------------|-------------------|
| Trade accounts payable | 4 912 150 | 5 065 792 |
| Accounts payable for capital construction | 3 601 623 | 2 286 021 |
| Accrued liabilities and other payables | 256 383 | 437 315 |
| Short-term lease liability | 2 265 619 | - |
| Total financial payables | 11 035 775 | 7 789 128 |
| Advances from customers | 1 923 802 | 2 189 453 |
| Current employee benefits | 554 806 | 540 293 |
| Total trade and other payables | 13 514 383 | 10 518 874 |

Note 21. Other Taxes Payable

| | 31 December 2019 | 31 December 2018 |
|---|---------------------|---------------------|
| Property tax | 329 302 | 419 513 |
| VAT payable | 314 624 | 308 343 |
| Contributions to the compulsory social insurance scheme | 248 112 | 243 905 |
| Personal Income Tax | 74 769 | 70 356 |
| Other taxes | 18 809 | 19 517 |
| Total taxes payable | 985 617 | 1 061 634 |

As at 31 December 2019 and as at 31 December 2018 the Group had no past due tax liabilities.

Note 22. Revenue

| | 31 December 2019 | 31 December 2018 |
|--------------------------|---------------------|---------------------|
| Electricity and capacity | 53 808 102 | 53 556 633 |
| Heating | 41 864 310 | 36 810 516 |
| Other sales | 1 583 236 | 2 088 031 |
| Total | 97 255 648 | 92 455 180 |

Other sales are generally presented by connection of customers to heating network and operating lease income.

In 2019 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 Saint-Petersburg budget and Murmansk regional budget for a total amount of RUB 4 186 777 thousand (in 2018 - RUB 669 885 thousand).

Note 23. Operating Expenses

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|-----------------------------------|-----------------------------------|
| Fuel | 36 437 285 | 34 815 586 |
| Depreciation and amortization | 10 351 111 | 7 977 570 |
| Impairment loss on property, plant and equipment | 5 120 510 | - |
| Impairment loss on intangible assets | 48 331 | - |
| Employee benefits | 9 069 996 | 8 066 922 |
| Electricity and capacity purchases | 6 509 544 | 6 733 934 |
| Repairs, maintenance and service | 3 575 911 | 3 630 243 |
| Water usage | 3 152 846 | 3 033 624 |
| Heat distribution | 2 282 587 | 2 082 241 |
| Taxes other than income tax | 1 584 264 | 2 012 200 |
| Other materials | 1 514 761 | 905 837 |
| Heat purchases | 1 010 412 | 1 042 288 |
| Fees of electricity market operators | 863 340 | 855 021 |
| Security and fire safety | 848 012 | 535 408 |
| Loss on disposal of property, plant and equipment | 400 994 | 180 735 |
| Electricity distribution | 126 519 | 199 100 |
| Operating lease | 80 668 | 2 725 026 |
| Other operating expenses | 2 621 912 | 2 633 254 |
| Total operating expenses | 85 599 003 | 77 428 990 |

Employee benefits are generally presented by wages and salaries. Social insurance contributions are included in "Employee benefits" in the amount of RUB 2 072 898 thousand (in 2018 - in the amount of RUB 1 735 118 thousand).

Note 24. Finance Income and Finance Costs

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--|-----------------------------------|-----------------------------------|
| Interest income | 252 029 | 145 289 |
| Exchange differences | 242 649 | 1 535 818 |
| Effect of discounting of financial instruments | 44 287 | 21 494 |
| Total finance income | 538 965 | 1 702 601 |
| Interest expense on loans and borrowings | (737 398) | (941 315) |
| Interest expense on lease | (724 152) | - |
| Interest expense on post-employment benefits obligations | (72 642) | (79 982) |
| Exchange differences | (525 920) | (1 309 749) |
| Effect of discounting of financial instruments | (299 396) | (3 974) |
| Total finance costs | (2 359 508) | (2 335 020) |

Note 25. Earnings per Share

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|-----------------------------------|-----------------------------------|
| Profit attributable to owners of the Company | 8 927 941 | 10 118 216 |
| Weighted average number of ordinary shares issued (thousands) | 3 854 341 417 | 3 854 341 417 |
| Earnings per ordinary share attributable to the owners of the Company after tax - basic and diluted - in Russian Roubles | 0.0023 | 0.0026 |

Note 26. 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.

For electricity sales the Group concludes commission agreements with JSC FSC in the free trading sectors (75 percent of produced volume of electricity).

For capacity sales in the wholesale market's regulated sectors the Group concludes sales and purchases agreements of capacity.

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 2019, were: 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy (as at 31 December 2018 - 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy).

Fuel commitments

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

Contractual capital commitments

As at 31 December 2019, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment in the amount of RUB 13 275 587 thousand (31 December 2018: RUB 11 677 847 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.

Furthermore in according to order of the Ministry of Energy № 1207 of 13 November 2019 "About approval heat supply plan of Saint-Petersburg until 2033" Group got a capital commitments in the amount of RUB 33 500 000 thousand, provided funding with budget resources participation.

Note 27. 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.

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 2019 and 31 December 2018 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.

Note 27. Contingencies (continued)

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. Estimated liability under lands reclamation was not recognised. The Group's management also considers that estimated liability of the land reclamation has not significant effect on the Group's Statements of Financial Position, Profit or Loss and Other Comprehensive Income and Cash Flows as the most power plants work on gas fuel.

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 28. Financial instruments and financial risk factors

Financial risk factors

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.

Note 28. Financial instruments and financial risk factors (continued)

All bank balances are neither past due nor impaired. Analysis of bank balances in respect of bank reliability is as follows:

| | 31 декабря 2019 г. | 31 декабря 2018 г. |
|---|--------------------|--------------------|
| External credit risk is not lower B (Fitch ratings) | 242 630 | 4 208 611 |
| No external credit risk* | 49 280 | 2 657 873 |
| Total cash and cash equivalents | 291 910 | 6 866 484 |

* AB Rossiya

Corresponding ratings are published by Fitch Ratings and other credit agencies. Ratings are conditionally assigned to the Fitch Ratings classification. The Group pursues the policy of cooperation with banks that have a high rating, which is approved by the Board of Directors.

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 2019 | 31 December 2018 |
|--|---------------------|---------------------|
| Cash and cash equivalents (Note 12) | 880 717 | 6 866 953 |
| Short-term investments (Note 13) | 10 009 551 | 4 370 |
| Total short-term financial receivables (Note 14) | 12 831 064 | 13 242 055 |
| Total long-term financial receivables (Note 11) | 1 445 199 | 255 568 |
| Total | 25 166 531 | 20 368 946 |

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.

Note 28. Financial instruments and financial risk factors (continued)

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 2019, the Group had the following currency positions:

| | RUB | EUR | Total |
|--|---------------------|---------------|---------------------|
| Monetary financial assets | | | |
| Cash and cash equivalents | 880 717 | - | 880 717 |
| Total short-term financial receivables | 12 789 587 | 41 477 | 12 831 064 |
| Total long-term financial receivables | 1 445 199 | - | 1 445 199 |
| Total financial assets | 15 115 503 | 41 477 | 15 156 980 |
| Monetary financial liabilities | | | |
| Long-term borrowings | (4 000 000) | - | (4 000 000) |
| Short-term borrowings | (13 257 860) | - | (13 257 860) |
| Total other financial liabilities | (18 589 367) | - | (18 589 367) |
| Total financial liabilities | (35 847 227) | - | (35 847 227) |
| Net balance sheet position | (20 731 724) | 41 477 | (20 690 247) |

As at 31 December 2018, the Group had the following currency positions:

| | Рубли | Евро | Всего |
|--|---------------------|------------------|---------------------|
| Monetary financial assets | | | |
| Cash and cash equivalents | 4 191 977 | 2 674 976 | 6 866 953 |
| Total short-term financial receivables | 12 981 065 | 260 990 | 13 242 055 |
| Total long-term financial receivables | 255 568 | - | 255 568 |
| Total financial assets | 17 428 610 | 2 935 966 | 20 364 576 |
| Monetary financial liabilities | | | |
| Long-term borrowings | (11 598 000) | - | (11 598 000) |
| Short-term borrowings | (7 092 463) | (369 126) | (7 461 589) |
| Total other financial liabilities | (7 919 359) | - | (7 919 359) |
| Total financial liabilities | (26 609 822) | (369 126) | (26 978 948) |
| Net balance sheet position | (9 181 212) | 2 566 840 | (6 614 372) |

As at 31 December 2019, if the Russian Rouble had weakened/strengthened by 30% (2018: 30%) against the EURO with all other variables remaining constant, the year's profit would have been RUB 12 443 thousand (2018: RUB 770 052 thousand) lower/higher.

As at 31 December 2019, 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 860 thousand lower/higher (2018: RUB 877 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.

Note 28. Financial instruments and financial risk factors (continued)

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 approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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.

| | Contractual cash flows | | | | | | |
|------------------------------------|------------------------|-------------------|------------------|-------------------|------------------|------------------|-------------------|
| | Carrying amount | Total | 0 - 6 m | 6 - 12 m | 1-2 years | 2-5 years | More than 5 years |
| As at 31 December 2019 | | | | | | | |
| Long-term and short-term bonds | 4 047 060 | 4 429 840 | 115 680 | 89 760 | 2 179 520 | 2 044 880 | - |
| Long-term and short-term loans | 13 210 800 | 13 827 323 | 1 693 001 | 12 134 322 | - | - | - |
| Long-term and short-term lease | 9 529 789 | 12 857 818 | 1 373 247 | 1 363 414 | 2 697 313 | 3 447 799 | 3 976 045 |
| Trade and other payables | 9 928 729 | 9 117 872 | 5 676 873 | 3 093 283 | 78 502 | 269 214 | - |
| Total financial liabilities | 36 716 378 | 40 232 853 | 8 858 801 | 16 680 779 | 4 955 335 | 5 761 893 | 3 976 045 |

| | Contractual cash flows | | | | | | |
|---|------------------------|-------------------|------------------|------------------|------------------|------------------|-------------------|
| | Carrying amount | Total | 0 - 6 m | 6 - 12 m | 1-2 years | 2-5 years | More than 5 years |
| As at 31 December 2018 | | | | | | | |
| Long-term and short-term bonds and borrowings | 5 832 040 | 7 027 694 | 150 494 | 187 546 | 373 920 | 6 315 734 | - |
| Long-term and short-term loans | 13 227 549 | 14 696 070 | 1 773 257 | 6 630 012 | 4 909 459 | 1 383 342 | - |
| Trade and other payables | 7 919 359 | 7 934 817 | 5 382 428 | 2 406 700 | 87 061 | 58 628 | - |
| Total financial liabilities | 26 978 948 | 29 658 581 | 7 306 179 | 9 224 258 | 5 370 440 | 7 757 704 | - |

Note 28. Financial instruments and financial risk factors (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 2019 | 31 December 2018 |
| Fixed rate instruments | | |
| Long-term loans and borrowings | - | 7 598 000 |
| Short-term loans and borrowings | 13 210 800 | 7 060 423 |
| Variable rate instruments | | |
| Long-term loans and borrowings | 4 000 000 | 4 000 000 |
| Short-term loans and borrowings | 47 060 | 401 166 |
| Total financial instruments | 17 257 860 | 19 059 589 |

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 2018 - seven percent) in interest rates would have decreased/increased the Group's profit after income tax for the year ended 31 December 2019 by approximately RUB 280 000 thousand (for the year ended 31 December 2018: RUB 303 961 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 2019 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

The fair value of financial assets and liabilities is determined as follows:

Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market closing prices at the reporting date.

Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using various valuation techniques, primarily based on market or income approach, such as discounted cash flows valuation method. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on Group specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Note 28. Financial instruments and financial risk factors (continued)

Financial instruments in Level 3

If one or more of the significant inputs in the valuation model used to fair value an instrument is not based on observable market data, the instrument is included in Level 3. The fair value of financial instruments, such as short-term trade and other receivables and trade and other payables are classified as Level 3 and are not disclosed, because their fair value is slightly different from their present value.

There was no change in the fair value measurement methods attributed to Level 2 and Level 3 for the year ended 31 December 2019 (31 December 2018: there was no change). There were no transfers between levels for the year ended 31 December 2019 (31 December 2018: there were no transfers).

As at 31 December 2019 and 31 December 2018 the estimated fair value of financial assets and liabilities, that are not recognized at fair value in consolidated statement of financial position, is slightly different from their present value and is not disclosed.

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.

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 2019 was RUB 122 752 539 thousand (2018: RUB 115 909 938 thousand). Capital management is linked to maintaining certain financial ratios to comply with bank-imposed covenants (Note 17).

Note 29. Segment Information

The Board of Directors and Managing Director is the Chief operating decision-maker. The decision-maker reviews the Group's internal management report in order to assess performance of the Group and allocate resources.

The technology of electricity and heat production does not allow segregation of electricity and heat segments. The Company's branches are managed separately due to significant decentralization and distances between them, as a result the Group discloses 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 the process of evaluation of segments, results and allocation of economic resources of the Group the Management uses financial information provided below prepared in accordance with RAR. The differences between the above-mentioned financial indicators analysed by the Management and IFRS financial information are caused by different approaches applied in IFRS and RAR. The main differences relate to the respective carrying values of property, plant and equipment. The Group does not have inter-segment revenue.

Considering that the management responsible for decision-making does not review assets and liabilities by each reportable segment not least because of the lack of technical capabilities to present such information, the Group does not disclose assets and liabilities by segments.

Financial results of segments

The segment information for the year ended 31 December 2019 and 31 December 2018 is as follows:

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2019
 (in thousands of Russian Roubles)

Note 29. Segment Information (continued)

| | 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 |
|--|----------------------------|----------------------------|-----------------------------------|------------------|--------------------|----------------------|-------------------------|-------------------|--------------|-------------|-------------|
| Year ended 31 December 2019 | 64 191 146 | 4 969 084 | 9 864 348 | 11 681 487 | 7 917 213 | 7 917 556 | 2 077 992 | 108 618 826 | (11 276 261) | (86 917) | 97 255 648 |
| Revenue: including export | - | 889 487 | - | 854 977 | - | - | - | 1 744 464 | - | - | 1 744 464 |
| Depreciation of property, plant, equipment | 5 282 514 | 435 096 | 2 500 694 | 658 122 | 490 760 | 95 765 | 865 608 | 10 328 559 | - | (295 811) | 10 032 748 |
| Reportable segment profit/(loss) | 12 256 658 | 2 622 786 | 1 404 375 | 3 383 756 | 1 052 492 | 1 673 232 | (7 467 050) | 14 926 249 | 2 257 | (4 589 896) | 10 338 610 |
| Other significant non- monetary items: | | | | | | | | | | | |
| Impairment loss (recognized)/reversed | - | - | (5 168 926) | - | - | 85 | - | (5 168 841) | - | - | (5 168 841) |

| | 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 |
|--|----------------------------|----------------------------|----------------------------------|------------------|--------------------|----------------------|-------------------------|-------------------|--------------|-------------|------------|
| Year ended 31 December 2018 | 61 281 905 | 5 644 826 | 8 556 892 | 11 756 736 | 7 684 784 | 6 247 689 | 711 601 | 101 884 432 | (9 713 343) | 284 091 | 92 455 180 |
| Revenue: including export | - | 1 191 875 | - | 1 613 537 | - | - | - | 2 805 412 | - | - | 2 805 412 |
| Depreciation of property, plant, equipment | 6 197 628 | 428 967 | 2 483 844 | 715 835 | 491 835 | 45 528 | 238 118 | 10 601 755 | - | (2 833 604) | 7 768 151 |
| Reportable segment profit/(loss) | 8 434 622 | 2 439 056 | 490 920 | 2 175 686 | 985 751 | 45 618 | (5 492 961) | 9 078 691 | (215 385) | 3 452 413 | 12 315 719 |

Note 29. Segment Information (continued)

Reconciliation of the segment result to consolidated profit (loss) before income tax in the consolidated statement of comprehensive income for the year ended 31 December 2019 and 31 December 2018 is provided as follows:

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--|-----------------------------------|-----------------------------------|
| Revenue reclassification adjustments | (86 917) | 284 091 |
| Depreciation adjustment | 295 811 | 2 833 604 |
| Actuarial gain/(losses) | (51 851) | 18 147 |
| Effect of discounting | (255 110) | 17 520 |
| Impairment loss recognized on non-financial assets | (5 168 841) | - |
| Other adjustments | 677 012 | 299 051 |
| | (4 502 979) | 3 168 322 |
| Total adjustments to profit before income tax | (4 589 896) | 3 452 413 |

Note 30. 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 |
|--|---|--|--|---|---|
| Year ended 31 December 2019 | | | | | |
| JSC St Petersburg Heating Grid | Saint-Petersburg | 28% | (955 655) | 8 904 388 | - |
| PJSC Murmanskaya TPP | Murmansk | 1,15% | 17 940 | 16 344 | - |
| Total | | | (937 715) | 8 920 731 | |
| Year ended 31 December 2018 | | | | | |
| JSC St Petersburg Heating Grid | Saint-Petersburg | 25% | 304 014 | 8 934 056 | - |
| PJSC Murmanskaya TPP | Murmansk | 1,3% | (828) | (1 451) | - |
| Total | | | 303 186 | 8 932 605 | |

The summarised financial information of JSC St Petersburg Heating Grid and PJSC Murmanskaya TPP was as follows at 31 December 2019:

| | Current assets | Non- current assets | Current liabilities | Non- current liabilities | Revenue | Profit/ (loss) | Total compre- hensive income | Cash flows |
|--|-------------------|---------------------------|------------------------|--------------------------------|-------------------|--------------------|---------------------------------------|------------------|
| Year ended 31 December 2019 | | | | | | | | |
| JSC St Petersburg Heating Grid | 2 592 069 | 31 006 318 | 6 910 475 | 2 686 751 | 9 930 771 | (3 354 294) | (3 376 839) | 602 535 |
| PJSC Murmanskaya TPP | 2 692 186 | 1 685 274 | 2 771 442 | 95 107 | 7 805 562 | 1 370 931 | 1 358 258 | 218 923 |
| Total | 5 284 255 | 32 691 592 | 9 681 917 | 2 781 858 | 17 736 333 | (1 983 364) | (2 018 581) | 821 458 |
| Year ended 31 December 2018 | | | | | | | | |
| JSC St Petersburg Heating Grid | 1 712 357 | 33 850 392 | 3 837 665 | 5 550 964 | 8 557 444 | 1 216 056 | 1 222 522 | (35 810) |
| PJSC Murmanskaya TPP | 2 273 330 | 1 669 389 | 1 980 518 | 1 808 355 | 6 219 131 | (62 758) | (44 461) | (94 732) |
| Total | 3 985 687 | 35 519 781 | 5 818 183 | 7 359 319 | 14 776 57 | 1 153 298 | 1 178 061 | (130 542) |

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

Note 31. Events after the Reporting Period

Borrowings

During the period between reporting date and signing date, the Group received short-term borrowings of RUB 770 000 thousand.

During the period between reporting date and signing date, the Group repaid borrowings a total of RUB 7 780 900 thousand.

Decrease of ownership interest in a subsidiary

The Board of Directors of PJSC «TGC-1» approved the decrease of the ownership interest of TGC-1 in the share capital of St. Petersburg Heating Grid to a value not less than 65.5% (Resolution No. 14 on 31 January 2020).

Approved for issue and signed on 10 March 2020.

Deputy Director General of economics and finance



A. V. Goncharov

Chief Accountant



R. V. Stanishevskaya