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

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

2016

Contents

Tel: +7 495 797 56 65
Fax: +7 495 797 56 60
reception@bdo.ru
www.bdo.ru

BDO Unicon AO
Section 11, Build. 1,
125, Warshavskoe shosse,
Moscow, 117587, Russia

AUDITOR'S REPORT

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

Audited Entity

Public Joint Stock Company "Territorial Generating Company № 1" (PJSC "TGC-1")

PJSC "TGC-1" is registered by Inter-District Tax Inspectorate No. 15 of the Federal Tax Service of the City of Saint-Petersburg. Entered in the Unified State Register of Legal Entities on 25 March 2005 under the State Registration Number 1057810153400.

Registered office: Build. B, 6 Bronevaya Ulitsa, Saint-Petersburg, 198188, Russian Federation.

Auditor

BDO Unicon Aktsionernoe Obshchestvo (BDO Unicon AO)

Registered by Tax Inspectorate No. 26 of the RF Ministry of Taxation in the Southern Administrative District of the City of Moscow, Certificate of Registration No. 1037739271701.

Registered office: 11/1, 125 Warshavskoye Shosse, Moscow, 117587, Russian Federation.

BDO Unicon AO is a member of the professional audit association Self-regulated organization of "Russian Union of auditors" (Association). Principal Registration Number of the Entry in the State Register of Auditors and Audit Organizations: 11603059593.

Authority to sign the Auditor's Report rests with Andrey Baliakin, Senior Partner, by way of Power of Attorney No. 3-01/2016-БДО of 1 January 2016.

We have audited the accompanying consolidated financial statements of PJSC "TGC-1" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and explanatory notes to the consolidated financial statements for the year ended 31 December 2016 which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management of PJSC "TGC-1" is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and legislation of the Russian Federation in respect of the preparation of the consolidated financial statements, and for the internal control system necessary for the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Federal Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also included evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluation of the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PJSC "TGC-1" and its subsidiaries as at 31 December 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and legislation of the Russian Federation in respect of the preparation of the consolidated financial statements.

BDO Unicon AO

АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1037739271701 * МОСКВА *
«БДО Юникон»

A. Baliakin
Senior Partner

10 March 2017

Total number of pages bound: 58.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

(in thousands of Russian Roubles)

	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	7	132 468 741	132 033 165
Investment property		191 924	181 232
Intangible assets		779 445	700 553
Investments in associates	8	395 151	395 544
Deferred income tax assets	9	526 907	438 839
Other non-current assets	10	1 087 518	1 273 073
Total non-current assets		**135 449 686**	**135 022 406**
Current assets			
Cash and cash equivalents	11	3 354 882	1 701 151
Short-term investments	12	4 370	42 073
Trade and other receivables	14	17 583 729	15 025 863
Current income tax prepayments		473 162	250 446
Inventories	15	2 768 011	2 636 994
Total current assets		**24 184 154**	**19 656 527**
Non-current assets held for sale	13	137 114	215 846
TOTAL ASSETS		**159 770 954**	**154 894 779**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	38 543 414	38 543 414
Share premium	16	22 913 678	22 913 678
Merger reserve	16	(6 086 949)	(6 086 949)
Other reserves		(1 209 011)	(1 209 011)
Effect of remeasurements of post-employment benefits obligations		52 151	(11 672)
Retained earnings		47 464 616	43 014 555
Equity attributable to the Company's owners		**101 677 899**	**97 164 015**
Non-controlling interest	33	8 305 973	8 365 373
TOTAL EQUITY		**109 983 872**	**105 529 388**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	17	17 022 529	16 807 500
Deferred income tax liabilities	9	10 952 740	10 825 246
Post-employment benefits obligations	19	923 938	958 732
Other non-current liabilities	18	115 052	185 623
Total non-current liabilities		**29 014 259**	**28 777 101**
Current liabilities			
Short-term borrowings	20	10 129 851	13 030 655
Trade and other payables	21	9 433 751	6 438 527
Current income tax payable		3 691	32 835
Other taxes payable	22	1 205 530	1 086 273
Total current liabilities		**20 772 823**	**20 588 290**
TOTAL LIABILITIES		**49 787 082**	**49 365 391**
TOTAL EQUITY AND LIABILITIES		**159 770 954**	**154 894 779**

Approved for issue and signed on 10 March 2017.

Deputy director general
of economics and finance — M. A. Tuznikov

Chief Accountant — R. V. Stanishevskaya

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Revenue			
Sales of electricity		43 956 494	38 665 866
Sales of heat		33 702 402	29 625 783
Other sales	23	1 232 206	1 132 252
Total revenue		**78 891 102**	**69 423 901**
Government grants	24	269 320	877 112
Operating expenses	25	(69 802 169)	(61 023 161)
Impairment loss reversed/(recognized) during the year	7	(1 312 851)	220 949
Other operating income	26	555 525	518 375
Total operating expenses		**(70 290 175)**	**(59 406 725)**
Operating profit		**8 600 927**	**10 017 176**
Finance income	27	272 242	239 125
Finance costs	27	(2 406 699)	(2 793 455)
Finance costs, net		**(2 134 457)**	**(2 554 330)**
Profit before income tax		**6 466 470**	**7 462 846**
Income tax expense	9	(1 142 297)	(1 636 624)
Profit for the year		**5 324 173**	**5 826 222**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits obligations		80 892	(175 585)
Income tax on remeasurement of post-employment benefit obligations		(13 962)	30 464
Other comprehensive income for the year		**66 930**	**(145 121)**
Total comprehensive income for the year		**5 391 103**	**5 681 101**
Profit is attributable to:			
Owners of the TGC-1		5 386 680	6 061 340
Non-controlling interests		(62 507)	(235 118)
Profit for the year		**5 324 173**	**5 826 222**
Total comprehensive income is attributable to:			
Owners of the TGC-1		5 450 503	5 920 817
Non-controlling interests		(59 400)	(239 716)
Total comprehensive income for the year		**5 391 103**	**5 681 101**
Earnings per ordinary share for profit attributable to owners of the TGC-1, basic and diluted (in Russian Roubles)	28	0.0014	0.0016

Approved for issue and signed on 10 March 2017.

Deputy director general of economics and finance — M. A. Tuznikov

Chief Accountant — R. V. Stanishevskaya

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 2016

(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 2015	38 543 414	22 913 678	(6 086 949)	(1 209 011)	128 851	37 821 995	92 111 978	8 605 089	100 717 067
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	6 061 340	6 061 340	(235 118)	5 826 222
Other comprehensive income									
Measurements of post-employment benefits obligations	-	-	-	-	(170 052)	-	(170 052)	(5 533)	(175 585)
Income tax on other comprehensive income	-	-	-	-	29 529	-	29 529	935	30 464
Total other comprehensive expense	-	-	-	-	(140 523)	-	(140 523)	(4 598)	(145 121)
Total comprehensive income for the year	-	-	-	-	(140 523)	6 061 340	5 920 817	(239 716)	5 681 101
Transactions with owners									
Dividends	-	-	-	-	-	(868 780)	(868 780)	-	(868 780)
Total transactions with owners	-	-	-	-	-	(868 780)	(868 780)	-	(868 780)
Balance at 31 December 2015	38 543 414	22 913 678	(6 086 949)	(1 209 011)	(11 672)	43 014 555	97 164 015	8 365 373	105 529 388
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	5 386 680	5 386 680	(62 507)	5 324 173
Other comprehensive income									
Measurements of post-employment benefits obligations	-	-	-	-	77 208	-	77 208	3 684	80 892
Income tax on other comprehensive income	-	-	-	-	(13 385)	-	(13 385)	(577)	(13 962)
Total other comprehensive income	-	-	-	-	63 823	-	63 823	3 107	66 930
Total comprehensive income for the year	-	-	-	-	63 823	5 386 680	5 450 503	(59 400)	5 391 103
Transactions with owners									
Dividends	-	-	-	-	-	(936 619)	(936 619)	-	(936 619)
Total transactions with owners	-	-	-	-	-	(936 619)	(936 619)	-	(936 619)
Balance at 31 December 2016	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

Approved for issue and signed on 10 March 2017.

Deputy director general of economics and finance M. A. Tuznikov

Chief Accountant R. V. Stanishevskaya

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Profit before income tax		6 466 470	7 462 846
Adjustments for:			
Depreciation of property, plant and equipment	7	7 546 003	7 068 383
Amortisation of intangible assets	25	123 983	124 544
Amortisation of investment property	7	14 063	12 465
Impairment loss (reversed)/recognized during the year	7	1 312 851	(220 949)
Finance expense, net	27	2 134 457	2 554 330
Change in provision for impairment of accounts receivable	25	2 961 136	922 351
Gain on disposals of property, plant and equipment	25	291 781	(160 051)
Increase of post-employment benefits obligations	19	46 098	58 482
Other non-cash items		137 095	43 749
Operating cash flows before working capital changes		**21 033 937**	**17 866 150**
Increase in trade and other receivables	10, 14	(5 831 633)	(2 317 671)
Decrease(increase) in inventories	15	(202 694)	9 812
Increase (Decrease) in trade and other payables	20	3 317 711	(555 158)
Increase (Decrease) in other taxes payable	21	119 257	(366 665)
Cash generated from operations		**18 436 578**	**14 636 468**
Income taxes paid		(1 368 692)	(1 272 550)
Interest paid		(2 905 681)	(3 099 079)
Net cash from operating activities		**14 162 205**	**10 264 839**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(9 218 408)	(9 625 972)
Proceeds from sale of property, plant and equipment		129 994	65 448
Purchase of shares	12	-	(12 000)
Purchase of intangible assets		(64 227)	(242 392)
Interest received		203 380	194 801
Net cash used in investing activities		**(8 949 261)**	**(9 620 115)**
Cash flows from financing activities			
Proceeds from borrowings		40 542 906	21 716 970
Repayments of borrowings		(42 992 724)	(22 049 519)
Dividends paid to the Company's shareholders		(936 619)	(868 780)
Net cash from financing activities		**(3 386 437)**	**(1 201 329)**
Net (decrease)/increase in cash and cash equivalents		**1 826 507**	**(556 605)**
Effect of exchange rate changes on cash and cash equivalents		(172 776)	(7 643)
Cash and cash equivalents at the beginning of the year		**1 701 151**	**2 265 399**
Cash and cash equivalents at the end of the year		**3 354 882**	**1 701 151**

Approved for issue and signed on 10 March 2017.

Deputy director general of economics and finance M. A. Tuznikov

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 2016 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 December		
Subsidiary	2016	2015	Immediate parent
PJSC Murmanskaya TPP	98.6791	90.3423	PJSC TGC-1
JSC St Petersburg Heating Grid	74.9997	74.9997	PJSC TGC-1

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

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

Note 2. Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (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. As a result during 2016:

- the CBRF exchange rate fluctuated between RR 60.2730 and RR 89.5913 per USD;
- the RTS stock exchange index ranged between 628.41 and 1 164.15;
- access to international financial markets to raise funding was limited for certain entities.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2016:

- the CBRF exchange rate fluctuated between RR 56.7719 per USD and RR 60.3196 per USD;
- the RTS stock exchange index ranged between 1 099.46 and 1 195.61.

Note 2. Operating environment of the Group (continued)

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

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

Government relations and current regulation

As at 31 December 2016 the Group was controlled by the Gazprom Group (51.79% stake) via its subsidiary Gazprom Energoholding LLC (as at 31 December 2015 - 51.79% stake). The Group's other significant shareholder as at 31 December 2016 was Fortum Power and Heat Oy - 29.45% stake (as at 31 December 2015 - 29.45% stake). The Gazprom Group is controlled by the government of the Russian Federation, which was the Group's ultimate controlling party as at 31 December 2016 and 31 December 2015.

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

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

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

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.

As at 31 December 2016, the Group's current assets exceeded its current liabilities by RUB 3 548 445 thousand (as at 31 December 2015 the Group's current liabilities exceeded its current assets by RUB 715 917 thousand).

The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

Note 3. Summary of Significant Accounting 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.

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

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

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

Note 3. Summary of Significant Accounting Polices (continued)

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

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

Presentation currency

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

Foreign currency translation

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

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

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

At 31 December 2016, 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 60.6569 (31 December 2015: USD 1 = RUB 72.8827), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 63.8111 (31 December 2015: EUR 1 = RUB 79.6972).

Associates

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

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

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

Note 3. Summary of Significant Accounting Polices (continued)

Disposals of subsidiaries, associates or joint ventures

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

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

Financial instruments - key measurement terms

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

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

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

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

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

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

Note 3. Summary of Significant Accounting Polices (continued)

Classification of financial assets

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

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

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

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

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

Classification of financial liabilities

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

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

Initial recognition of financial instruments

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

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

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

Derecognition of financial assets

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

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

(in thousands of Russian Roubles)

Note 3. Summary of Significant Accounting Polices (continued)

Property, plant and equipment

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

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

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

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

Costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is 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	40-50
Hydrotechnical buildings	50-60
Generating equipment	20-30
Heating networks	25-35
Other	10-25

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

Investment property

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

Investment property is initially recognised at cost 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.

Note 3. Summary of Significant Accounting Polices (continued)

Investment property (continued)

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

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

Operating lease

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

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

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

Finance lease liabilities

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

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

Intangible assets

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

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

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

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

Income taxes

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

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

Note 3. Summary of Significant Accounting Polices (continued)

Income taxes (continued)

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.

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

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

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

Note 3. Summary of Significant Accounting 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.

Share capital

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

Note 3. Summary of Significant Accounting Polices (continued)

Merger reserve

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

Other reserves

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

Dividends

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

Value added tax

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

Government grants

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

Trade and other payables

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

Borrowings

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

Borrowing costs

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

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

Note 3. Summary of Significant Accounting Polices (continued)

Borrowing costs (continued)

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

Provisions for liabilities and charges

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

Revenue recognition

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

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

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

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.

Pension and post-employment benefits

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

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

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

Note 3. Summary of Significant Accounting Polices (continued)

Pension and post-employment benefits (continued)

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

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

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

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

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

Employee benefits

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

Environmental liabilities

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

Earnings per share

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

Offsetting

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

Segment reporting

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

The Group generates its revenues from the generation of electricity, capacity and heat in the Russian Federation, so the Group holds assets in the same geographical area, i.e. the Russian Federation. The technology of electricity, capacity and heat production does not allow for the segregation of the electricity, capacity and heat segments (Note 32).

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

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

Provision for impairment of property, plant and equipment

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

The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such recoverable amount has declined below the carrying value, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 7.

Useful lives of property, plant and equipment

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

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2016 would be an increase of RUB 639 584 thousand or a decrease it by RUB 543 407 thousand (for the year ended 31 December 2015: increase by RUB 713 745 thousand or decrease by RUB 631 797 thousand).

Recoverability of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectability of specific customer accounts deteriorated compared to previous period estimates. If there has been a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (Note 31).

Pension obligation

The principal actuarial assumptions used to calculate the defined benefit obligation as at 31 December 2016 are listed in Note 19.

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are future heat tariffs and heat output.

If the actual results differ from the management expectations the recognized deferred tax asset will be written-off in full.

Note 5. Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2016:

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

This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments din not have any impact on the Group's consolidated financial statements.

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

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

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

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

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

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments did not have any impact on the Group's financial statements.

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

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

Annual Improvements to IFRSs 2012-2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).

The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.

The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The amendments did not have any impact on the Group's financial statements.

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

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

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

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted. The following standards were adopted in Russia:

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

IFRS 15 is a converged standard for revenue recognition. It supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations.

The objective of IFRS 15 is to clarify the principles of revenue recognition. This includes removing inconsistencies and perceived weaknesses and improving the comparability of revenue recognition practices across companies, industries and capital markets. In doing so IFRS 15 establishes a single revenue recognition framework. The core principle of the framework is, that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 is a converged standard for revenue recognition. It supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations.

To accomplish this, IFRS 15 requires the application of the following five steps:

1. Identify the contract
2. Identify the performance obligation(s)
3. Determine the transaction price
4. Allocate the transaction price to each performance obligation
5. Recognise revenue when each performance obligation is satisfied.

Furthermore the guidance significantly enhances the required qualitative and quantitative disclosures related to revenue. The main objective of the requirements is the disclosure of sufficient information in terms of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In order to meet this objective, IFRS 15 requires specific disclosures for contracts with customers and significant judgements.

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

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

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

The final version of IFRS 9 Financial Instruments replaces most of the guidance in IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard incorporates the final requirements on all three phases of the financial instruments projects - classification and measurement, impairment, and hedge accounting.

IFRS 9 establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. In a major change, which will affect all entities, a new 'expected loss' impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39. Under IFRS 9, the impairment model is a more 'forward looking' model in that a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognised.

Most of the requirements for financial liabilities were carried forward unchanged, except for recognition of changes in the fair value of financial liabilities designated at fair value through profit or loss, which relate to changes in an entity's own credit risk - such changes should be recognised directly in other comprehensive income (OCI).

The new hedge accounting requirements are more principles-based, less complex, and provide a better link to risk management and treasury operations than the requirements in IAS 39.

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

Disclosure Initiative - Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017).

The amendments require entities to provide a reconciliation of the opening and closing carrying amounts of each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows (e.g. borrowing, lease liabilities).

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

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017).

IAS 12 Income Taxes was amended to clarify that:

- deductible temporary differences arise from unrealised losses on debt instruments measured at fair value, regardless of whether the instrument is recovered through sale or by holding it to maturity;

- The estimate of future taxable profits can include recovery of certain assets at amounts more than their carrying amount if there is enough evidence that it is probable that the entity will recover the asset for more than its carrying amount;

- where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type; and

- tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

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

Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018).

The amendments clarify that the accounting for the effects of vesting and non-vesting conditions on cash-settled share-based payments should follow the same approach as for equity-settled share-based payments.

The Group anticipates that application of the amendments will not have any material effect on Group's financial statements.

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

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

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

IFRS 16 was issued in January 2016. It contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low value items for which a lessee has the option not to apply the measurement and presentation requirements of IFRS 16, will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease.

The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements.

The application of the standard may affect the accounting for the group's operating leases. However, the Group currently is unable to determine to what extent these liabilities will result in recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture-Amendments to IFRS 10 and IAS 28 (effective date undetermined).

The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

The Group anticipates that application of the amendments will not have any material effect on Group's financial statements.

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

Note 6. Balances and Transactions with Related Parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include shareholders that have control or significant influence over the Company, and key management personnel, as well as companies that are controlled by the State or Gazprom Group.

As at 31 December 2016 and 31 December 2015 the Russian Government was the ultimate controlling party of the Group (Note 1), hence significant transactions with other state-controlled entities were disclosed as related party transactions in accordance with IAS 24 requirements.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in the years ended at 31 December 2016 and 2015, and had significant outstanding balances as at 31 December 2016 and 31 December 2015 are detailed below.

(in thousands of Russian Roubles)

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

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

Transactions with PJSC Gazprom and its subsidiaries were as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Revenue		
Sales of electricity	756 462	661 944
Sales of heat	405 305	254 820
Other	44 659	232 189
Total sales	**1 206 426**	**1 148 953**
Purchases		
Purchases of fuel	(26 091 853)	(24 016 501)
Purchases of property, plant and equipment, construction in progress, intangible assets	(4 278 502)	(3 051 811)
Purchases of electricity	(96 395)	(72 351)
Interest expense	(1 067 193)	(1 149 111)
Including interest expense of Gazprom Energoholding LLC	-	*(136 170)*
Interest income	114 824	51 816
Other	(1 050 737)	(1 192 209)
Total purchases	**(32 584 680)**	**(29 481 983)**
Income		
Interest income	114 824	51 816
Other income	63 254	57 346
Total income	**178 078**	**109 162**

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

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

	31 December 2016	31 December 2015
Borrowings (loans and bonds)	11 061 784	11 133 899
Long-term receivables	183 277	193 204
Long-term advances to suppliers	806 200	818 798
Advances under capital construction, included in property, plant and equipment	46 573	70 570
Trade and other receivables	382 116	440 804
Long-term payables	80 885	139 911
Trade and other payables	4 233 262	1 000 596
Cash and cash equivalents	2 209 567	650 716

(in thousands of Russian Roubles)

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

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

Impairment provision for Gazprom group are as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Provision for impairment as at 1 January	-	-
Impairment loss recognised during the period	1 060	-
Impairment loss reversed during the period	-	-
Consumed during the period	-	-
Provision for impairment as at 31 December	**1 060**	-

State-controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for natural gas and heat are based on tariffs set by FTS, prices for electricity and capacity based on tariffs set by FTS and also based on competitive take-off on the wholesale electricity (capacity) market. Bank loans are obtained at market rates. Taxes are charged and paid under the Russian tax law.

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

	Year ended 31 December 2016	Year ended 31 December 2015
Sales		
Sales of heating	15 672 953	13 697 846
Sales of electricity	8 026 508	6 265 264
Other sales	151 867	37 328
Total sales	**23 851 328**	**20 000 438**
Expenses		
Water usage expenses	(2 598 124)	(2 338 413)
Heat distribution	(780 244)	(1 461 774)
Security services	(384 531)	(387 289)
Operating lease	(116 875)	(127 322)
Transportation expenses	(8 890)	(10 076)
Electricity purchases	(141 357)	(102 769)
Interest expenses	(522 554)	(215 145)
Interest income	14 157	1 817
Other operating expenses	(784 696)	(829 985)
Total expenses	**(5 323 114)**	**(5 470 956)**

Other operating expenses are mainly presented by expenses under the agreement with the System Operator of United Energy System for the year ended 31 December 2016 in amount of RUB 741 660 thousand (for the year ended 31 December 2015 - RUB 794 927 thousand).

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

	31 December 2016	31 December 2015
Trade and other receivables	9 204 388	7 907 849
Borrowings	10 982 769	4 528 251
Trade and other payables	822 876	630 144
Cash and cash equivalents	1 062 759	536 421

(in thousands of Russian Roubles)

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

State-controlled entities (continued)

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

	Year ended 31 December 2016	Year ended 31 December 2015
Provision for impairment as at 1 January	**1 738 677**	**2 998 911**
Impairment loss recognised during the period	1 504 052	586 099
Impairment loss reversed during the period	(61 412)	(1 524 252)
Consumed during the period	(357)	(322 081)
Provision for impairment as at 31 December	**3 180 960**	**1 738 677**

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with JSC Centre of Financial Settlements (CFS). CFS's current financial settlement system of CFS does not provide the final counterparty with automated information about transactions and settlement balances with end consumers. Government-related entities, Gazprom Group and its subsidiaries may also act as counterparties.

The Group had the following significant transactions with CFS:

	Year ended 31 December 2016	Year ended 31 December 2015
Sales of electricity	25 308 549	24 641 662
Electricity purchases	(4 546 499)	(4 509 639)

The Group had the following significant balances with CFS:

	31 December 2016	31 December 2015
Trade and other receivables	999 524	1 020 156
Trade and other payables	217 417	191 832

Transactions with other related parties

Other related parties are mainly represented by the Company's shareholder with a significant influence (Fortum Power and Heat OY) and associates (LLC TGC Service and JSC Hibinskaya Heating Company).

The Group had the following significant income/expenses and balances with other related parties:

	Year ended 31 December 2016	Year ended 31 December 2015
Sales of electricity (Fortum Power and Heat OY)	373 006	390 208
Sales of heat (LLC TGC Service and JSC Hibinskaya Heating Company)	77 463	23 413
Other income (LLC TGC Service and JSC Hibinskaya Heating Company)	11 117	11 355
Capital construction expense (LLC TGC Service)	(402 629)	(352 937)
Repairs and maintenance (LLC TGC Service)	(1 201 742)	(928 089)
Heat distribution (JSC Hibinskaya Heating Company)	(633 350)	(481 391)
Other expenses (LLC TGC Service)	(54 311)	(79 573)

(in thousands of Russian Roubles)

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

Transactions with other related parties (continued)

The Group had the following significant balances with other related parties:

	31 December 2016	31 December 2015
Trade and other receivables (LLC TGC Service)	270 081	231 590
Trade and other receivables (Fortum Power and Heat OY)	52 227	-
Trade and other receivables (JSC Hibinskaya Heating Company)	17 793	7 318
Advances under capital construction, included in property, plant and equipment (LLC TGC Service)	49 773	1 521
Accounts payable (LLC TGC Service)	(449 633)	(326 305)
Accounts payable (JSC Hibinskaya Heating Company)	(87 996)	(118 938)

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

As at 31 December 2016, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment connected to related parties in the amount of RUB 7 842 220 thousand (31 December 2015: 9 390 695 RUB thousand). Sales commitments are disclosed in Note 29.

The Group has already allocated the necessary resources to meet these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

	Year ended 31 December 2016	Year ended 31 December 2015
PJSC Gazprom and its subsidiaries	7 072 836	8 837 754
State-controlled entities	97 690	9 410
Other related parties	671 694	543 531
Total	**7 842 220**	**9 390 695**

Transactions with the key management personnel

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

Key management compensation in types is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Salaries	97 608	87 971
Short-term bonuses	79 978	71 130
Benefits to the Board of Directors	28 432	23 897
Termination benefits	1 279	2 489
Total	**207 297**	**185 487**

Main compensation for key management personnel of the Group generally is short-term excluding future payments under pension plans with defined benefits.

Pension benefits for key management of the Group are provided on the same terms as for the rest of employees.

The Group had the following balances with key management personnel:

	31 December 2016	31 December 2015
Payables to key management	3 113	3 452
Total	**3 113**	**3 452**

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment

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

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

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment (continued)

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Electricity transmission equipment	Other	Construction in progress	Total
Balance as at 31 December 2014	**25 782 995**	**15 555 897**	**51 100 007**	**46 252 383**	**16 183 089**	**30 433 363**	**13 126 656**	**198 434 390**
Effect of reclassifications	(1 809)	95 148	22 871	(161 054)	90 756	(45 912)	-	-
Balance as at 31 December 2014	**25 781 186**	**15 651 045**	**51 122 878**	**46 091 329**	**16 273 845**	**30 387 451**	**13 126 656**	**198 434 390**
Additions	19 991	-	-	427 632	60 544	182 336	10 241 454	10 931 957
Transfers	601 935	160 668	966 720	1 102 529	662 091	1 755 503	(5 249 446)	-
Disposals	(52 056)	-	(80 891)	(606 850)	(10 670)	(222 144)	(132 968)	(1 105 579)
Reclassification to non-current assets held for sale	(131 293)	(351)	(41 648)	(310 320)	(22 176)	(66 363)	-	(572 151)
Balance as at 31 December 2015	**26 219 763**	**15 811 362**	**51 967 059**	**46 704 320**	**16 963 634**	**32 036 783**	**17 985 696**	**207 688 617**
Accumulated depreciation (including impairment)								
Balance as at 31 December 2014	**(9 481 650)**	**(8 332 407)**	**(17 594 271)**	**(19 368 645)**	**(3 596 620)**	**(11 401 171)**	**(183 063)**	**(69 957 827)**
Effect of reclassifications	10 645	(55 612)	(3 601)	100 041	(32 431)	(19 042)	-	-
Balance as at 31 December 2014	**(9 471 005)**	**(8 388 019)**	**(17 597 872)**	**(19 268 604)**	**(3 629 051)**	**(11 420 213)**	**(183 063)**	**(69 957 827)**
Charge for the year	(585 799)	(234 242)	(2 207 014)	(1 478 697)	(615 986)	(1 946 645)	-	(7 068 383)
Disposals	7 547	-	80 878	484 320	2 484	132 292	-	707 521
Reclassification to non-current assets held for sale	115 024	351	36 166	222 944	21 375	46 428	-	442 288
Impairment loss recognised during the year	965 671	585 737	238 767	(2 123 356)	225 032	330 246	(1 148)	220 949
Balance as at 31 December 2015	**(8 968 562)**	**(8 036 173)**	**(19 449 075)**	**(22 163 393)**	**(3 996 146)**	**(12 857 892)**	**(184 211)**	**(75 655 452)**
Net book value as at 31 December 2014 (including effect of reclassification)	16 310 181	7 263 026	33 525 006	26 822 725	12 644 794	18 967 238	12 943 593	128 476 563
Net book value as at 31 December 2015	17 251 201	7 775 189	32 517 984	24 540 927	12 967 488	19 178 891	17 801 485	132 033 165

Note 7. Property, Plant and Equipment (continued)

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

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

As at 31 December 2016 the advances given to contractors, which amounted to RUB 954 618 thousand, net of VAT (as at 31 December 2015: RUB 371 419 thousand), are recognised within the construction in progress balance. The respective input VAT is recognized within accounts receivable and prepayments (Note 14).

As at 31 December 2016 and 31 December 2015 The Group had no property, plant and equipment pledged as collateral according to loan agreements.

The total amount of capitalised interests that were calculated using 10.24% capitalization rate for the year ended 31 December 2016 is RUB 537 126 thousand (10.32% capitalization rate for the year ended 31 December 2015: RUB 595 468 thousand). The payment of capitalised interests is recorded in Consolidated Statement of Cash Flow in respect of operating activities.

Other property, plant and equipment include assets held under finance leases with a carrying value of RUB 29 836 thousand (as at 31 December 2015: RUB 44 134 thousand).

Non-cash additions to property, plant and equipment equal to RUB 602 785 thousand (in 2015 - RUB 680 592 thousand). Non-cash additions to property, plant and equipment in 2016 mostly relate to mutual settlements and property, plant and equipment, received in the network of compensation agreements (in 2015 mostly relate to mutual settlements and property, plant and equipment, received in the network of compensation agreements).

Impairment

Management determined whether there was any indication of impairment of the Group's property, plant and equipment as at 31 December 2016.

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

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

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

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

The indexes used by management in forecasting cash flows were based on the Parameters of Forecasting Social and Economic Development of the Russian Federation for periods 2017 and 2018 on 24 November 2016 and on the Parameters of consensus forecast of «Bloomberg», «The Economist Intelligence Unit», «Global Insight» and Ministry of Economic Development of the Russian Federation.

The impairment test as at 31 December 2016 based on Gordon model with five years forecast period and terminal cost with four percent growth rate for terminal period.

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment (continued)

Impairment (continued)

Management made the following key assumptions when estimating the value in use of property, plant and equipment and determining the levels of impairment provisions as at 31 December 2015: the average remaining useful lives have been estimated by management for separate cash generating units on the basis of a report by a consortium of independent appraisers as at 31 December 2006 and taking into account the latest capital investment programme of the Group in respect of information about investments, required for maintaining useful lives, confirming the relevance of the report's conclusions above, and were as follows:

Name of cash generating unit	Average remaining useful lives, years
Kolsky branch	22
Karelsky branch	20
Nevsky branch HPS	23
Nevsky branch TPP	25
St Petersburg Heating Grid	18
Murmanskaya TPP	10

However, the calculation of the recoverable amounts from cash-generating units is highly sensitive to the pre-tax discount rate and change of forecasted tariffs. Pre-tax discount rate (based on weighted average cost of capital) was 18.93% in 2016-2017, since 2018 - 16.12%.

If the pre-tax discount rate was 1 percent higher in the forecasted period, there would be total impairment loss of RUB 4 720 035 thousand recognised as at 31 December 2016. If the electricity and heat tariffs were 5 percent lower in the forecasted period, there would be total impairment loss of RUB 5 572 065 thousand recognised as at 31 December 2016. If decrease remaining useful lives of property, plant and equipment for 5 years, change in recoverable amounts caused the impairment provision of RUB 5 075 511 thousand recognized as at 31 December 2016.

As at 31 December 2015 as a result of the impairment test value in use for St Petersburg Heating Grid (reportable segment - St Petersburg Heating Grid) was in the amount of RUB 24 967 691 thousand and impairment loss was recognised in the amount of RUB 2 367 278 thousand. Value in use for Karelsky branch (reportable segment - Karelsky branch) was in the amount of RUB 6 144 194 thousand and impairment loss was reversed in the amount of RUB 2 921 807 thousand. In addition, as at 31 December 2015 the impairment loss was recognised for property, plant and equipment, reclassified to assets held for sale in the amount of RUB 333 580 thousand.

(in thousands of Russian Roubles)

Note 8. Investments in Associates

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

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

	31 December 2016	31 December 2015
Investments in LLC TGC Service	34 750	20 812
Investments in JSC HHC	360 401	374 732
Total investments	**395 151**	**395 544**

As at 31 December 2016 and 31 December 2015 the ownership interest in JSC HHC was 50%. Management of the Group believes that there is a significant influence over JSC HHC as taking into account its current Board of Directors composition there is no joint control over the entity. Therefore, the investment in JSC HHC was accounted as investment in associate.

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

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	% interest held	Country of incorporation
LLC TGC Service	1 526 134	1 533 079	2 299 234	53 609	26%	Russia
JSC HHC	2 375 869	1 655 065	699 229	(28 662)	50%	Russia
Total	**3 902 003**	**3 188 144**	**2 998 463**	24 947		

At 31 December 2015, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	% interest held	Country of incorporation
LLC TGC Service	1 303 451	1 364 004	1 966 781	27 156	26%	Russia
JSC HHC	2 549 439	1 799 974	545 437	(77 306)	50%	Russia
Total	**3 852 890**	**3 163 978**	**2 512 218**	**(50 150)**		

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

(in thousands of Russian Roubles)

Note 9. Income Taxes

Income tax expense comprises the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax charge	(1 116 832)	(1 175 645)
Deferred income tax charge	(25 465)	(460 979)
Total Income/(expense) tax charge, recorded in profit and losses	**(1 142 297)**	**(1 636 624)**
Movement during the year, recorded in other comprehensive income	(13 962)	30 464
Total Income/(expense) tax charge, recorded in other comprehensive income	**(13 962)**	**30 464**
Total income tax charge	**(1 156 259)**	**(1 606 160)**

The Group's companies applied the following tax rates in 2016: PJSC "TGC-1" - 17.2%, PJSC "Murmanskaya TPP" - 20%, JSC "St Petersburg Heating Grid" - 15.55% (2015: PJSC "TGC-1" - 17.32%, PJSC "Murmanskaya TPP" - 20%, JSC "St Petersburg Heating Grid" - 15.55%).

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

	Year ended 31 December 2016	Year ended 31 December 2015
Profit before tax	6 466 470	7 462 846
Theoretical tax charge at the statutory tax rate of 20%	(1 293 294)	(1 492 569)
Tax effects of items which are non-deductible for income tax purposes	(3 162)	(370 366)
Effect of tax benefit applying	154 159	226 311
Total Income/(expense) tax charge, recorded in profit and losses	**(1 142 297)**	**(1 636 624)**
Other comprehensive income	80 892	**(175 585)**
Theoretical tax charge at the statutory tax rate of 20%	(16 178)	35 117
Effect of tax benefit applying	2 216	(4 653)
Total Income/(expense) tax charge, recorded in other comprehensive income	**(13 962)**	**30 464**
Total income tax charge	**(1 156 259)**	**(1 606 160)**

Deferred income tax assets and liabilities

Differences between IFRS and Russian statutory tax calculation cause temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred income tax assets and liabilities were measured at the following tax rates as at 31 December 2016: PJSC «TGC-1» - 17.2%, PJSC «Murmanskaya TPP» - 20%, JSC «St Petersburg Heating Grid» - 15.55% (as at 31 December 2015: JSC «TGC-1» - 17.32%, PJSC «Murmanskaya TPP» - 20%, JSC «St Petersburg Heating Grid» - 15.55%). Management considers the rates to be applied to the period when the assets are realised and liabilities are settled.

Since 2014, PJSC «TGC-1» applies income tax exemption in accordance to law of Saint-Petersburg from 14.07.1995 № 81-11.

(in thousands of Russian Roubles)

Note 9. Income Taxes (continued)

Deferred income tax assets and liabilities (continued)

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

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

Deferred income tax liabilities				
	31 December 2015	Recognised in profit or losses	Movement during the year, recorded in other comprehensive income	31 December 2014
Property, plant and equipment	(10 574 421)	(539 338)	-	(10 035 083)
Investments	-	-	-	-
Trade and other receivables	(446 550)	(64 357)	-	(382 193)
Trade and other payables	28 725	(7 432)	-	36 157
Pension liabilities	150 766	9 311	26 850	114 605
Tax loss carried forward	-	-	-	-
Other	16 234	7 944	-	8 290
Total deferred income tax liability	**(10 825 246)**	**(593 872)**	**26 850**	**(10 258 224)**

(in thousands of Russian Roubles)

Note 9. Income Taxes (continued)

Deferred income tax assets and liabilities (continued)

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

	Deferred income tax assets			
	31 December 2015	Recognised in profit or losses	Recognised in other comprehensive income	31 December 2014
Property, plant and equipment	6 587	9 220	-	(2 633)
Tax loss carried forward	-	(73 236)	-	73 236
Trade and other receivables	411 579	197 427	-	214 152
Trade and other payables	5 534	(1 453)	-	6 987
Pension liabilities	15 139	950	3 614	10 575
Other	-	(15)	-	15
Total deferred income tax assets	**438 839**	**132 893**	**3 614**	**302 332**

Note 10. Other Non-Current Assets

	31 December 2016	31 December 2015
Long-term receivables	275 376	454 274
Advances to suppliers	812 142	818 799
Total other non-current assets	**1 087 518**	**1 273 073**

Note 11. Cash and Cash Equivalents

	31 December 2016	31 December 2015
Cash in bank and in hand in RUB	2 307 892	1 184 089
Foreign currency accounts in EUR	1 046 990	477 062
Deposit in RUB	-	40 000
Total cash and cash equivalents	**3 354 882**	**1 701 151**

Note 12. Short-term Investments

	31 December 2016	31 December 2015
Investments in Dubrovskaya LLC	-	12 000
Loan issued	4 370	30 073
Total short-term investments	**4 370**	**42 073**

As at 31 December 2016 impairment loss was recognised for CJSC "Energoinvest" in the amount of RUB 30 073 thousand.

(in thousands of Russian Roubles)

Note 13. Non-current Assets Held for Sale

As at 31 December 2016 the property, plant and equipment with a total net book value amounting to RUB 137 114 thousand were classified as assets held for sale (31 December 2015: RUB 215 846 thousand). Movements of non-current assets held for sale for current and prior periods were as follows:

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

31 December 2015	Sale	Classification as assets held for sale	31 December 2014
215 846	(668)	129 863	86 651

Note 14. Trade and other receivables

	31 December 2016	31 December 2015
Trade receivables, net of provision for impairment of RUB 7 805 692 (31 December 2015: RUB 5 247 430 thousand)	14 250 663	14 110 257
Other receivables, net of provision for impairment of RUB 77 231 (31 December 2015: RUB 73 940 thousand)	600 913	431 305
Total financial receivables	**14 851 576**	**14 541 562**
Value-added tax receivables	188 026	140 006
Advances to suppliers	2 529 530	337 838
Other taxes receivable	14 597	6 457
Total trade and other receivables	**17 583 729**	**15 025 863**

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

	31 December 2016	31 December 2015
Ultimate domestic customers	11 776 027	10 828 134
Wholesale customers	1 983 775	2 685 768
Free market	999 524	1 020 156
Export customers	92 250	7 504
Total	**14 851 576**	**14 541 562**

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

	Fully performing	Past due but not impaired	Impaired
Total financial receivables as at 31 December 2016	9 673 646	5 453 306	7 882 923
Total financial receivables as at 31 December 2015	9 188 121	5 807 715	5 321 370

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

(in thousands of Russian Roubles)

Note 14. Trade and other receivables (continued)

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

	31 December 2016	31 December 2015
Up to 45 days	2 269 233	3 610 331
From 45 to 90 days	386 984	316 393
More than 90 days	2 797 089	1 880 991
Total	**5 453 306**	**5 807 715**

Impaired financial receivables represent overdue accounts receivables from customers which are not expected to be settled. Reversal relates to previously impaired financial receivables which have been collected in current year or expected to be collected in 2017.

Movements in impairment provision for financial receivables are as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Provision for impairment as at 1 January	**5 321 370**	**4 954 537**
Impairment loss recognised during the period	3 142 282	2 497 491
Impairment loss reversed during the period	(199 870)	(1 630 931)
Consumed	(380 859)	(499 727)
Provision for impairment as at 31 December	**7 882 923**	**5 321 370**
Account receivable directly written-off to profit and loss	18 724	55 791

Increase of impairment provision for financial receivables in 2016 caused by deterioration of collectability of ultimate domestic customers and wholesale customers, including the negative trends in economic situation in Russian Federation (Note 2).

Note 15. Inventories

	31 December 2016	31 December 2015
Fuel	2 095 129	1 974 000
Spare parts	109 480	161 458
Raw materials and other supplies	563 402	501 536
Total inventories	**2 768 011**	**2 636 994**

Raw materials and other supplies are recorded net of provision for impairment in the amount of RUB 73 449 thousand (31 December 2015: RUB 1 771 thousand).

Note 16. Share capital

Share capital

The Group's share capital as at 31 December 2016 and as at 31 December 2015 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.

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 16. Share capital

Share capital (continued)

For 2016, the current year statutory net profit for the Company, as reported in the published annual statutory reporting forms, was RUB 3 636 295 thousand (2015: RUB 2 676 053 thousand) and the closing balance of the accumulated profit including the current year statutory net profit totaled RUB 13 955 859 thousand (31 December 2015: RUB 11 388 475 thousand). However, this legislation and other statutory laws and regulations are open to different legal interpretations and, accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

At the General Shareholders' Meeting held on 20 June 2016, the decision was made to pay a total of RUB 936 619 thousand in annual dividends for 2015 (2015: RUB 868 780 thousand for 2014).

Note 17. Long-term Borrowings

	31 December 2016	31 December 2015
Bank borrowings and bonds issued	17 022 529	16 807 500
Total long-term borrowings	**17 022 529**	**16 807 500**

	Currency	Contractual interest rate	Maturity	31 December 2016		31 December 2015	
				Carriyng amounts	Fair values	Carriyng amounts	Fair values
Long-term bonds (03)	RUB	14.4%	2021	2 008 680	2 008 680	2 006 360	2 006 360
Long-term bonds (04)	RUB	14.4%	2022	2 103 380	2 103 380	2 091 180	2 091 180
Gazprombank	RUB	10-10.9%	2018	2 751 461	2 714 466	-	-
Gazprom	RUB	8%	2016	-	-	10 000 000	9 402 677
Bank Rossiya		11.4-12.5%	2016	-	-	5 800 000	5 791 990
Sberbank RF	RUB	9.8-9.95%	2017-2019	4 185 800	4 084 552	310 636	308 124
NORDIC Investment Bank	RUB	EURIBOR + 3%	2019	889 134	889 134	1 480 980	1 480 980
ROSBANK	RUB	11.5%	2017	106 633	105 379	1 000 821	995 906
ROSBANK	RUB	MosPrime 1M +1.5%	2016	-	-	503 685	503 685
VTB	RUB	9.6-9.65%	2016-2018	6 550 181	6 400 774	3 036 725	2 994 947
VBRR	RUB	10.15-12.5%	2016	-	-	900 000	892 478
Bank FK Otkrytie	EUR	12.4-12.55%	2016	-	-	1 292 979	1 288 845
				18 595 269	18 306 365	28 423 366	27 757 172
Less: current portion							
Long-term bonds (03)	RUB	14.4%	2021	(8 680)	(8 680)	(6 360)	(6 360)
Long-term bonds (04)	RUB	14.4%	2022	(103 380)	(103 380)	(91 180)	(91 180)
Gazprombank	RUB	10-10.9%	2018	(353 461)	(353 461)	-	-
Gazprom	RUB	8%	2016	-	-	(10 000 000)	(9 402 677)
Sberbank RF	RUB	9.8-9.95%	2017-2019	(685 800)	(685 800)	(310 636)	(308 124)
ROSBANK	RUB	11.5%	2017	(106 633)	(105 379)	(59 821)	(53 940)
ROSBANK	RUB	MosPrime 1M +1.5%	2016	-	-	(685)	(685)
VTB	RUB	9.6-9.65%	2017-2018	(14 678)	(14 678)	(209 602)	(209 602)
NORDIC Investment Bank	EUR	ЕВРИБОР + 3%	2019	(300 108)	(300 108)	(377 480)	(377 480)
Bank FK Otkrytie	EUR	12.4-12.55%	2016	-	-	(560 102)	(559 902)
Total long-term bank borrowings and bonds issued				17 022 529	16 734 879	16 807 500	16 747 222

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

(in thousands of Russian Roubles)

Note 17. Long-term Borrowings (continued)

Compliance with covenants

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

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

If any of these covenants are breached, the repayment can be altered by the respective lender, up to immediate repayment. There were no breaches of covenants in 2016 and 2015.

Note 18. Other Non-Current Liabilities

	31 December 2016	31 December 2015
Long-term accounts payable	115 052	185 623
Total other non-current liabilities	**115 052**	**185 623**

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

Note 19. Post-Employment Benefits Obligations

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

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

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

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

As at 31 December 2016 the Group engaged an independent actuarial company to evaluate its pension liabilities.

The tables below provide information about the benefit obligations, plan assets and actuarial estimates used for the year ended 31 December 2016 and 31 December 2015.

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

(in thousands of Russian Roubles)

Note 19. Post-Employment Benefits Obligations (continued)

The principal actuarial assumptions are as follows:

Principal actuarial assumptions (%):	31 December 2016	31 December 2015
Discount rate for benefits at accumulation phase	8.5%	9.5%
Indexation of fixed benefits	5%	7%
Life expectancy at age of 55 (women), years	25.9	25.8
Life expectancy at age 60 (men), years	16.2	16.2
Personnel rotation	Curve in depend on age	Curve in depend on age
Sample points: Men		
Age 30 years	9.5%	9.5%
Age 40 years	5.5%	5.5%
Age 50 years	3%	3%
Sample points: Women		
Age 30 years	7.5%	7.5%
Age 40 years	4.5%	4.5%
Age 50 years	3%	3%

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

	Year ended 31 December 2016	Year ended 31 December 2015
Benefit obligations as at the beginning of the period	**958 732**	**724 666**
Current service cost	34 960	39 249
Interest cost	89 476	91 607
Past service cost	-	-
(Gain)/loss from remeasurements of post-employment benefit obligations	(90 501)	182 456
Actuarial (gain)/losses - changes in financial assumptions	(83 727)	213 580
Actuarial (gain)/losses - changes in demographic assumptions	-	20 871
Actuarial (gain)/losses - adjustments	(6 774)	(51 995)
Program benefits	(68 729)	(79 246)
Benefit obligations as at the end of the period	**923 938**	**958 732**

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

	Year ended 31 December 2016	Year ended 31 December 2015
Cost of service:	34 960	39 249
Current service cost	34 960	39 249
Past service cost	-	-
Interest expenses, net	89 476	91 607
(Gain)/loss from remeasurements of post-employment benefit obligations	(9 609)	6 871
Actuarial (gain)/losses - changes in financial assumptions	(5 784)	17 571
Actuarial (gain)/losses - changes in demographic assumptions	-	(2 247)
Actuarial (gain)/losses - adjustments	(3 825)	(8 453)
Total pension expenses, net	**114 827**	**137 727**

(in thousands of Russian Roubles)

Note 19. Post-Employment Benefits Obligations (continued)

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

	Year ended 31 December 2016	Year ended 31 December 2015
Loss/(gain)/loss from remeasurements of post-employment benefit obligations	(80 892)	175 585
Actuarial losses/(gain) - changes in financial assumptions	(77 943)	196 009
Actuarial losses - changes in demographic assumptions	-	23 117
Actuarial (gain)/losses - adjustments	(2 949)	(43 541)
Total comprehensive income	**(80 892)**	**175 585**

Best estimate of contributions expected to be paid to the plan during the annual period beginning after 31 December 2016 equals to RUB 75 000 thousands.

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

	Not later than one year	Later than one year and not later than two years	Later than one year and not later than five years	Later than five years	Total
NPO	28 101	31 349	54 206	90 834	204 490
Lump sum benefits	18 794	19 954	35 199	64 105	138 052
Monthly benefits	9 417	8 388	28 227	201 398	247 430
Other benefits	31 722	37 614	69 774	194 856	333 966
Total	**88 034**	**97 305**	**187 406**	**551 193**	**923 938**

Sensitivity analysis results of the defined benefit obligations as at 31 December 2016 is presented below. Sensitivity analysis was calculated for four parameters: discount rate, indexed fixed benefits, life expectancy and personnel rotation.

	Decrease	Calculated rate	Increase
Discount rate	7.5%	8.5%	9.5%
absolute value	1 003 602	923 938	856 252
change in obligations (%)	8.6%	-	(7.3%)
Indexation of fixed benefits	4%	5%	6%
absolute value	853 555	923 938	1 005 649
change in obligations (%)	(7.6%)	-	8.8%

Life expectancy	Increase of life expectancy for 10% in each age	Calculated rate	Decrease of life expectancy for 10% in each age
55 women	25.1	25.9	26.8
60 men	15.3	16.2	17.2
absolute value	904 014	923 938	945 849
change in obligations (%)	(-2.2%)	-	2.4%

Personnel rotation	Increase of personnel rotation for 1%	Calculated rate	Decrease of personnel rotation for 1%
absolute value	888 322	923 938	964 016
change in obligations (%)	(3.9%)	-	4.3%

(in thousands of Russian Roubles)

Note 20. Short-Term Borrowings

	31 December 2016	31 December 2015
Bank borrowings and bonds issued	10 129 851	13 030 655
Total short-term borrowings	**10 129 851**	**13 030 655**

Name of lender	Currency	Contractual interest rate	31 December 2016		31 December 2015	
			Carrying amounts	Fair values	Carrying amounts	Fair values
Gazprom	RUB	10.5%	7 500 000	7 473 820	-	-
Gazprombank	RUB	11.8-12.5%	810 323	805 796	1 133 899	1 125 517
VTB	RUB	10.65-11.9%	246 788	242 878	280 890	275 536
Current portion of long-term borrowings:						
Long-term bonds (03)	RUB	14.4%	8 680	8 680	6 360	6 360
Long-term bonds (04)	RUB	14.4%	103 380	103 380	91 180	91 180
Gazprom	RUB	8%	-	-	10 000 000	9 402 677
Sberbank RF	RUB	9.8-9.95%	685 800	685 800	310 636	308 124
Gazprombank	RUB	10-10.9%	353 461	353 461	-	-
ROSBANK	RUB	11.5%	106 633	105 379	59 821	53 940
ROSBANK	RUB	MosPrime 1M +1.5%	-	-	685	685
NORDIC Investment Bank	EUR	ЕВРИБОР+3%	300 108	300 108	377 480	377 480
VTB	RUB	9.6-9.65%	14 678	14 678	209 602	209 602
Bank FK Otkrytie	EUR	12.4-12.55%	-	-	560 102	559 902
Total bank borrowings and bonds issued			**10 129 851**	**10 093 980**	**13 030 655**	**12 411 003**

Note 21. Trade and other payables

	31 December 2016	31 December 2015
Trade accounts payable	3 758 463	2 562 375
Accounts payable for capital construction	1 692 314	2 178 181
Accrued liabilities and other payables	2 221 501	222 384
Total financial payables	**7 672 278**	**4 962 940**
Advances from customers	1 257 235	1 010 445
Current employee benefits	504 238	465 142
Total trade and other payables	**9 433 751**	**6 438 527**

Note 22. Other Taxes Payable

	31 December 2016	31 December 2015
VAT payable	657 886	615 557
Property tax	273 563	220 549
Employee taxes	204 218	186 698
Personal Income Tax	61 610	57 511
Water usage tax	3	2
Other taxes	8 250	5 956
Total taxes payable	**1 205 530**	**1 086 273**

As at 31 December 2016 and as at 31 December 2015 the Group had no past due tax liabilities.

(in thousands of Russian Roubles)

Note 23. Other Sales

	31 December 2016	31 December 2015
Connection of customers to heating network	961 059	750 100
Maintenance of electrical facilities	87 254	97 368
Water usage	32 720	32 641
Revenue from transit of rail cars	22 422	40 139
Handling of heating oil	18 576	24 354
Installation of heating meters	13 349	43 729
Other	96 826	143 921
Total other sales	**1 232 206**	**1 132 252**

Note 24. Government Grants

In accordance to Murmansk region law № 919-01-ЗМО "About budget process in Murmansk region" Group received a grant in 2016 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 269 320 thousand (in 2015 - RUB 877 112 thousand).

Note 25. Operating Expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Fuel	29 487 690	26 404 738
Depreciation of property, plant and equipment	7 546 003	7 068 383
Employee benefits	7 274 256	7 129 931
Electricity, capacity and heat purchases	6 168 569	5 786 706
Repairs and maintenance	3 496 192	3 042 436
Provision for impairment of accounts receivable	2 961 136	922 351
Water usage expenses	2 600 231	2 438 842
Heat distribution	2 128 372	1 958 245
Taxes other than income tax	1 389 781	1 189 300
IT services	871 494	339 696
Fees of electricity market operators	813 995	857 318
Other materials	813 100	706 608
Security expenses	538 664	472 953
Operating lease expenses	466 165	345 303
Gain on disposal of property, plant and equipment	291 781	(160 051)
Insurance cost	285 617	290 157
Fees of electricity market operators	247 689	200 829
Telecommunication expenses	232 920	222 590
Consulting, legal and audit expenses	167 846	138 592
Amortisation of intangible assets	123 983	124 544
Provision for inventories	71 678	-
Amortisation of investment property	14 063	12 465
Other operating expenses	1 810 944	1 531 225
Total operating expenses	**69 802 169**	**61 023 161**

Employee benefits are generally presented by wages and salaries. Social insurance contributions are included in "Employee benefits" in the amount of RUB 1 643 768 thousand (in 2015 - in the amount of RUB 1 610 809 thousand).

In 2016 amount of RUB 404 906 thousand of purchases and sales was settled by mutual cancellation (in 2015 - RUB 639 441 thousand).

(in thousands of Russian Roubles)

Note 26. Other Operating Income

	Year ended 31 December 2016	Year ended 31 December 2015
Fines and penalties	196 903	220 035
Operating lease income	185 150	168 341
Insurance	114 093	50 687
Gain on sale of inventory	10 572	21 624
Written-off trade and other payables	9 775	13 484
Other operating income	39 032	44 204
Total other operating income	**555 525**	**518 375**

Note 27. Finance Income and Finance Costs

	Year ended 31 December 2016	Year ended 31 December 2015
Interest income	203 380	194 801
Exchange differences (net)	57 217	-
Effect of discounting of financial instruments	11 645	44 324
Finance income	**272 242**	**239 125**
Interest expense	(2 388 006)	(2 539 778)
Exchange differences (net)	-	(249 318)
Effect of discounting of financial instruments	(18 693)	(4 359)
Finance costs	**(2 406 699)**	**(2 793 455)**

Note 28. Earnings per Share

	Year ended 31 December 2016	Year ended 31 December 2015
Profit attributable to owners of the Company	5 386 680	6 061 340
Weighted average number of ordinary shares issued (thousands)	3 854 341 417	3 854 341 417
Earnings per ordinary share attributable to the owners of the Company after tax - basic and diluted - in Russian Roubles	**0.0014**	**0.0016**

Note 29. Commitments

Sales commitments

The Group entities sell electricity, capacity and heat in thewholesale market's regulated and free trading sectors. Regulated sector contracts are primarily signed with trading companies. Tariffs for electricity, capacity and heat sold under regulated delivery contracts are set by the FTS. Electricity can be bought in the free trading sector under contracts with JSC FSC in order to fulfil obligations under regulated contracts.

Long-term contracts with JSC FSC and short-term bilateral contracts with market entities were concluded for electricity, capacity and heat sales (not covered by regulated contracts) in the free trading market.

The Group also concluded export contracts with Fortum Power and Heat OY and RAO Nordic Oy. The Group's sales commitments under these contracts, as at 31 December 2016, were: 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy (as at 31 December 2015 - 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy).

(in thousands of Russian Roubles)

Note 29. Commitments (continued)

Fuel commitments

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

Contractual capital commitments

As at 31 December 2016, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment in the amount of RUB 12 178 796 thousand (31 December 2015: RUB 15 815 824 thousand).

The Group has already allocated the necessary resources to meet these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease

The Group leases a number of land plots owned by local authorities under operating leases. Land lease commitments are determined by lease agreements and current cadastral values and are as follows:

	31 December 2016	31 December 2015
Not later than one year	100 365	105 939
Later than one year and not later than five years	389 312	394 844
Later than five years	2 565 098	2 733 607
Total operating lease	**3 054 775**	**3 234 390**

Note 30. Contingencies

Political environment

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

Insurance

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

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

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

Legal proceedings

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

Note 30. Contingencies (continued)

Tax legislation

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

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

As at 31 December 2016 and 31 December 2015 the Group estimates that it has no potential liabilities from exposure to probable or possible tax risks.

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

Environmental matters

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

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

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

(in thousands of Russian Roubles)

Note 31. Financial Risk Management

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

Credit risk

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

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

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

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

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

	Rating agency	National scale ratings	Long-term RDE* in foreign currency	31 December 2016	31 December 2015
Cash at bank and cash equivalents					
Gazprombank	Moody's	Ba2	Ba2	2 209 567	650 716
Sberbank RF	Moody's	Ba1	Ba2	1 052 794	481 577
Bank Rossiya	Expert RA	A++	-	80 381	512 213
VTB	Moody's	Ba1	Ba2	9 965	54 824
Other	-	-	-	2 175	1 821
Total cash at bank and cash equivalents				**3 354 882**	**1 701 151**

** Rating of default of the emitent*

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

	31 December 2016	31 December 2015
Cash and cash equivalents (Note 11)	3 354 882	1 701 151
Short - term investments (Note 12)	4 370	42 073
Total short-term financial receivables (Note 14)	14 851 576	14 541 562
Total long-term financial receivables (Note 10)	1 087 518	1 273 073
Total	**19 298 346**	**17 557 859**

(in thousands of Russian Roubles)

Note 31. Financial Risk Management (continued)

Market risk

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

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

Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates in its financial position and cash flows. As at 31 December 2016, the Group had the following currency positions:

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

As at 31 December 2015, the Group had the following currency positions:

	RUB	USD	EUR	Total
Monetary financial assets				
Cash and cash equivalents	1 224 089	-	477 062	1 701 151
Short - term investments	42 073	-	-	42 073
Total short-term financial receivables	14 534 058	-	7 504	14 541 562
Total long-term financial receivables	1 273 073	-	-	1 273 073
Total financial assets	**17 073 293**	**-**	**484 566**	**17 557 859**
Monetary financial liabilities				
Long-term borrowings	(15 704 000)	-	(1 103 500)	(16 807 500)
Short-term borrowings	(12 653 175)	-	(377 480)	(13 030 655)
Total other financial liabilities	(5 148 563)	-	-	(5 148 563)
Total financial liabilities	**(33 505 738)**	**-**	**(1 480 980)**	**(34 986 718)**
Net balance sheet position	**(16 432 445)**	**-**	**(996 414)**	**(17 428 859)**

(in thousands of Russian Roubles)

Note 31. Financial Risk Management (continued)

Currency risk (continued)

As at 31 December 2016, if the Russian Rouble had weakened/strengthened by 30% (2015: 30%) against the EURO with all other variables remaining constant, the year's profit would have been RUB 75 032 thousand (2015: RUB 298 924 thousand) lower/higher.

As at 31 December 2016, if the Russian Rouble had weakened/strengthened by 30% against the US Dollar with all other variables remaining constant, the year's profit would have been RUB 848 thousand lower/higher. As at 31 December 2015 the Group did not held any financial assets and liabilities in US Dollars.

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

Liquidity risk

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

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

	Carrying amount	Contractual cash flows							
		Total	0 - 6 m	6 - 12 m	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
As at 31 December 2016									
Long-term and short-term bonds	11 612 060	13 485 300	8 177 720	137 640	275 280	275 280	275 280	2 275 280	2 068 820
Long-term and short-term loans	15 540 320	17 601 390	1 979 544	1 876 464	11 851 857	1 893 525	-	-	-
Total other financial liabilities	7 787 330	7 800 626	3 573 046	4 099 232	73 432	31 968	13 330	7 695	1 923
Total financial liabilities	34 939 710	38 887 316	13 730 310	6 113 336	12 200 569	2 200 773	288 610	2 282 975	2 070 743
As at 31 December 2015									
Long-term and short-term bonds	14 097 540	18 220 189	655 094	10 549 495	574 400	574 400	574 400	574 400	4 718 000
Long-term and short-term loans	15 740 615	17 931 845	3 320 443	1 206 244	12 641 249	387 603	376 306	-	-
Total other financial liabilities	5 148 563	5 180 552	3 555 879	1 407 061	81 914	74 347	34 487	17 246	9 618
Total financial liabilities	34 986 718	41 332 586	7 531 416	13 162 800	13 297 563	1 036 350	985 193	591 646	4 727 618

(in thousands of Russian Roubles)

Note 31. Financial Risk Management (continued)

Interest rate risk

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

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

	Carrying amount	
	31 December 2016	**31 December 2015**
Fixed rate instruments		
Long-term loans and borrowings	12 433 503	11 201 000
Short-term loans and borrowings	9 717 683	12 554 950
Variable rate instruments		
Long-term loans and borrowings	4 589 026	5 606 500
Short-term loans and borrowings	412 168	475 705
Total financial instruments	**27 152 380**	**29 838 155**

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

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

A general increase/decrease of seven percent (as at 31 December 2015 seven percent) in interest rates would have decreased/increased the Group's profit after income tax for the year ended 31 December 2016 by approximately RUB 362 421 thousand (for the year ended 31 December 2015: RUB 387 294 thousand). The effect on equity (retained earnings) would be the same as on post-tax profit.

Fair value sensitivity analysis for fixed rate instruments

In 2016 the Group did not hold any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group did not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rate at the reporting date would not affect profit or loss.

Fair values

Management believes that the fair values of the Group's other financial assets and liabilities approximate their carrying values as of both year ends, except fair value of borrowings as at 31 December 2016 (Note 17).

Note 31. Financial Risk Management (continued)

Capital management

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

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

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or issue new shares. The amount of capital defined as equity attributable to shareholders that the Group managed as of 31 December 2016 was RUB 101 677 899 thousand (2015: RUB 97 164 015 thousand). Capital management is linked to maintaining certain financial ratios to comply with bank-imposed covenants (Notes 17 and 20).

Note 32. Segment Information

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

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

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

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

(in thousands of Russian Roubles)

Note 32. Segment Information (continued)

Year ended 31 December 2016	TPP of Nevsky branch	HPS of Nevsky branch	St. Petersburg Heating Grid	Kolsky branch	Karelsky branch	Murmanskaya TPP	Unallocated segments	Total segments	Eliminations	Adjustments	Total operating segments
Revenue:	44 316 668	4 478 730	7 864 018	11 108 581	7 259 487	5 619 840	7 348 048	**87 995 372**	(8 808 100)	(296 170)	**78 891 102**
including export	-	373 006	-	875 678	-	-	-	**1 248 684**	-	-	**1 248 684**
Depreciation of property, plant, equipment	6 201 735	409 874	2 277 689	694 092	400 141	43 286	68 192	**10 095 009**	-	(2 549 006)	**7 546 003**
Reportable segment profit / (loss)	2 359 237	2 871 016	320 825	4 522 241	1 215 033	306 853	(6 513 076)	**5 082 129**	(106 372)	1 490 713	**6 466 470**
Other material non-cash items:											
Impairment loss (recognized) /reversed	(9 271)	-	(1 596 580)	-	278 026	14 974	-	**(1 312 851)**	-	-	**(1 312 851)**

Year ended 31 December 2015	TPP of Nevsky branch	HPS of Nevsky branch	St Petersburg Heating Grid	Kolsky branch	Karelsky branch	Murmanskaya TPP	Unallocated segments	Total segments	Eliminations	Adjustments	Total operating segments
Revenue:	38 447 265	3 717 215	7 046 836	10 117 780	6 370 648	6 050 960	6 530 678	**78 281 382**	(7 975 079)	(882 402)	**69 423 901**
including export	-	390 208	-	741 474	-	-	-	**1 131 682**	-	-	**1 131 682**
Depreciation of property, plant, equipment	6 569 759	394 899	2 185 118	618 269	364 232	39 474	15 606	**10 187 357**	-	(3 118 974)	**7 068 383**
Reportable segment profit / (loss)	569 640	2 097 224	465 157	3 513 613	1 562 056	171 126	(4 336 009)	**4 042 807**	(139 276)	3 559 315	**7 462 846**
Other material non-cash items:											
Impairment loss (recognized)/reversed	(333 580)	-	(2 367 278)	-	2 921 807	-	-	**220 949**	-	-	**220 949**

(in thousands of Russian Roubles)

Note 32. Segment Information (continued)

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

	Year ended 31 December 2016	Year ended 31 December 2015
Elimination of bilateral contract's revenue	-	-
Reclassification of government grant of Murmanskaya TPP from revenue to other income	(255 663)	(877 112)
Other adjustments	(40 507)	(5 290)
	(296 170)	**(882 402)**
Depreciation adjustment	2 549 006	3 118 974
Reclassification of government grant of Murmanskaya TPP from revenue to other income	255 663	877 112
Reversal/(Charge) of property, plant and equipment impairment, net	(1 312 851)	220 949
Provision for impairment of trade and other accounts receivable	-	99 597
Actuarial losses	(46 097)	(58 481)
Effect of discounting	(7 048)	39 965
Other adjustments	348 210	143 601
	1 786 883	**4 441 717**
Total adjustments to profit before income tax	**1 490 713**	**3 559 315**

Segment's assets are disclosed below:

	31 December 2016	31 December 2015
TPP of Nevsky branch	58 434 040	61 599 726
HPS of Nevsky branch	8 652 583	8 729 274
St. Petersburg Heating Grid	41 110 956	40 169 150
Kolsky branch	12 845 800	11 962 702
Karelsky branch	5 891 298	5 925 839
Murmanskaya TPP	2 873 916	3 029 354
Unallocated segments	37 432 867	31 548 717
Total segments	**167 241 460**	**162 964 762**
Eliminations	(18 094 467)	(17 498 589)
Adjustments	10 623 961	9 428 606
Total assets	**159 770 954**	**154 894 779**

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

	Year ended 31 December 2016	Year ended 31 December 2015
Property, plant and equipment adjustment	12 141 121	10 142 392
Deferred tax assets	12 462	100 106
Discounting of accounts receivables and investments	(206 534)	(218 179)
Other adjustments	(1 323 088)	(595 713)
Total assets adjustments	**10 623 961**	**9 428 606**

(in thousands of Russian Roubles)

Note 32. Segment Information (continued)

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

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

Note 33. Non-Controlling Interest

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

	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Profit or (loss) attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
Year ended 31 December 2016					
JSC St Petersburg Heating Grid	Saint-Petersburg	25%	(99 517)	8 306 247	-
PJSC Murmanskaya TPP	Murmansk	1,3%	37 010	(274)	-
Total			**(62 507)**	**8 305 973**	-
Year ended 31 December 2015					
JSC St Petersburg Heating Grid	Saint-Petersburg	25%	(240 912)	8 402 763	-
PJSC Murmanskaya TPP	Murmansk	9.66%	5 794	(37 390)	-
Total			**(235 118)**	**8 365 373**	-

The summarised financial information of JSC St Petersburg Heating Grid and PJSC Murmanskaya TPP was as follows at 31 December 2016:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Total compre-hensive income	Cash flows
Year ended 31 December 2016								
JSC St Petersburg Heating Grid	1 454 348	30 895 872	3 614 104	4 647 379	7 878 469	(398 067)	(386 073)	(17 713)
PJSC Murmanskaya TPP	1 735 821	1 241 091	1 373 940	1 356 389	5 327 356	241 092	249 154	(37 683)
Total	3 190 169	32 136 963	4 988 044	6 003 768	13 205 825	(156 975)	(136 919)	(55 396)
Year ended 31 December 2015								
JSC St Petersburg Heating Grid	1 271 148	31 047 095	3 072 292	4 664 933	7 088 021	(963 651)	(976 449)	(49 966)
PJSC Murmanskaya TPP	2 065 451	1 021 927	3 225 237	1 455 693	5 144 630	59 984	45 530	(164 461)
Total	3 336 599	32 069 022	6 297 529	6 120 626	12 232 651	(903 667)	(930 919)	(214 427)

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

Note 34. Events after the Reporting Period

Borrowings

During the period between reporting date and signing date, the Group received long-term borrowings of RUB 748 764 thousand and short-term borrowings of RUB 919 836 thousand.

During the period between reporting date and signing date, the Group repaid borrowings a total of RUB 3 231 593 thousand.

Approved for issue and signed on 10 March 2017.

Deputy director general
of economics and finance M. A. Tuznikov

Chief Accountant R. V. Stanishevskaya