

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

International Financial Reporting Standards  
Consolidated Financial Statements for NINE  
MONTHS ended 30 September 2015  
(not audited)

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JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2015  
 (in thousands of Russian Roubles)

	Notes	30 September 2015	31 December 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	129 388 655	128 476 563
Investment property		83 956	88 489
Intangible assets		467 438	506 919
Investments in associates and joint ventures	7	383 681	427 137
Deferred income tax assets		198 726	302 332
Other non-current assets	8	541 204	369 044
<b>Total non-current assets</b>		<b>131 063 660</b>	<b>130 170 484</b>
<b>Current assets</b>			
Cash and cash equivalents	9	612 977	2 265 399
Short-term investments	10	42 073	30 073
Trade and other receivables	12	13 630 960	15 009 886
Current income tax prepayments		1 784 619	120 705
Inventories	13	2 830 358	2 646 806
		<b>18 900 987</b>	<b>20 072 869</b>
Non-current assets held for sale	11	112 940	86 651
<b>Total current assets</b>		<b>19 013 927</b>	<b>20 159 520</b>
<b>TOTAL ASSETS</b>		<b>150 077 587</b>	<b>150 330 004</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	38 543 414	38 543 414
Share premium	14	22 913 678	22 913 678
Merger reserve	14	(6 086 949)	(6 086 949)
Other reserves		(1 209 011)	(1 209 011)
Effect of remeasurements of post-employment benefits obligations		128 851	128 851
Retained earnings		40 766 898	37 821 995
<b>Equity attributable to the Company's owners</b>		<b>95 056 881</b>	<b>92 111 978</b>
Non-controlling interest		8 826 958	8 605 089
<b>TOTAL EQUITY</b>		<b>103 883 839</b>	<b>100 717 067</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		10 359 227	10 258 223
Long-term borrowings	15	22 325 631	21 260 080
Other non-current liabilities	16	200 229	208 755
Post-employment benefits obligations		724 666	724 666
<b>Total non-current liabilities</b>		<b>33 609 753</b>	<b>32 451 724</b>
<b>Current liabilities</b>			
Short-term borrowings	17	6 160 003	8 692 944
Trade and other payables	18	5 775 371	7 015 331
Current income tax payable		-	-
Other taxes payable	19	648 621	1 452 938
<b>Total current liabilities</b>		<b>12 583 995</b>	<b>17 161 213</b>
<b>TOTAL LIABILITIES</b>		<b>46 193 748</b>	<b>49 612 937</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>150 077 587</b>	<b>150 330 004</b>

Approved for issue and signed on 17 November 2015.

General Director  
 Chief Accountant

A. V. Barvinok  
 R. V. Stanishevskaya

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR NINE MONTHS  
ENDED 30 SEPTEMBER 2015  
(in thousands of Russian Roubles)

	Notes	Nine months ended 30 September 2015	Nine months ended 30 September 2014
<b>Revenue</b>			
Sales of electricity		28 013 879	29 304 412
Sales of heat		19 584 609	17 932 925
Other sales	20	450 451	703 015
<b>Total revenue</b>		<b>48 048 939</b>	<b>47 940 352</b>
Government grants	21	566 532	463 538
Operating expenses	22	(41 733 633)	(42 108 598)
Impairment loss recognized	6	(436 912)	
Other operating income	23	479 549	350 745
<b>Total operating expenses</b>		<b>(41 124 464)</b>	<b>(41 294 315)</b>
<b>Operating profit</b>		<b>6 924 475</b>	<b>6 646 037</b>
Finance income	24	170 628	68 264
Finance costs	24	(2 024 644)	(1 681 991)
<b>Finance costs, net</b>		<b>(1 854 016)</b>	<b>(1 613 727)</b>
<b>Profit before income tax</b>		<b>5 070 459</b>	<b>5 032 310</b>
Income tax expense		(1 034 907)	(1 119 532)
<b>Profit</b>		<b>4 035 552</b>	<b>3 912 778</b>
<b>Other comprehensive income</b>			
<b>Other comprehensive income including tax</b>			
		-	-
<b>Total comprehensive income</b>		<b>4 035 552</b>	<b>3 912 778</b>
<b>Profit is attributable to:</b>			
Owners of the TGC-1		3 813 683	3 718 108
Non-controlling interests		221 869	194 670
<b>Profit</b>		<b>4 035 552</b>	<b>3 912 778</b>
<b>Total comprehensive income is attributable to:</b>			
Owners of the TGC-1		3 813 683	3 718 108
Non-controlling interests		221 869	194 670
<b>Total comprehensive income</b>		<b>4 035 552</b>	<b>3 912 778</b>

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR NINE MONTHS ENDED 30 SEPTEMBER 2015  
(in thousands of Russian Roubles)

	Attributable to owners of the Company						Total	Non-controlling interest	Total equity
	Share capital	Effect of remeasurements of post-employment benefits obligations	Share premium	Merger reserve	Other reserves	Retained earnings			
<b>Balance at 1 January 2014</b>	<b>38 543 414</b>	<b>37 001</b>	<b>22 913 678</b>	<b>(6 086 949)</b>	<b>(1 209 011)</b>	<b>34 575 950</b>	<b>88 774 083</b>	<b>8 340 797</b>	<b>97 114 880</b>
<b>Comprehensive income for the year</b>									
Profit for the year	-	-	-	-	-	3 889 674	3 889 674	259 225	4 148 899
<b>Other comprehensive income</b>									
Remeasurements of post-employment benefits obligations	-	108 256	-	-	-	-	108 256	6 049	114 305
Income tax on other comprehensive income	-	(16 406)	-	-	-	-	(16 406)	(982)	(17 388)
<i>Total other comprehensive income</i>	-	91 850	-	-	-	-	91 850	5 067	96 917
<b>Total comprehensive income for the year</b>	-	<b>91 850</b>	-	-	-	<b>3 889 674</b>	<b>3 981 524</b>	<b>264 292</b>	<b>4 245 816</b>
<b>Transactions with owners</b>									
Dividends	-	-	-	-	-	(643 629)	(643 629)	-	(643 629)
<b>Total transactions with owners</b>	-	-	-	-	-	<b>(643 629)</b>	<b>(643 629)</b>	-	<b>(643 629)</b>
<b>Balance at 31 December 2014</b>	<b>38 543 414</b>	<b>128 851</b>	<b>22 913 678</b>	<b>(6 086 949)</b>	<b>(1 209 011)</b>	<b>37 821 995</b>	<b>92 111 978</b>	<b>8 605 089</b>	<b>100 717 067</b>
<b>Comprehensive income</b>									
Profit	-	-	-	-	-	3 813 683	3 813 683	221 869	4 035 552
<b>Other comprehensive income</b>									
Remeasurements of post-employment benefits obligations	-	-	-	-	-	-	-	-	-
Income tax on other comprehensive income	-	-	-	-	-	-	-	-	-
<i>Total other comprehensive income</i>	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income</b>	-	-	-	-	-	<b>3 813 683</b>	<b>3 813 683</b>	<b>221 869</b>	<b>4 035 552</b>
<b>Transactions with owners</b>									
Dividends	-	-	-	-	-	(868 780)	(868 780)	-	(868 780)
<b>Total transactions with owners</b>	-	-	-	-	-	<b>(868 780)</b>	<b>(868 780)</b>	-	<b>(868 780)</b>
<b>Balance at 30 September 2015</b>	<b>38 543 414</b>	<b>128 851</b>	<b>22 913 678</b>	<b>(6 086 949)</b>	<b>(1 209 011)</b>	<b>40 766 898</b>	<b>95 056 881</b>	<b>8 826 958</b>	<b>103 883 839</b>

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF CASH FLOWS FOR NINE MONTHS ENDED 30 SEPTEMBER 2015  
 (in thousands of Russian Roubles)

Notes	Nine months ended 30 September 2015	Nine months ended 30 September 2014
<b>Cash flows from operating activities</b>		
Profit before income tax	5 070 459	5 032 310
Adjustments to non-cash items	6 542 158	6 602 436
<b>Operating cash flows before working capital changes</b>	<b>11 612 617</b>	<b>11 634 746</b>
Capital changes	(306 604)	1 000 797
<b>Cash generated from operations</b>	<b>11 306 013</b>	<b>12 635 543</b>
Income taxes paid and interest paid	(4 704 387)	(3 050 807)
<b>Net cash from operating activities</b>	<b>6 601 626</b>	<b>9 584 736</b>
<b>Net cash used in investing activities</b>	<b>(5 772 710)</b>	<b>(5 477 482)</b>
<b>Net cash from financing activities</b>	<b>(2 481 338)</b>	<b>(3 507 587)</b>
Cash and cash equivalents at the beginning of the year	2 265 399	243 005
Cash and cash equivalents at the end of the year	612 977	842 672

**Note 1. The Group and its operations**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for nine months ended 30 September 2015 for Open Joint-Stock Company (OJSC) Territorial Generating Company № 1 (here in after "TGC-1", or the "Company") and its subsidiaries (the "Group").

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

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

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

Subsidiary	% of ownership as at 30 September		
	2015	2014	Immediate parent
PJSC Murmanskaya TPP	90.3423	90.3423	JSC TGC-1
OJSC St Petersburg Heating Grid	74.9997	74.9997	JSC TGC-1

As the operator of 54 power plants, the Group is principally engaged in electricity, capacity and heat generation. The Group's generating assets are located in the North-West of Russia, in particular in St. Petersburg, the Leningrad region, the Murmansk region and in Karelia region.

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

**Note 2. Operating environment of the Group**

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2014 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2014:

- the CBRF exchange rate fluctuated between RR 32.6587 and RR 67.7851 per USD;
- the CBRF key interest rate increased from 5.5% p.a. to 17.0% p.a. including an increase from 12.0% p.a. to 17.0% p.a. on 16 December 2014;
- the RTS stock exchange index ranged between 629.15 and 1 421.07;
- access to international financial markets to raise funding was limited for certain entities; and
- capital outflows increased compared to prior years.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2014:

- the CBRF exchange rate fluctuated between RR 49.1777 per USD and RR 69.6640 per USD;
- Russia's credit rating was downgraded by Fitch Ratings in January 2015 to BBB-, whilst Standard & Poor's cut it to BB+, putting it below investment grade for the first time in a decade. Moody's Investors Service and Fitch Ratings still have Russia as investment grade. However, all these rating agencies indicated a negative outlook, meaning further downgrades are possible.
- the RTS stock exchange index ranged between 737.35 and 1082.21;
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates; and
- the CBRF key rate decreased from 17.0% p.a. to 11% p.a.

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

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

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

***Government relations and current regulation***

As at 30 September 2015 the Group was controlled by the Gazprom Group (51.79% stake) via its subsidiary Gazprom Energoholding LLC (as at 31 December 2014 51.79% stake). The Group's other significant shareholder as at 30 September 2015 was Fortum Power and Heat Oy - 29.45% stake (as at 31 December 2014 - 25.66% stake). The Gazprom Group is controlled by the government of the Russian Federation, which was the Group's ultimate controlling party as at 30 September 2015 and 31 December 2014.

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.

***Going concern***

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

As at 30 September 2015, the Group's current assets exceeded its current liabilities by RUB 6 429 932 thousand (as at 31 December 2014 - by RUB 2 998 307 thousand).

Management believes that the Group will have a sufficient liquidity to continue its operations in the foreseeable future. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Presentation currency**

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

**Foreign currency translation**

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

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period.

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

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

At 30 September 2015, 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 66.2367 (31 December 2014: USD 1 = RUB 56.2584), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 74.5825 (31 December 2014: EUR 1 = RUB 68.3427).

**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 recycled to profit or loss.

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

#### *Financial instruments - key measurement terms*

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

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

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

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

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

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

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

***Classification of financial assets***

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

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

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

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

***Classification of financial liabilities***

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

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

***Initial recognition of financial instruments***

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

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

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

***Derecognition of financial assets***

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

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

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

***Property, plant and equipment***

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

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

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

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

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

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

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

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

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

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

***Investment property***

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

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

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

Land held under operating leases is classified and accounted for by the Group as investment property when the rest of the definition of investment property is met.

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

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

**Operating lease**

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

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

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

**Finance lease liabilities**

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

**Intangible assets**

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them into use. Amortisation is included in operating expenses (Note 22).

Intangible assets are amortised using the straight-line method over their useful lives:

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

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

**Income taxes**

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

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

The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities.

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

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

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

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

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

#### ***Inventories***

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

#### ***Trade and other receivables***

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

#### ***Impairment of financial assets carried at amortised cost***

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

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

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

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

***Prepayments***

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

***Cash and cash equivalents***

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

***Non-current assets classified as held for sale***

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

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

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition.

Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

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

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

***Share capital***

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



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

***Merger reserve***

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

***Other reserves***

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

***Dividends***

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

***Value added tax***

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

***Government grants***

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

***Trade and other payables***

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

***Borrowings***

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

***Borrowing costs***

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

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

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

#### ***Borrowing costs (continued)***

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

#### ***Provisions for liabilities and charges***

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

#### ***Revenue recognition***

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

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

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

#### ***Mutual cancellations***

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

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

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

#### ***Pension and post-employment benefits***

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

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

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

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

***Pension and post-employment benefits (continued)***

Defined benefit plans determine the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the reporting date. All defined benefit plans are considered to be fully unfunded. The defined benefit obligations are calculated using the projected unit credit method.

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

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

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

***Employee benefits***

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

***Environmental liabilities***

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

***Earnings per share***

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

***Offsetting***

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

***Segment reporting***

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

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

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

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities and carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts, recognised in the consolidated financial statements, and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year, include:

##### ***Provision for impairment of property, plant and equipment***

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

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

##### ***Useful lives of property, plant and equipment***

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

##### ***Recoverability of accounts receivable***

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

##### ***Deferred income tax asset recognition***

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable.

## **Note 5. Adoption of New or Revised Standards and Interpretations**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Group has not early adopted. The next standards were adopted in Russia:

***IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017).***

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

***Amendments to IAS 19 - "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).***

The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's financial statements.

***Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below).***

The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a "vesting condition" and to define separately "performance condition" and "service condition"; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its financial statements.

***Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).***

The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive.

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

The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its financial statements.

***IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).***

IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

***Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).***

This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendments on its financial statements.

***Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).***

In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment is not expected to have any impact on the Group's financial statements.

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

***IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).*** Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement.
- Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

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

- IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition.
- In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

***Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).***

The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendment is not expected to have any impact on the Group's financial statements.

***Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).***

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group is currently assessing the impact of the amendments on its separate financial statements.

***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).***

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

***Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).***

The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its financial statements.

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

***Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).***

The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

***Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).***

The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

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



**Note 6. Property, Plant and Equipment**

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

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2014	25 782 995	15 555 897	51 100 007	46 252 383	13 126 656	46 616 452	198 434 390
Effect of reclassifications	(1 808)	95 148	22 871	(161 054)	-	44 843	-
<b>Balance as at 31 December 2014 including reclassifications</b>	<b>25 781 187</b>	<b>15 651 045</b>	<b>51 122 878</b>	<b>46 091 329</b>	<b>13 126 656</b>	<b>46 661 295</b>	<b>198 434 390</b>
Additions	200	-	2 348	284 179	6 383 895	58 177	6 728 799
Transfers	306 935	90 990	643 302	34 599	(1 781 225)	705 399	-
Disposals	(16 779)	-	(68 191)	(80 325)	(29 980)	(106 529)	(301 804)
Reclassification to non-current assets held for sale	(122 367)	(351)	(43 237)	(29 443)	-	(74 678)	(270 076)
<b>Balance as at 30 September 2015</b>	<b>25 949 176</b>	<b>15 741 684</b>	<b>51 657 100</b>	<b>46 300 339</b>	<b>17 699 346</b>	<b>47 243 664</b>	<b>204 591 309</b>
<b>Accumulated depreciation (including impairment)</b>							
Balance as at 31 December 2014	(9 483 701)	(8 332 921)	(17 603 196)	(19 368 645)	(183 063)	(14 986 301)	(69 957 827)
Effect of reclassifications	12 694	(55 098)	5 324	100 041	-	(62 961)	-
<b>Balance as at 31 December 2014 including reclassifications</b>	<b>(9 471 007)</b>	<b>(8 388 019)</b>	<b>(17 597 872)</b>	<b>(19 268 604)</b>	<b>(183 063)</b>	<b>(15 049 262)</b>	<b>(69 957 827)</b>
Charge	(438 981)	(175 190)	(1 657 284)	(1 111 960)	-	(1 915 967)	(5 299 382)
Disposals	6 548	-	68 178	79 915	-	93 707	248 348
Reclassification to non-current assets held for sale	112 543	351	41 413	21 591	-	67 221	243 119
Impairment loss recognized	(48 092)	-	(17 888)	(303 192)	(1 148)	(66 592)	(436 912)
<b>Balance as at 30 September 2015</b>	<b>(9 838 989)</b>	<b>(8 562 858)</b>	<b>(19 163 453)</b>	<b>(20 582 250)</b>	<b>(184 211)</b>	<b>(16 870 893)</b>	<b>(75 202 654)</b>
<b>Net book value as at 31 December 2014</b>	<b>16 310 180</b>	<b>7 263 026</b>	<b>33 525 006</b>	<b>26 822 725</b>	<b>12 943 593</b>	<b>31 612 033</b>	<b>128 476 563</b>
<b>Net book value as at 30 September 2015</b>	<b>16 110 187</b>	<b>7 178 826</b>	<b>32 493 647</b>	<b>25 718 089</b>	<b>17 515 135</b>	<b>30 372 768</b>	<b>129 388 655</b>

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR NINE MONTHS ENDED 30 SEPTEMBER 2015  
 (in thousands of Russian Roubles)

**Note 6. Property, Plant and Equipment (continued)**

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2013	23 174 563	16 718 287	56 139 009	44 171 440	14 451 519	37 493 908	192 148 726
Effect of reclassifications	2 301	-	-	34 413	-	(36 714)	-
<b>Balance as at 31 December 2013 including reclassifications</b>	<b>23 176 864</b>	<b>16 718 287</b>	<b>56 139 009</b>	<b>44 205 853</b>	<b>14 451 519</b>	<b>37 457 194</b>	<b>192 148 726</b>
Additions	2 079	-	6 483	356 516	4 980 819	64 054	5 409 951
Transfers	903 171	20 840	775 285	1 052 130	(6 111 190)	3 359 764	-
Disposals	(42 975)	(97)	(43 631)	(9 006)	(147 775)	(330 266)	(573 750)
Reclassification to non-current assets held for sale	(141 347)	(876 390)	(88 708)	-	-	(237 615)	(1 344 060)
<b>Balance as at 30 September 2014</b>	<b>23 897 792</b>	<b>15 862 640</b>	<b>56 788 438</b>	<b>45 605 493</b>	<b>13 173 373</b>	<b>40 313 131</b>	<b>195 640 867</b>
<b>Accumulated depreciation (including impairment)</b>							
Balance as at 31 December 2013	(7 314 707)	(7 889 372)	(16 265 797)	(17 955 664)	(183 063)	(12 351 881)	(61 960 484)
Effect of reclassifications	(2 301)	-	-	(6 883)	-	9 184	-
<b>Balance as at 31 December 2013 including reclassifications</b>	<b>(7 317 008)</b>	<b>(7 889 372)</b>	<b>(16 265 797)</b>	<b>(17 962 547)</b>	<b>(183 063)</b>	<b>(12 342 697)</b>	<b>(61 960 484)</b>
Charge	(447 778)	(203 205)	(1 547 067)	(1 079 176)	-	(1 665 122)	(4 942 348)
Disposals	17 293	2 460	42 727	8 785	-	199 111	270 376
Reclassification to non-current assets held for sale	62 149	413 226	58 390	-	-	184 955	718 720
<b>Balance as at 30 September 2014</b>	<b>(7 685 344)</b>	<b>(7 676 891)</b>	<b>(17 711 747)</b>	<b>(19 032 938)</b>	<b>(183 063)</b>	<b>(13 623 753)</b>	<b>(65 913 736)</b>
<b>Net book value as at 31 December 2013</b>	<b>15 859 856</b>	<b>8 828 915</b>	<b>39 873 212</b>	<b>26 215 776</b>	<b>14 268 456</b>	<b>25 142 027</b>	<b>130 188 242</b>
<b>Net book value as at 30 September 2014</b>	<b>16 212 448</b>	<b>8 185 749</b>	<b>39 076 691</b>	<b>26 572 555</b>	<b>12 990 310</b>	<b>26 689 378</b>	<b>129 727 131</b>

**Note 6. Property, Plant and Equipment (continued)**

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

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

As at 30 September 2015 the advances given to contractors, which amounted to RUB 925 614 thousand, net of VAT (as at 31 December 2014: RUB 548 792 thousand), are recognized within the construction in progress balance. The respective input VAT is recognized within accounts receivable and prepayments (Note 12).

As at 30 September 2015 and as at 31 December 2014 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 10.3% capitalization rate for nine months ended 30 September 2015 is RUB 397 387 thousand (7.9% capitalization rate for nine months ended 30 September 2014: RUB 406 650 thousand). The payment of capitalised interests is recorded in Consolidated Statement of Cash Flow in respect of operating activities.

Other property, plant and equipment include assets held under finance leases with a carrying value of RUB 48 095 thousand (as at 31 December 2014: RUB 59 979 thousand).

As at 30 September 2015 the impairment loss was recognized in respect of property, plant and equipment reclassified as assets held for sale in the amount of RUB 436 912 thousand. The amount is the difference between the carrying value and the estimated selling price of property, plant and equipment.

**Note 7. Investments in Associates**

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

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

	30 September 2015	31 December 2014
Investments in LLC TGC Service	14 084	13 752
Investments in JSC HHC	369 597	413 385
<b>Total investments</b>	<b>383 681</b>	<b>427 137</b>

As at 30 September 2015 and 31 December 2014 the ownership interest in JSC HHC was 50%. Management of the Group believes that there is a significant influence over JSC HHC as taking into account its current Board of Directors composition there is no joint control over the entity. Therefore, the investment in JSC HHC was accounted as investment in associate.

**Note 8. Other Non-Current Assets**

	30 September 2015	31 December 2014
Long-term receivables, net of provision for impairment of RUB 20 552 thousand (31 December 2014: RUB 70 143 thousand) (non-interest bearing )	541 204	369 044
<b>Total other non-current assets</b>	<b>541 204</b>	<b>369 044</b>

**Note 9. Cash and Cash Equivalents**

	30 September 2015	31 December 2014
Cash in bank and in hand in RUB	230 177	2 031 544
Foreign currency accounts in EUR	382 800	198 855
Deposit in RUB	-	35 000
<b>Total cash and cash equivalents</b>	<b>612 977</b>	<b>2 265 399</b>

**Note 10. Short-term Investments**

	30 September 2015	31 December 2014
Investments in LLC Dubrovskaya TPP	12 000	-
Loan issued	30 073	30 073
<b>Total short-term investments</b>	<b>42 073</b>	<b>30 073</b>

**Note 11. Non-current Assets Held for Sale**

As at 30 September 2015 the property, plant and equipment with a total net book value amounting to RUB 112 940 thousand were classified as assets held for sale (31 December 2014: RUB 86 651 thousand). Movements of non-current assets held for sale for current and prior periods were as follows:

30 September 2015	Sale	Classification as assets held for sale	31 December 2014
112 940	668	26 957	86 651

  

30 September 2014	Sale	Classification as assets held for sale	31 December 2013
681 696	1 968	625 339	58 325

**Note 12. Trade and other receivables**

	30 September 2015	31 December 2014
Trade receivables, net of provision for impairment of RUB 4 091 963 (31 December 2014: RUB 4 866 086 thousand)	11 837 540	13 626 794
Other receivables, net of provision for impairment of RUB 17 313 (31 December 2014: RUB 18 308 thousand)	447 537	326 972
<b>Total financial receivables</b>	<b>12 285 077</b>	<b>13 953 766</b>
Value-added tax receivables	109 173	217 454
Advances to suppliers	1 232 715	830 148
Other taxes receivable	3 995	8 518
<b>Total trade and other receivables</b>	<b>13 630 960</b>	<b>15 009 886</b>

**Note 13. Inventories**

	30 September 2015	31 December 2014
Fuel	2 063 124	2 000 746
Spare parts	188 922	176 145
Raw materials and other supplies	578 312	469 915
<b>Total inventories</b>	<b>2 830 358</b>	<b>2 646 806</b>

## **Note 14. Share capital**

### ***Share capital***

The Group's share capital as at 30 September 2015 and as at 31 December 2014 was RUB 38 543 414 thousand comprising 3 854 341 416 571 ordinary shares with a par value of RUB 0.01. All shares authorised are issued and fully paid.

### ***Share premium***

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

### ***Merger reserve***

As at 30 September 2015 and as at 31 December 2014 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.

**Note 15. Long-term Borrowings**

				30 September 2015	31 December 2014
Bank borrowings and bonds issued				22 325 631	21 260 080
<b>Total long-term borrowings</b>				<b>22 325 631</b>	<b>21 260 080</b>
	Currency	Contractual interest rate	Maturity	30 September 2015	31 December 2014
Long-term bonds (03)	RUB	8%	2021	2 069 980	2 003 500
Long-term bonds (04)	RUB	12,9%	2022	2 026 140	2 056 120
Gazprom	RUB	8%	2016	10 000 000	10 000 000
Bank Rossiya		16,5%	2017	5 000 000	5 000 000
Sberbank RF	RUB	11,95%	2015-2016	2 798 306	2 473 632
Gazprom Energoholding		8,5-11%	2015	-	2 000 000
NORDIC Investment Bank	RUB	ЕВРИБОР + 3%	2019	1 571 403	1 588 011
AKB ROSBANK	RUB	18%	2016	887 635	1 345 253
VTB	RUB	15,63-16,21%	2016	1 079 638	897 785
VBRR	RUB	15%	2018	899 249	186 789
Nordic Environment Finance Corporation	EUR	ЕВРИБОР + 2%	2015	-	17 199
				<b>26 332 351</b>	<b>27 568 289</b>
Less: current portion					
Long-term bonds (03)	RUB	8%	2015	(69 980)	(3 500)
Long-term bonds (04)	RUB	12,9%	2015	(26 140)	(56 120)
Sberbank RF	RUB	11,95%	2015	(2 798 306)	(2 163 417)
AKB ROSBANK	RUB	18%	2015	(347 635)	(1 253 081)
VTB	RUB	15,63-16,21%	2015	(328 638)	(301 803)
NORDIC Investment Bank	EUR	ЕВРИБОР + 3%	2015	(366 609)	(326 300)
Nordic Environment Finance Corporation	EUR	ЕВРИБОР+ 2%	2015	-	(17 199)
Gazprom Energoholding	RUB	8,5-11%	2015	-	(2 000 000)
VBRR	RUB	15%	2015	(69 412)	(186 789)
<b>Total long-term bank borrowings and bonds issued</b>				<b>22 325 631</b>	<b>21 260 080</b>

**Compliance with covenants**

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

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

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

**Note 16. Other Non-Current Liabilities**

	30 September 2015	31 December 2014
Long-term accounts payable	200 229	208 755
<b>Total other non-current liabilities</b>	<b>200 229</b>	<b>208 755</b>

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

**Note 17. Short-Term Borrowings**

	30 September 2015	31 December 2014
Bank borrowings and bonds issued	6 160 003	8 692 944
<b>Total short-term borrowings</b>	<b>6 160 003</b>	<b>8 692 944</b>

Name of lender	Currency	Contractual interest rate	30 September 2015	31 December 2014
Gazprombank	RUB	17-18%	1 602 878	1 460 317
Gazprom Energoholding	RUB	10,5-12,5%	-	744 564
VTB	RUB	14,73%	64 138	179 854
Bank Otkrytie	RUB	12,4%	486 266	
<b>Current portion of long-term borrowings:</b>				
Long-term bonds (03)	RUB	8%	69 980	3 500
Long-term bonds (04)	RUB	12,9%	26 140	56 120
Sberbank RF	RUB	18%	347 635	2 163 417
Gazprom Energoholding	RUB	8,5-11%	-	2 000 000
AKB ROSBANK	RUB	11,95%	2 798 307	1 253 081
NORDIC Investment Bank	EUR	ЕВРИБОР+3%	366 609	326 300
VTB	RUB	15,63-16,21%	328 638	301 803
VBRR	RUB	15%	69 412	186 789
Nordic Environment Finance Corporation	EUR	ЕВРИБОР +2%	-	17 199
<b>Total bank borrowings and bonds issued</b>			<b>6 160 003</b>	<b>8 692 944</b>

**Note 18. Trade and other payables**

	30 September 2015	31 December 2014
Trade accounts payable	1 988 449	2 947 505
Accounts payable for capital construction	1 931 282	2 142 870
Accrued liabilities and other payables	247 941	281 491
<b>Total financial payables</b>	<b>4 167 672</b>	<b>5 371 866</b>
Advances from customers	1 172 842	1 143 643
Current employee benefits	434 857	499 822
<b>Total trade and other payables</b>	<b>5 775 371</b>	<b>7 015 331</b>

**Note 19. Other Taxes Payable**

	30 September 2015	31 December 2014
Property tax	225 701	122 698
VAT payable	223 886	1 149 947
Employee taxes	124 811	103 361
Personal Income Tax	52 247	54 884
Water usage tax	10 997	12 323
Other taxes	10 979	9 725
<b>Total taxes payable</b>	<b>648 621</b>	<b>1 452 938</b>

As at 30 September 2015 and as at 31 December 2014 the Group had no past due tax liabilities.

## Note 20. Other Sales

	Nine months ended 30 September 2015	Nine months ended 30 September 2014
Connection of customers to heating network	176 301	440 756
Maintenance of electrical facilities	55 915	31 401
Installation of heating meters	41 255	-
Revenue from transit of rail cars	33 846	59 972
Handling of heating oil	20 235	33 552
Other	122 899	137 334
<b>Total other sales</b>	<b>450 451</b>	<b>703 015</b>

## Note 21. Government Grants

In nine months 2015 Group received a grant from regional budget for the compensation of income in relation to providing heating services (sales to consumers of heat) per tariffs that don't cover expenses for a total amount of RUB 566 532 thousand (in nine months 2014 - RUB 463 538 thousand).

## Note 22. Operating Expenses

	Nine months ended 30 September 2015	Nine months ended 30 September 2014
Fuel	17 839 431	19 305 272
Employee benefits	5 437 730	5 185 813
Depreciation of property, plant and equipment	5 299 382	4 942 348
Electricity, capacity and heat purchases	4 229 337	3 963 083
Repairs and maintenance	2 207 378	1 967 555
Water usage expenses	1 753 893	1 681 633
Heat distribution	1 211 319	761 057
Taxes other than income tax	888 433	802 217
Fees of electricity market operators	636 724	626 334
Other materials	512 340	501 021
Security expenses	355 259	356 114
Operating lease expenses	243 244	223 391
IT services	227 169	236 093
Insurance cost	217 181	210 159
Acceptance of payments	172 500	171 559
Telecommunication expenses	167 973	172 931
Consulting, legal and audit expenses	96 431	65 150
Amortisation of intangible assets	75 248	102 955
Amortisation of investment property	4 532	3 770
(Gain)/loss on disposal of property, plant and equipment	(281 939)	(2 445)
(Release)/provision for impairment of accounts receivable	(531 329)	(68 322)
Reversal of provision for inventory obsolescence	-	(122)
Other operating expenses	971 397	901 032
<b>Total operating expenses</b>	<b>41 733 633</b>	<b>42 108 598</b>



**Note 23. Other Operating Income**

	Nine months ended 30 September 2015	Nine months ended 30 September 2014
Fines and penalties	210 416	152 701
Operating lease income	127 744	118 063
Gain on sale of other assets	98 684	-
Insurance	49 452	39 865
Other operating income	(6 747)	40 116
<b>Total other operating income</b>	<b>479 549</b>	<b>350 745</b>

**Note 24. Finance Income and Finance Costs**

	Nine months ended 30 September 2015	Nine months ended 30 September 2014
Interest income	126 992	43 326
Effect of discounting of financial instruments	43 636	24 938
<b>Finance income</b>	<b>170 628</b>	<b>68 264</b>
Interest expense	(1 857 737)	(1 468 245)
Exchange differences (net)	(165 364)	(147 163)
Effect of discounting of financial instruments	(1 543)	(66 583)
<b>Finance costs</b>	<b>(2 024 644)</b>	<b>(1 681 991)</b>

**Note 25. Events after the Reporting Period**

***Borrowings***

During the period between reporting date and signing date, the Group received long-term loans of RUB 1 055 000 thousand short-term loans of RUB 989 748 thousand.

During the period between reporting date and signing date, the Group repaid loans of RUB 959 077 thousand.

***Government grants***

In October-November 2015 PJSC Murmanskaya TPP received a grant for the compensation of income in relation to providing heating services per tariffs that don't cover expenses from Murmansk Region budget for a total amount of RUB 348 919 thousand.