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

International Financial Reporting Standards
Interim Condensed Consolidated Financial Statements
for THREE MONTHS ended 31 March 2019
(unaudited)

Contents

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

	Notes	31 March 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	6	146 403 029	147 014 543
Investment property		170 679	174 440
Intangible assets		2 328 725	2 258 148
Investments in associates	7	433 181	410 718
Deferred income tax assets		504 879	499 538
Other non-current assets	8	393 330	255 568
Total non-current assets		**150 233 823**	**150 612 955**
Current assets			
Cash and cash equivalents	9	7 167 614	6 866 953
Short-term investments	10	4 370	4 370
Trade and other receivables	12	16 243 978	14 950 000
Current income tax prepayments		20 590	17 643
Inventories	13	3 338 877	4 013 641
Total current assets		**26 775 429**	**25 852 607**
Non-current assets held for sale	11	104 010	117 440
TOTAL ASSETS		**177 113 262**	**176 583 002**
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		110 689	110 689
Retained earnings		67 643 022	61 638 117
Equity attributable to the Company's owners		**121 914 843**	**115 909 938**
Non-controlling interest		8 907 939	8 932 605
TOTAL EQUITY		**130 822 782**	**124 842 543**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	15	9 298 000	11 598 000
Deferred income tax liabilities		10 731 624	10 777 059
Post-employment benefits obligations		895 250	895 250
Other non-current liabilities	16	6 730 990	6 973 221
Total non-current liabilities		**27 655 864**	**30 243 530**
Current liabilities			
Short-term borrowings	17	4 170 027	7 461 589
Trade and other payables	18	10 199 182	12 347 094
Current income tax payable		1 256 500	626 612
Other taxes payable	19	3 008 907	1 061 634
Total current liabilities		**18 634 616**	**21 496 929**
TOTAL LIABILITIES		**46 290 480**	**51 740 459**
TOTAL EQUITY AND LIABILITIES		**177 113 262**	**176 583 002**

Approved for issue and signed on 13 May 2019.

Deputy Director General of economics and finance A. V. Goncharov

Chief Accountant R. V. Stanishevskaya

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THREE MONTHS ENDED 31 MARCH 2019 (UNAUDITED)

(in thousands of Russian Roubles)

	Notes	Three months ended 31 March 2019	Three months ended 31 March 2018
Revenue	20	31 900 861	28 946 773
Operating expenses	21	(23 775 046)	(22 859 253)
Impairment loss for financial assets		(216 634)	229 785
Operating profit		**7 909 181**	**6 317 305**
Finance income	22	86 945	93 247
Finance costs	22	(851 540)	(306 030)
Finance costs, net		**(764 595)**	**(212 783)**
Share of profit of associates		**22 464**	**29 370**
Profit before income tax		**7 167 050**	**6 133 892**
Income tax expense		(1 186 811)	(457 508)
Profit for the period		**5 980 239**	**5 676 384**
Other comprehensive expense for the period including tax		-	(446)
Total comprehensive income for the period		**5 980 239**	**5 675 938**
Profit for the period is attributable to:			
Owners of the TGC-1		6 004 905	5 556 601
Non-controlling interests		(24 666)	119 783
Profit for the period		**5 980 239**	**5 676 384**
Total comprehensive income for the period is attributable to:			
Owners of the TGC-1		6 004 905	5 556 121
Non-controlling interests		(24 666)	119 817
Total comprehensive income for the period		**5 980 239**	**5 675 938**

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Chief Accountant R. V. Stanishevskaya

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THREE MONTHS ENDED 31 MARCH 2019 (UNAUDITED)

(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 31 December 2017	38 543 414	22 913 678	(6 086 949)	(1 209 011)	(71 760)	53 740 611	107 829 983	8 629 256	116 459 239
Effect of changes in accounting policies	-	-	-	-	-	(332 846)	(332 846)	(1 680)	(334 526)
Balance at 1 January 2018 (changed)	38 543 414	22 913 678	(6 086 949)	(1 209 011)	(71 760)	53 407 765	107 497 137	8 627 576	116 124 713
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	10 118 216	10 118 216	303 186	10 421 402
Other comprehensive income									
Measurements of post-employment benefits obligations	-	-	-	-	223 145	-	223 145	2 198	225 343
Income tax on other comprehensive income	-	-	-	-	(40 696)	-	(40 696)	(355)	(41 051)
Total other comprehensive income	-	-	-	-	182 449	-	182 449	1 843	184 292
Total comprehensive income for the year	-	-	-	-	182 449	10 118 216	10 300 665	305 029	10 605 694
Transactions with owners									
Dividends	-	-	-	-	-	(1 887 864)	(1 887 864)	-	(1 887 864)
Total transactions with owners	-	-	-	-	-	(1 887 864)	(1 887 864)	-	(1 887 864)
Balance at 31 December 2018	38 543 414	22 913 678	(6 086 949)	(1 209 011)	110 689	61 638 117	115 909 938	8 932 605	124 842 543
Comprehensive income for the period									
Profit for the period	-	-	-	-	-	6 004 905	6 004 905	(24 666)	5 980 239
Other comprehensive income									
Measurements of post-employment benefits obligations	-	-	-	-	-	-	-	-	-
Income tax on other comprehensive income	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	6 004 905	6 004 905	(24 666)	5 980 239
Transactions with owners									
Dividends	-	-	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-	-	-	-
Balance at 31 March 2019	38 543 414	22 913 678	(6 086 949)	(1 209 011)	110 689	67 643 022	121 914 843	8 907 939	130 822 782

Approved for issue and signed on 13 May 2019.

Deputy Director General of economics and finance A. V. Goncharov

Chief Accountant R. V. Stanishevskaya

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

(in thousands of Russian Roubles)

	Notes	Three months ended 31 March 2019	Three months ended 31 March 2018
Cash flows from operating activities			
Profit before income tax		7 167 050	6 133 892
Adjustments to non-cash items		3 453 465	1 911 582
Operating cash flows before working capital changes		**10 620 515**	**8 045 474**
Capital changes		(191 036)	(270 151)
Cash generated from operations		**10 429 479**	**7 775 323**
Income taxes paid and interest paid		(1 509 130)	(1 267 394)
Net cash from operating activities		**8 920 349**	**6 507 929**
Net cash used in investing activities		**(2 526 204)**	**(1 586 414)**
Net cash from financing activities		**(6 093 484)**	**(7 955 503)**
Net increase/(decrease) in cash and cash equivalents		**300 661**	**(3 033 988)**
Cash and cash equivalents at the beginning of the period		**6 866 953**	**6 975 598**
Cash and cash equivalents at the end of the period		**7 167 614**	**3 941 610**

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Deputy Director General of economics and finance A. V. Goncharov

Chief Accountant R. V. Stanishevskaya

(in thousands of Russian Roubles)

Note 1. The Group and its operations

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for three months ended 31 March 2019 for Public Joint-Stock Company (PJSC) Territorial Generating Company № 1(here in after "TGC-1", or the "Company") and its subsidiaries (the "Group").

The Company was incorporated and is domiciled in the Russian Federation. 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	**2019**	**2018**	**Immediate parent**
PJSC Murmanskaya TPP	98.6791	98.6791	PJSC TGC-1
JSC St Petersburg Heating Grid	74.9997	74.9997	PJSC TGC-1
LLC St Petersburg Heating Grid	74.9997	74.9997	JSC St Petersburg Heating Grid (100%)

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 28). 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.

Government relations and current regulation

As at 31 March 2019 the Group was controlled by the Gazprom Group (51.79% stake) via its subsidiary Gazprom Energoholding LLC (as at 31 December 2018 - 51.79% stake). The Group's other significant shareholder as at 31 March 2019 was Fortum Power and Heat Oy - 29.45% stake (as at 31 December 2018 - 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 2019 and 31 December 2018.

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

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

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.

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

This Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting and should be read in conjunction with the annual Consolidated Financial Statements as at and for the year ended 31 December 2018, which were prepared in accordance with International Financial Reporting Standards (IFRS). This Interim Condensed Consolidated Financial Statements are unaudited. Certain disclosures duplicating information included in the annual Consolidated Financial Statements as at and for the year ended 31 December 2018 have been omitted or condensed.

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Consolidated Financial Statements are consistent with those applied during the preparation of the Consolidated Financial Statements as of and for the year ended 31 December 2018, except changes in accounting policies in respect of the application of new standards that became effective on 1 January 2019 (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.

Note 3. Summary of Significant Accounting Polices (continued)

Consolidated financial statements (continued)

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

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

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

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

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

Presentation currency

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

Foreign currency translation

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

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

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

As at 31 March 2019, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar (USD) was USD 1 = RUB 64.7347 (31 December 2018: USD 1 = RUB 69.4706), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 72.7230 (31 December 2018: EUR 1 = RUB 79.4605).

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 and measurement of financial assets

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

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

Financial assets measured subsequently at amortised cost

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

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

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

Impairment of financial assets

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

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

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

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

Note 3. Summary of Significant Accounting Polices (continued)

Classification of financial liabilities

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

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

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.

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.

(in thousands of Russian Roubles)

Note 3. Summary of Significant Accounting Polices (continued)

Property, plant and equipment (continued)

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.

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

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

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

Investment property

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

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

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

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

Leases

The Group recognises a right-of-use asset and lease liability for the most lease agreements.

The cost of the right-of-use assets comprises the amount of the initial measurement of the lease liability, lease payments at or before the commencement date and initial direct costs incurred by the lessee.

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

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

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

«Software licences» primarily includes SAP software.

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

Income taxes

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

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

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

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.

Note 3. Summary of Significant Accounting Polices (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.

Note 3. Summary of Significant Accounting Polices (continued)

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.

Borrowings

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

Note 3. Summary of Significant Accounting Polices (continued)

Borrowing costs

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

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

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

Provisions for liabilities and charges

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

Revenue recognition

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

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

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

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

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

Offset

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

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

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

Note 3. Summary of Significant Accounting 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

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

(in thousands of Russian Roubles)

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

Deferred income tax asset recognition

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

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

Note 5. Adoption of New or Revised Standards and Interpretations

The significant accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2018, except for the application of new standards that became effective on 1 January 2019.

Application of new IFRSs

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

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

The cost of the right-of-use assets comprise the amount of the initial measurement of the lease liability, lease payments at or before the commencement date and initial direct costs incurred by the lessee.

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

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

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

	1 January 2019	Impact of initial applying of IFRS 9	1 January 2019 (restated)
Property, plant and equipment	138 343 333	8 671 210	147 014 543
Total non-current assets	**138 343 333**	**8 671 210**	**147 014 543**
Total assets	**138 343 333**	**8 671 210**	**147 014 543**
Other non-current liabilities	130 231	6 842 990	6 973 221
Total non-current liabilities	**130 231**	**6 842 990**	**6 973 221**
Trade and other payables	10 518 874	1 828 220	12 347 094
Total current liabilities	**10 518 874**	**1 828 220**	**12 347 094**
Total liabilities	**10 649 105**	**8 671 210**	**19 320 315**
Total equity and liabilities	**10 649 105**	**8 671 210**	**19 320 315**

(in thousands of Russian Roubles)

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

Application of new IFRSs (continued)

The Group indicated RUB 261 010 thousand and RUB 191 144 thousand as depreciation of property, plant and equipment and intangible assets and finance costs respectively in respect of the lease agreements in the Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for three months ended 31 March 2019.

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

Operating lease liability as at 31 December 2018, disclosed applying IFRS 17	**3 235 431**
Effect of discounting of lease liability as t at 1 January 2019	4 823 474
Effect of extension and indexation judgments applying to the lease agreements as t at 1 January 2019	10 259 253
Additional liabilities relating to applying of IFRS 16 as at 1 January 2019	**8 671 210**
Previously recognised liability as at 31 December 2018	-
Lease liability as t at 1 January 2019 according to IFRS 16	**8 671 210**

As a discount rate the Group used Government Bond Zero Coupon Yield Rate including risk premium, adjusted to the correction factor.

Application of Interpretations and Amendments to existing Standards

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

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

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

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

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

(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 2018	29 724 877	15 934 500	55 936 128	56 192 957	18 377 437	43 536 731	15 225 184	234 927 814
Additions	-	-	-	9 605	-	9 099	1 743 760	1 762 464
Transfers	189 524	24 974	64 440	3 151	88 918	723 415	(1 094 422)	-
Disposals	(3 222)	-	(5 763)	(802)	(130)	(19 415)	(22 016)	(51 348)
Balance as at 31 March 2019	29 911 179	15 959 474	55 994 805	56 204 911	18 466 225	44 249 830	15 852 506	236 638 930
Accumulated depreciation (including impairment)								
Balance as at 31 December 2018	(10 336 406)	(8 690 736)	(24 794 735)	(26 790 198)	(5 762 402)	(20 203 205)	(6 799)	(96 584 481)
Charge for the period	(126 412)	(60 259)	(522 416)	(428 060)	(136 267)	(813 473)	-	(2 086 887)
Disposals	1 697	-	5 763	331	114	17 329	-	25 234
Impairment loss reversed during the period	-	-	-	-	-	-	33	33
Balance as at 31 March 2019	(10 461 121)	(8 750 995)	(25 311 388)	(27 217 927)	(5 898 555)	(20 999 349)	(6 766)	(98 646 101)
Net book value as at 31 December 2018	19 388 471	7 243 764	31 141 393	29 402 759	12 615 035	23 333 526	15 218 385	138 343 333
Net book value as at 31 March 2019	19 450 058	7 208 479	30 683 417	28 986 984	12 567 670	23 250 481	15 845 740	137 992 829

(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 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 period	(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	**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)

Interim Condensed Consolidated Statement of Financial Position as at 31 March 2019 includes the right-of-use assets as the property, plant and equipment in the amount of RUB 8 410 200 thousand, primarily related to the land plots, generating equipment and office buildings. The movement of the right-of-use assets in the reporting period is presented below:

	Production buildings	Generating equipment	Electricity transmission equipment	Other	Total
Cost	**1 112 699**	**6 080 376**	**43 443**	**1 434 692**	**8 671 210**
Initial recognition as at 1 January 2019	**1 112 699**	**6 080 376**	**43 443**	**1 434 692**	**8 671 210**
Balance as at 31 March 2019	**1 112 699**	**6 080 376**	**43 443**	**1 434 692**	**8 671 210**
Accumulated depreciation	-	-	-	-	-
Charge for the period	(51 545)	(190 012)	(968)	(18 485)	(261 010)
Balance as at 31 March 2019	**(51 545)**	**(190 012)**	**(968)**	**(18 485)**	**(261 010)**
Net book value as at 31 March 2019	**1 061 154**	**5 890 364**	**42 475**	**1 416 207**	**8 410 200**

As at 1 January 2019 the Group determined whether there was any indication of impairment of property, plant and equipment at the base of cash-generating units including the right-of-use assets. As a result of the impairment test, impairment loss was not recognised as at 1 January 2019.

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 2019 the advances given to contractors, which amounted to RUB 2 172 025 thousand, net of VAT (as at 31 December 2018: RUB 1 305 922 thousand), are recognised within the construction in progress balance.

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

The total amount of capitalised interests that were calculated using 7.54% capitalization rate for three months ended 31 March 2019 is RUB 45 143 thousand (7.26% capitalization rate for the year ended 31 December 2018: RUB 214 576 thousand). The payment of capitalised interests is recorded in Consolidated Statement of Cash Flow in respect of operating activities.

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 2019	31 December 2018
Investments in LLC TGC Service	10 754	10 249
Investments in JSC HHC	422 427	400 469
Total investments	**433 181**	**410 718**

As at 31 March 2019 and 31 December 2018 the ownership interest in JSC HHC was 50%. Management of the Group believes that there is a significant influence over JSC HHC as taking into account its current Board of Directors composition there is no joint control over the entity. Therefore, the investment in JSC HHC was accounted as investment in associate.

(in thousands of Russian Roubles)

Note 8. Other Non-Current Assets

	31 March 2019	31 December 2018
Long-term receivables net of provision for impairment of RUB 399 005 thousand (31 December 2018: RUB 728 751 thousand)	393 330	255 101
Total financial receivables	**393 330**	**255 101**
VAT in prepayments on capital construction	-	467
Total other non-current assets	**393 330**	**255 568**

Note 9. Cash and Cash Equivalents

	31 March 2019	31 December 2018
Cash in bank and in hand in RUB	6 950 978	4 191 977
Foreign currency accounts in EUR	216 636	2 674 976
Total cash and cash equivalents	**7 167 614**	**6 866 953**

Note 10. Short-term Investments

	31 March 2019	31 December 2018
Loan issued	4 370	4 370
Total short-term investments	**4 370**	**4 370**

As at 31 March 2019 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 2019 the property, plant and equipment with a total net book value amounting to RUB 104 010 thousand were classified as assets held for sale (31 December 2018: RUB 117 440 thousand). Movements of non-current assets held for sale for current and prior periods were as follows:

31 March 2019	Impairment loss for non-current assets held for sale	Sale	Classification as assets held for sale	31 December 2018
104 010	-	13 430	-	117 440

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

(in thousands of Russian Roubles)

Note 12. Trade and other receivables

	31 March 2019	31 December 2018
Trade receivables, net of provision for impairment of RUB 10 627 232 (31 December 2018: RUB 10 123 997 thousand)	14 079 491	12 953 961
Other receivables, net of provision for impairment of RUB 113 526 (31 December 2018: RUB 113 936 thousand)	218 872	288 094
Total financial receivables	**14 298 363**	**13 242 055**
Value-added tax receivables	195 677	198 471
Advances to suppliers	1 744 183	1 501 061
Other taxes receivable	5 755	8 413
Total trade and other receivables	**16 243 978**	**14 950 000**

Note 13. Inventories

	31 March 2019	31 December 2018
Fuel	2 596 175	3 296 301
Spare parts	208 189	176 545
Raw materials and other supplies	534 513	540 795
Total inventories	**3 338 877**	**4 013 641**

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

Note 14. Share capital

Share capital

The Group's share capital as at 31 March 2019 and as at 31 December 2018 was RUB 38 543 414 thousand comprising 3 854 341 416 571 ordinary shares with a par value of RUB 0.01. All shares authorised are issued and fully paid.

Share premium

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

Merger reserve

As at 31 March 2019 and as at 31 December 2018 the merger reserve amounted to RUB 6 086 949 thousand.

Dividends

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared under Russian Accounting Rules. The Company's statutory accounting reports form the basis for profit distribution and other appropriations. Russian legislation identifies net profit as the basis for distribution.

(in thousands of Russian Roubles)

Note 15. Long-term Borrowings

	31 March 2019	31 December 2018
Bank borrowings and bonds issued	9 298 000	11 598 000
Total long-term borrowings	**9 298 000**	**11 598 000**

	Currency	Contractual interest rate	Maturity	31 March 2019	31 December 2018
Long-term bonds (03)	RUB	CPI+1.5%	2021	2 022 600	2 002 860
Long-term bonds (04)	RUB	CPI+1.5%	2022	2 013 040	2 029 180
Bank Rossiya		8.75%	2020	3 098 000	3 098 000
VTB	RUB	8.75-9.0%	2019	-	2 306 163
Gazprom	RUB	7.76%	2022	1 800 000	1 800 000
Sberbank RF	RUB	8.15%	2020	400 982	901 409
NORDIC Investment Bank	EUR	EURIBOR + 3%	2019	340 344	369 126
				9 674 966	**12 506 738**
Less: current portion					
Long-term bonds (03)	RUB	CPI+1.5%	2021	(22 600)	(2 860)
Long-term bonds (04)	RUB	CPI+1.5%	2022	(13 040)	(29 180)
Sberbank RF	RUB	8.15%	2020	(982)	(501 409)
NORDIC Investment Bank	EUR	EURIBOR + 3%	2019	(340 344)	(369 126)
VTB	RUB	8.75-9.0%	2019	-	(6 163)
Total long-term bank borrowings and bonds issued				**9 298 000**	**11 598 000**

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

	31 March 2019	31 December 2018
Long-term accounts payable	67 853	130 231
Long-term lease liability	6 663 137	6 842 990
Total other non-current liabilities	**6 730 990**	**6 973 221**

(in thousands of Russian Roubles)

Note 17. Short-Term Borrowings

	31 March 2019	31 December 2018
Bank borrowings and bonds issued	4 170 027	7 461 589
Total short-term borrowings	**4 170 027**	**7 461 589**

Name of lender	Currency	Contractual interest rate	31 March 2019	31 December 2018
Sberbank RF	RUB	8.65%	3 101 469	5 305 024
Gazprombank	RUB	9.5-9.75%	691 592	1 247 827
Current portion of long-term borrowings:				
Long-term bonds (03)	RUB	CPI+1.5%	22 600	2 860
Long-term bonds (04)	RUB	CPI+1.5%	13 040	29 180
Sberbank RF	RUB	8.15%	982	501 409
NORDIC Investment Bank	EUR	EURIBOR+3%	340 344	369 126
VTB	RUB	8.75-9.0%	-	6 163
Total bank borrowings and bonds issued			**4 170 027**	**7 461 589**

Note 18. Trade and other payables

	31 March 2019	31 December 2018
Trade accounts payable	4 254 043	5 065 792
Accounts payable for capital construction	1 216 604	2 286 021
Accrued liabilities and other payables	389 670	437 315
Short-term lease liability	1 502 947	1 828 220
Total financial payables	**7 363 264**	**9 617 348**
Advances from customers	2 224 344	2 189 453
Current employee benefits	611 574	540 293
Total trade and other payables	**10 199 182**	**12 347 094**

Note 19. Other Taxes Payable

	31 March 2019	31 December 2018
Property tax	718 454	419 513
VAT payable	1 941 730	308 343
Employee taxes	262 203	243 905
Personal Income Tax	66 902	70 356
Other taxes	19 618	19 517
Total taxes payable	**3 008 907**	**1 061 634**

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

(in thousands of Russian Roubles)

Note 20. Revenue

	31 March 2019	31 March 2018
Sales of electricity and capacity	16 307 252	14 523 519
Sales of heat	15 476 367	14 237 569
Other sales	117 242	185 685
Total sales	**31 900 861**	**28 946 773**

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

During three months of 2019 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 Saint-Petersburg budget and Murmansk regional budget for a total amount of RUB 1 172 131 thousand (during three months 2018 - RUB 45 236 thousand).

Note 21. Operating Expenses

	Three months ended 31 March 2019	Three months ended 31 March 2018
Fuel	13 266 844	12 355 367
Employee benefits	2 307 470	1 998 409
Electricity, capacity and heat purchases	2 485 891	2 099 843
Depreciation of property, plant and equipment	2 347 897	1 884 419
Repairs and maintenance	555 411	603 990
Water usage expenses	788 969	752 034
Operating lease expenses	-	710 885
Heat and electricity distribution	667 928	814 654
Taxes other than income tax	352 418	507 854
Other materials	188 016	122 606
Fees of electricity market operators	221 733	209 506
Security expenses	186 682	114 303
IT services	116 003	122 337
Insurance cost	74 414	73 219
Fees of electricity market operators	64 173	97 173
Telecommunication expenses	25 865	58 565
Amortisation of intangible assets	52 215	35 105
Loss on disposal of property, plant and equipment	(45 813)	(21 440)
Consulting, legal and audit expenses	12 174	8 593
Amortisation of investment property	3 761	3 733
Other operating expenses	102 995	308 098
Total operating expenses	**23 775 046**	**22 859 253**

Note 22. Finance Income and Finance Costs

	Three months 31 March 2019	Three months 31 March 2018
Interest income	86 945	50 097
Exchange differences (net)	-	39 528
Effect of discounting of financial instruments	-	3 622
Finance income	**86 945**	**93 247**
Interest expense	(465 542)	306 030
Exchange differences (net)	(215 671)	-
Effect of discounting of financial instruments	(170 327)	-
Finance costs	**(851 540)**	**(306 030)**

Note 23. Events after the Reporting Period

Borrowings

During the period between reporting date and signing date, the Group repaid borrowings a total of RUB 2 668 337 thousand.

Government grants

During the period between reporting date and signing date the Group received a grant from Saint-Petersburg regional budget for a total amount of RUB 253 614.

Approved for issue and signed on 13 May 2019.

Deputy Director General of economics and finance A. V. Goncharov

Chief Accountant R. V. Stanishevskaya