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

International Financial Reporting Standards
Consolidated Financial Statements for THREE MONTHS ended 31 March 2018
(not audited)

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(in thousands of Russian Roubles)

	Notes	31 March 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	133 247 086	133 411 806
Investment property		159 691	163 424
Intangible assets		1 469 750	1 417 030
Investments in associates	7	401 296	371 926
Deferred income tax assets		500 986	461 550
Other non-current assets	8	1 030 446	1 019 458
Total non-current assets		**136 809 255**	**136 845 194**
Current assets			
Cash and cash equivalents	9	3 941 610	6 975 598
Short-term investments	10	10 144	10 144
Trade and other receivables	12	18 703 287	16 678 334
Current income tax prepayments		63 447	50 364
Inventories	13	2 960 185	3 117 999
Total current assets		**25 678 673**	**26 832 439**
Non-current assets held for sale	11	108 341	110 070
TOTAL ASSETS		**162 596 269**	**163 787 703**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	38 543 414	38 543 414
Share premium	14	22 913 678	22 913 678
Merger reserve	14	(6 086 949)	(6 086 949)
Other reserves		(1 209 011)	(1 209 011)
Effect of remeasurements of post-employment benefits obligations		(72 240)	(71 760)
Retained earnings		59 297 212	53 740 611
Equity attributable to the Company's owners		**113 386 104**	**107 829 983**
Non-controlling interest		8 749 073	8 629 256
TOTAL EQUITY		**122 135 177**	**116 459 239**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	15	10 323 670	16 351 350
Deferred income tax liabilities		10 632 824	11 081 932
Post-employment benefits obligations		1 138 739	1 138 739
Other non-current liabilities	16	46 270	58 219
Total non-current liabilities		**22 141 503**	**28 630 240**
Current liabilities			
Short-term borrowings	17	6 436 593	8 358 294
Trade and other payables	18	8 304 179	7 843 745
Current income tax payable		987 824	896 669
Other taxes payable	19	2 590 993	1 599 516
Total current liabilities		**18 319 589**	**18 698 224**
TOTAL LIABILITIES		**40 461 092**	**47 328 464**
TOTAL EQUITY AND LIABILITIES		**162 596 269**	**163 787 703**

Approved for issue and signed on 11 May 2018.

General Director A. V. Barvinok

Chief Accountant R. V. Stanishevskaya

(in thousands of Russian Roubles)

	Notes	Three months ended 31 March 2018	Three months ended 31 March 2017
Revenue			
Sales of electricity		9 097 669	7 768 736
Sales of capacity		5 425 850	5 115 196
Sales of heat		14 192 333	12 742 183
Other sales	20	145 655	149 994
Total revenue		**28 861 507**	**25 776 109**
Government grants	21	45 236	33 729
Operating expenses	22	(22 716 028)	(20 010 473)
Other operating income	23	156 651	147 009
Total operating expenses		**(22 514 141)**	**(19 829 735)**
Operating profit		**6 347 366**	**5 946 374**
Finance income	24	92 556	60 463
Finance costs	24	(306 030)	(615 586)
Finance costs, net		**(213 474)**	**(555 123)**
Profit before income tax		**6 133 892**	**5 391 251**
Income tax expense		(457 508)	(1 425 556)
Profit for the year		**5 676 384**	**3 965 695**
Other comprehensive expense for the period including tax		**(446)**	**(327)**
Total comprehensive income for the period		**5 675 938**	**3 965 368**
Profit is attributable to:			
Owners of the TGC-1		5 556 601	3 914 591
Non-controlling interests		119 783	51 104
Profit for the period		**5 676 384**	**3 965 695**
Total comprehensive income is attributable to:			
Owners of the TGC-1		5 556 121	3 914 264
Non-controlling interests		119 817	51 104
Total comprehensive income for the period		**5 675 938**	**3 965 368**

Approved for issue and signed on 11 May 2018.

General Director A. V. Barvinok

Chief Accountant R. V. Stanishevskaya

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THREE MONTHS ENDED 31 MARCH 2018
(in thousands of Russian Roubles)

	Attributable to owners of the Company								
	Share capital	Share premium	Merger reserve	Other reserves	Effect of measurements of post-employment benefits obligations	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2017	**38 543 414**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**52 151**	**47 464 616**	**101 677 899**	**8 305 973**	**109 983 872**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	7 607 038	**7 607 038**	**320 461**	**7 927 499**
Other comprehensive income									
Measurements of post-employment benefits obligations	-	-	-	-	(150 810)	-	(150 810)	3 376	(147 434)
Income tax on other comprehensive income	-	-	-	-	26 899	-	26 899	(554)	26 345
Total other comprehensive expense	-	-	-	-	(123 911)	-	(123 911)	2 822	(121 089)
Total comprehensive income for the year	-	-	-	-	**(123 911)**	7 607 038	**7 483 127**	**323 283**	**7 806 410**
Transactions with owners									
Dividends	-	-	-	-	-	(1 331 043)	(1 331 043)	-	(1 331 043)
Total transactions with owners	-	-	-	-	-	**(1 331 043)**	**(1 331 043)**	-	**(1 331 043)**
Balance at 31 December 2017	**38 543 414**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**(71 760)**	**53 740 611**	**107 829 983**	**8 629 256**	**116 459 239**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	5 556 601	**5 556 601**	**119 783**	**5 676 384**
Other comprehensive income									
Measurements of post-employment benefits obligations	-	-	-	-	-	-	-	-	-
Income tax on other comprehensive income	-	-	-	-	(480)	-	(480)	34	(446)
Total other comprehensive income	-	-	-	-	(480)	-	(480)	34	(446)
Total comprehensive income for the year	-	-	-	-	**(480)**	5 556 601	**5 556 121**	**119 817**	**5 675 938**
Transactions with owners									
Dividends	-	-	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-	-	-	-
Balance at 31 March 2018	**38 543 414**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**(72 240)**	**59 297 212**	**113 386 104**	**8 749 073**	**122 135 177**

Approved for issue and signed on 11 May 2018.

General Director A. V. Barvinok

Chief Accountant R. V. Stanishevskaya

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

(in thousands of Russian Roubles)

	Notes	Three months ended 31 March 2018	Three months ended 31 March 2017
Cash flows from operating activities			
Profit before income tax		6 133 892	5 391 251
Adjustments to non-cash items		1 911 582	2 214 631
Operating cash flows before working capital changes		**8 045 474**	**7 605 882**
Capital changes		(270 151)	(749 930)
Cash generated from operations		**7 775 323**	**6 855 952**
Income taxes paid and interest paid		(1 267 394)	(716 544)
Net cash from operating activities		**6 507 929**	**6 139 408**
Net cash used in investing activities		**(1 586 414)**	**(1 517 588)**
Net cash from financing activities		**(7 955 503)**	**(3 959 200)**
Net (decrease)/increase in cash and cash equivalents		**(3 033 988)**	**662 620**
Cash and cash equivalents at the beginning of the period		**6 975 598**	**3 354 882**
Cash and cash equivalents at the end of the period		**3 941 610**	**4 017 502**

Approved for issue and signed on 11 May 2018.

General Director A. V. Barvinok

Chief Accountant R. V. Stanishevskaya

(in thousands of Russian Roubles)

Note 1. The Group and its operations

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

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

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

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

	% of ownership as at 31 March		
Subsidiary	**2018**	**2017**	**Immediate parent**
PJSC Murmanskaya TPP	98.6791	98.6791	PJSC TGC-1
JSC St Petersburg Heating Grid	74.9997	74.9997	PJSC TGC-1

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

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

Note 2. Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 30). Ongoing decline in oil prices, political tension in the region and international sanctions against certain Russian companies and individuals had a negative impact on the Russian economy.

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

Government relations and current regulation

As at 31 March 2018 the Group was controlled by the Gazprom Group (51.79% stake) via its subsidiary Gazprom Energoholding LLC (as at 31 December 2016 - 51.79% stake). The Group's other significant shareholder as at 31 December 2017 was Fortum Power and Heat Oy - 29.45% stake (as at 31 December 2016 - 29.45% stake). The Gazprom Group is controlled by the government of the Russian Federation, which was the Group's ultimate controlling party as at 31 March 2018 and 31 December 2017.

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

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

Note 2. Operating environment of the Group (continued)

Government relations and current regulation (continued)

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

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

Going concern

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

Note 3. Summary of Significant Accounting Polices

Basis of preparation

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

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

Consolidated financial statements

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

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

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

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

Note 3. Summary of Significant Accounting Polices (continued)

Consolidated financial statements (continued)

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

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

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

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

Presentation currency

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

Foreign currency translation

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

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

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

At 31 March 2018, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar (USD) was USD 1 = RUB 57.2649 (31 December 2017: USD 1 = RUB 57.6002), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 70.5618 (31 December 2017: EUR 1 = RUB 68.8668).

Note 3. Summary of Significant Accounting Polices (continued)

Associates

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

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

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

Disposals of subsidiaries, associates or joint ventures

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

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

Financial instruments - key measurement terms

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

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

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

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

Note 3. Summary of Significant Accounting Polices (continued)

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

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

Classification of financial assets

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

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

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

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

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

Classification of financial liabilities

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

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

Initial recognition of financial instruments

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

Note 3. Summary of Significant Accounting Polices (continued)

Initial recognition of financial instruments (continued)

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

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

Derecognition of financial assets

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

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

Property, plant and equipment

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

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

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

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

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

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

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

(in thousands of Russian Roubles)

Note 3. Summary of Significant Accounting Polices (continued)

Property, plant and equipment (continued)

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

Type of facility	Useful lives, years
Production buildings	40-70
Hydrotechnical buildings	50-60
Generating equipment	20-40
Heating networks	25-35
Other	10-25

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

Investment property

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

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

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

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

Operating lease

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

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

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

Finance lease liabilities

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

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

Note 3. Summary of Significant Accounting Polices (continued)

Intangible assets

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them into use. Amortisation is included in operating expenses (Note 22). Intangible assets are amortised using the straight-line method over their useful lives:

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

«Software licences» primarily includes SAP software.

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

Income taxes

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

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

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

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

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

Inventories

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

Trade and other receivables

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

Impairment of financial assets carried at amortised cost

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

Note 3. Summary of Significant Accounting Polices (continued)

Impairment of financial assets carried at amortised cost (continued)

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

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

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

Prepayments

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

Cash and cash equivalents

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

Non-current assets classified as held for sale

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

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

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

Note 3. Summary of Significant Accounting Polices (continued)

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

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

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

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

Share capital

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

Merger reserve

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

Other reserves

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

Dividends

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

Value added tax

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

Government grants

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

Trade and other payables

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

Note 3. Summary of Significant Accounting Polices (continued)

Borrowings

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

Borrowing costs

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

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

Borrowing costs (continued)

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

Provisions for liabilities and charges

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

Revenue recognition

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

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

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

Offset

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

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

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

Note 3. Summary of Significant Accounting Polices (continued)

Pension and post-employment benefits

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

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

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

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

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

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

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

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

Employee benefits

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

Environmental liabilities

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

Earnings per share

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

Offsetting

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

Note 3. Summary of Significant Accounting Polices (continued)

Segment reporting

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

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

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

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

Provision for impairment of property, plant and equipment

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

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

Useful lives of property, plant and equipment

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

Recoverability of accounts receivable

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

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

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position.

Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are future heat tariffs and heat output. If the actual results differ from the management expectations the recognized deferred tax asset will be written-off in full.

Note 5. Adoption of New or Revised Standards and Interpretations

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

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

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

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

- *IFRS 17 Insurance Contracts (effective 1 January 2021);*

- *IFRIC 22 Foreign Currency Translations and Advance Consideration (effective 1 January 2018);*

- *IFRIC 23 Uncertainty over Income Tax Positions (effective 1 January 2019);*

- *Amendments to IFRS 2 classification and Measurement of Share-based payment Transactions (effective 1 January 2018);*

- *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective 1 January 2018);*

- *Amendments to IAS 40: Transfers of Investment Property (effective 1 January 2018);*

- *Annual Improvements to IFRS Standards 2014-2016 cycle dealing with matters in IFRS 1 First-time Adoption and IAS 28 Investments in Associates and Joint Ventures (effective1 January 2018);*

- *Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective 1 January 2019);*

- *Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective 1 January 2019).*

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

(in thousands of Russian Roubles)

Note 6. Property, Plant and Equipment

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

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Electricity transmission equipment	Other	Construction in progress	Total
Balance as at 31 December 2017	29 354 892	15 932 707	54 375 971	53 035 075	18 076 424	40 291 936	11 567 496	222 634 501
Additions	-	-	-	798 340	-	22 242	990 837	1 811 419
Transfers	2 822	-	3 130	913 261	7 188	205 357	(1 131 758)	-
Disposals	-	-	-	(23 112)	(1 584)	(15 762)	(86 437)	(126 895)
Balance as at 31 March 2018	29 357 714	15 932 707	54 379 101	54 723 564	18 082 028	40 503 773	11 340 138	224 319 025
Accumulated depreciation (including impairment)								
Balance as at 31 December 2017	(9 940 373)	(8 436 542)	(22 929 782)	(25 290 724)	(5 252 402)	(17 366 014)	(6 858)	(89 222 695)
Charge for the year	(123 950)	(63 545)	(445 391)	(397 675)	(128 248)	(725 610)	-	(1 884 419)
Disposals	-	-	-	21 465	1 584	12 126	-	35 175
Balance as at 31 March 2018	(10 064 323)	(8 500 087)	(23 375 173)	(25 666 934)	(5 379 066)	(18 079 498)	(6 858)	(91 071 939)
Net book value as at 31 December 2017 (including effect of reclassifications)	19 414 519	7 496 165	31 446 189	27 744 351	12 824 022	22 925 922	11 560 638	133 411 806
Net book value as at 31 March 2018	19 293 391	7 432 620	31 003 928	29 056 630	12 702 962	22 424 275	11 333 280	133 247 086

(in thousands of Russian Roubles)

Note 6. Property, Plant and Equipment (continued)

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Electricity transmission equipment	Other	Construction in progress	Total
Balance as at 31 December 2016	28 369 324	15 851 072	54 204 797	51 813 089	17 855 040	36 753 179	10 594 715	215 441 216
Effect of reclassifications	-	-	(3 466)	-	-	3 466	-	-
Balance as at 31 December 2016 including effect of reclassifications	28 369 324	15 851 072	54 201 331	51 813 089	17 855 040	36 756 645	10 594 715	215 441 216
Additions	-	-	66 605	55 930	-	207	864 859	987 601
Transfers	8 923	1 234	91 631	3 504	6 553	70 547	(182 392)	-
Disposals	(183)	-	(188 446)	-	(17 327)	(12 455)	(1 548)	(219 959)
Balance as at 31 March 2017	28 378 064	15 852 306	54 171 121	51 872 523	17 844 266	36 814 944	11 275 634	216 208 858
Accumulated depreciation (including impairment)								
Balance as at 31 December 2016	(9 307 731)	(8 190 983)	(21 681 579)	(24 069 330)	(4 635 571)	(14 916 796)	(170 485)	(82 972 475)
Effect of reclassifications	-	-	3 163	-	-	(3 163)	-	-
Balance as at 31 December 2016 including effect of reclassifications	(9 307 731)	(8 190 983)	(21 678 416)	(24 069 330)	(4 635 571)	(14 919 959)	(170 485)	(82 972 475)
Charge for the year	(157 782)	(60 708)	(584 076)	(394 497)	(171 526)	(632 762)	-	(2 001 351)
Disposals	-	-	176 473	-	4 359	11 236	-	192 068
Balance as at 31 March 2017	(9 465 513)	(8 251 691)	(22 086 019)	(24 463 827)	(4 802 738)	(15 541 485)	(170 485)	(84 781 758)
Net book value as at 31 December 2016 (including effect of reclassifications)	19 061 593	7 660 089	32 523 218	27 743 759	13 219 469	21 836 383	10 424 230	132 468 741
Net book value as at 31 March 2017	18 912 551	7 600 615	32 085 102	27 408 696	13 041 528	21 273 459	11 105 149	131 427 100

(in thousands of Russian Roubles)

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 31 March 2018 the advances given to contractors, which amounted to RUB 1 322 453 thousand, net of VAT (as at 31 December 2017: RUB 1 500 758 thousand), are recognised within the construction in progress balance.

As at 31 March 2018 and 31 December 2017 The Group had no property, plant and equipment pledged as collateral according to loan agreements.

The total amount of capitalised interests that were calculated using 7.68% capitalization rate for the three months ended 31 March 2018 is RUB 83 052 thousand (9.22% capitalization rate for the year ended 31 December 2017: RUB 280 809 thousand). The payment of capitalised interests is recorded in Consolidated Statement of Cash Flow in respect of operating activities.

Note 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:

	31 March 2018	31 December 2017
Investments in LLC TGC Service	-	-
Investments in JSC HHC	401 296	371 926
Total investments	**401 296**	**371 926**

As at 31 March 2018 and 31 December 2017 the ownership interest in JSC HHC was 50%. Management of the Group believes that there is a significant influence over JSC HHC as taking into account its current Board of Directors composition there is no joint control over the entity. Therefore, the investment in JSC HHC was accounted as investment in associate.

Note 8. Other Non-Current Assets

	31 March 2018	31 December 2017
Long-term receivables net of provision for impairment of RUB 1 177 347 thousand (31 December 2017: RUB 892 519 thousand)	251 799	250 424
Advances to suppliers	774 277	764 664
Loan issued	4 370	4 370
Total other non-current assets	**1 030 446**	**1 019 458**

Note 9. Cash and Cash Equivalents

	31 March 2018	31 December 2017
Cash in bank and in hand in RUB	1 344 841	4 860 439
Foreign currency accounts in EUR	2 596 769	2 115 159
Total cash and cash equivalents	**3 941 610**	**6 975 598**

Note 10. Short-term Investments

	31 March	31 December

	2018	2017
Loan issued	10 144	10 144
Total short-term investments	**10 144**	**10 144**

As at 31 March 2018 impairment loss for CJSC "Energoinvest" was in the amount of RUB 29 651 thousand.

Note 11. Non-current Assets Held for Sale

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

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

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

(in thousands of Russian Roubles)

Note 12. Trade and other receivables

	31 March 2018	31 December 2017
Trade receivables, net of provision for impairment of RUB 7 522 585 (31 December 2017: RUB 8 040 152 thousand)	16 140 463	13 861 078
Other receivables, net of provision for impairment of RUB 103 597 (31 December 2017: RUB 103 671 thousand)	1 038 434	1 535 520
Total financial receivables	**17 178 897**	**15 396 598**
Value-added tax receivables	97 106	148 841
Advances to suppliers	1 419 902	1 120 197
Other taxes receivable	7 382	12 698
Total trade and other receivables	**18 703 287**	**16 678 334**

Note 13. Inventories

	31 March 2018	31 December 2017
Fuel	2 247 978	2 428 773
Raw materials and other supplies	545 792	543 979
Spare parts	166 415	145 247
Total inventories	**2 960 185**	**3 117 999**

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

Note 14. Share capital

Share capital

The Group's share capital as at 31 March 2018 and as at 31 December 2017 was RUB 38 543 414 thousand comprising 3 854 341 416 571 ordinary shares with a par value of RUB 0.01. All shares authorised are issued and fully paid.

Share premium

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

Merger reserve

As at 31 March 2018 and as at 31 December 2017 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.

(in thousands of Russian Roubles)

Note 15. Long-term Borrowings

	31 March 2018	31 December 2017
Bank borrowings and bonds issued	10 323 670	16 351 350
Total long-term borrowings	**10 323 670**	**16 351 350**

	Currency	Contractual interest rate	Maturity	31 March 2018	31 December 2017
Long-term bonds (03)	RUB	6.9%	2021	2 038 560	2 004 540
Long-term bonds (04)	RUB	4.0%	2022	2 008 780	2 049 900
Gazprom	RUB	7.92%	2022	2 900 000	4 900 000
Bank Rossiya		8.5%	2020	3 098 000	3 098 000
Sberbank RF	RUB	7.8-7.9%	2019	3 503 006	4 561 342
NORDIC Investment Bank	RUB	ЕВРИБОР + 3%	2019	660 404	639 773
VTB	RUB	7.9%	2018	1 303 095	6 208 325
				15 511 845	**23 461 880**
Less: current portion					
Long-term bonds (03)	RUB	6.9%	2021	(38 560)	(4 540)
Long-term bonds (04)	RUB	4.0%	2022	(8 780)	(49 900)
Sberbank RF	RUB	7.8-7.9%	2019	(1 303 095)	(525 839)
VTB	RUB	7.9%	2018	(1 303 095)	(6 208 325)
NORDIC Investment Bank	EUR	ЕВРИБОР + 3%	2019	(334 734)	(321 926)
Total long-term bank borrowings and bonds issued				**10 323 670**	**16 351 350**

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.

(in thousands of Russian Roubles)

Note 16. Other Non-Current Liabilities

	31 March 2018	31 December 2017
Long-term accounts payable	46 270	58 219
Total other non-current liabilities	**46 270**	**58 219**

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

Note 17. Short-Term Borrowings

	31 March 2018	31 December 2017
Bank borrowings and bonds issued	6 436 593	8 358 294
Total short-term borrowings	**6 436 593**	**8 358 294**

Name of lender	Currency	Contractual interest rate	31 March 2018	31 December 2017
Gazprombank	RUB	9.25-9.5%	1 248 418	1 247 764
Current portion of long-term borrowings:				
Long-term bonds (03)	RUB	6.9%	38 560	4 540
Long-term bonds (04)	RUB	4.0%	8 780	49 900
Sberbank RF	RUB	7.8-7.9%	3 503 006	525 839
NORDIC Investment Bank	EUR	ЕВРИБОР+3%	334 734	321 926
VTB	RUB	7.9%	1 303 095	6 208 325
Total bank borrowings and bonds issued			**6 436 593**	**8 358 294**

Note 18. Trade and other payables

	31 March 2018	31 December 2017
Trade accounts payable	4 548 699	4 090 222
Accounts payable for capital construction	614 204	1 358 094
Accrued liabilities and other payables	312 127	359 743
Total financial payables	**5 475 030**	**5 808 059**
Advances from customers	2 245 972	1 528 443
Current employee benefits	583 177	507 243
Total trade and other payables	**8 304 179**	**7 843 745**

Note 19. Other Taxes Payable

	31 March 2018	31 December 2017
VAT payable	1 645 779	856 984
Property tax	602 070	439 280
Employee taxes	243 636	192 763
Personal Income Tax	58 629	64 163
Other taxes	40 879	46 326
Total taxes payable	**2 590 993**	**1 599 516**

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

(in thousands of Russian Roubles)

Note 20. Other Sales

	Three months ended 31 March 2018	Three months ended 31 March 2017
Connection of customers to heating network	81 728	82 690
Maintenance of electrical facilities	15 145	15 945
Installation of heating meters	10 890	6 892
Handling of heating oil	10 391	6 220
Water usage	6 649	4 819
Revenue from transit of rail cars	478	1 949
Other	20 374	31 479
Total other sales	**145 655**	**149 994**

Note 21. Government Grants

During three months 2018 Group received a grant for the compensation of income in relation to providing heating services (sales to consummers of heat) per tariffs that don't cover expenses from Murmansk Region budget for a total amount of RUB 45 236 thousand (in 2017 - RUB 71 283 thousand).

Note 22. Operating Expenses

	Three months ended 31 March 2018	Three months ended 31 March 2017
Fuel	12 355 367	10 398 390
Electricity, capacity and heat purchases	2 099 843	1 949 205
Employee benefits	1 998 409	1 825 265
Depreciation of property, plant and equipment	1 884 419	2 001 351
Heat and electricity distribution	814 654	731 591
Water usage expenses	752 034	710 094
Operating lease expenses	710 885	525 601
Repairs and maintenance	603 990	602 041
Taxes other than income tax	507 854	400 008
Fees of electricity market operators	209 506	208 086
Other materials	122 606	143 172
IT services	122 337	92 786
Security expenses	114 303	135 284
Acceptance of payments	97 173	94 299
Insurance cost	73 219	72 414
Telecommunication expenses	58 565	53 175
Amortisation of intangible assets	35 105	23 290
Consulting, legal and audit expenses	8 593	6 266
Amortisation of investment property	3 733	3 499
Gain on disposal of property, plant and equipment	(21 440)	(8 699)
Provision for impairment of accounts receivable	(229 785)	(502 736)
Other operating expenses	394 658	546 091
Total operating expenses	**22 716 028**	**20 010 473**

Note 23. Other Operating Income

	Three months ended 31 March 2018	Three months ended 31 March 2017
Fines and penalties	70 784	40 500
Operating lease income	40 030	37 861
Insurance	-	10 308
Other operating income	45 837	58 340
Total other operating income	**156 651**	**147 009**

(in thousands of Russian Roubles)

Note 24. Finance Income and Finance Costs

	Three months ended 31 March 2018	Three months ended 31 March 2017
Interest income	50 097	60 463
Exchange differences (net)	38 837	-
Effect of discounting of financial instruments	3 622	-
Finance income	**92 556**	**60 463**
Interest expense	(306 030)	(583 414)
Exchange differences (net)	-	(22 386)
Effect of discounting of financial instruments	-	(9 786)
Finance costs	**(306 030)**	**(615 586)**

Note 25. Events after the Reporting Period

Borrowings

During the period between reporting date and signing date, the Group received short-term borrowings of RUB 285 000 thousand.

During the period between reporting date and signing date, the Group repaid borrowings a total of RUB 521 263 thousand.

Approved for issue and signed on 11 May 2018.

General Director A. V. Barvinok

Chief Accountant R. V. Stanishevskaya