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

Consolidated Financial Statements
for the year ended 31 December 2018
and Independent Auditor's Report

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Translation from the Russian original

# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Public Joint Stock Company "Territorial Generating Company No. 1" (PJSC "TGC-1")**

## Opinion

We have audited the consolidated financial statements of PJSC "TGC-1" (the Company) (OGRN 1057810153400, Build. 2A, 16 Dobrolubova Avenue, Saint-Petersburg, 198188, Russian Federation) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements for the year ended 31 December 2018, which comprise a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### *Estimation of Allowance for Doubtful Debts*

We paid special attention to the issue of determining the allowance for doubtful debts because the appraisal process is complex and requires management to make significant judgments.

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

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

Based on the results of the conducted procedures, there were no significant inconsistencies.

***Assessment of Impairment of Property, Plant and Equipment***

At each reporting date the Group assesses whether there is any indication of impairment of property, plant and equipment. This annual impairment test was significant to our audit because the impairment test procedure is a complex process that involves management's use of significant judgments and is based on assumptions that are influenced by projected future market and economic conditions that are inherently are indeterminate.

Our audit procedures included, but not be limited to, the involvement of an valuation expert to assist us in assessing the assumptions and methodology used by the Group. We also focused our audit procedures on the analyzing the assumptions applied by the Group in analyzing the cash flows to which the results of the impairment test are the most sensitive and have the most significant effect on the determination of the recoverable amount of property, plant and equipment. In the course of our audit, we also received and verified the existence of plans for the completion and further use of the objects of unfinished capital investments (planning and survey works and equipment for installation) that were not moving for a long period; studied the results of the stock take procedures of objects of incomplete capital investments; have checked the accuracy of writing off on the financial result the value of objects for which there are no plans exist for completion and further use of such objects.

The results of the impairment test are presented in Note 7 in the consolidated financial statements.

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

**Other Information**

General Director of the Company (management) is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

General Director of the Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group 's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Translation from the Russian original

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The translation is true and correct.

The engagement partner on the audit resulting in this independent auditor's report is A.B. Baliakin

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Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: 11603059593

11 March 2019

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**JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018**
*(in thousands of Russian Roubles)*

| | Notes | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | 138 343 333 | 133 411 806 |
| Investment property | | 174 440 | 163 424 |
| Intangible assets | | 2 258 148 | 1 417 030 |
| Investments in associates | 8 | 410 718 | 371 926 |
| Deferred income tax assets | 9 | 499 538 | 461 550 |
| Other non-current assets | 10 | 255 568 | 1 019 458 |
| **Total non-current assets** | | **141 941 745** | **136 845 194** |
| **Current assets** | | | |
| Cash and cash equivalents | 11 | 6 866 953 | 6 975 598 |
| Short-term investments | 12 | 4 370 | 10 144 |
| Trade and other receivables | 14 | 14 950 000 | 16 678 334 |
| Current income tax prepayments | | 17 643 | 50 364 |
| Inventories | 15 | 4 013 641 | 3 117 999 |
| **Total current assets** | | **25 852 607** | **26 832 439** |
| Non-current assets held for sale | 13 | 117 440 | 110 070 |
| **TOTAL ASSETS** | | **167 911 792** | **163 787 703** |
| **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 | | 110 689 | (71 760) |
| Retained earnings | | 61 638 117 | 53 740 611 |
| **Equity attributable to the Company's owners** | | **115 909 938** | **107 829 983** |
| Non-controlling interest | 31 | 8 932 605 | 8 629 256 |
| **TOTAL EQUITY** | | **124 842 543** | **116 459 239** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Long-term borrowings | 17 | 11 598 000 | 16 351 350 |
| Deferred income tax liabilities | 9 | 10 777 059 | 11 081 932 |
| Post-employment benefits obligations | 19 | 895 250 | 1 138 739 |
| Other non-current liabilities | 18 | 130 231 | 58 219 |
| **Total non-current liabilities** | | **23 400 540** | **28 630 240** |
| **Current liabilities** | | | |
| Short-term borrowings | 20 | 7 461 589 | 8 358 294 |
| Trade and other payables | 21 | 10 518 874 | 7 843 745 |
| Current income tax payable | | 626 612 | 896 669 |
| Other taxes payable | 22 | 1 061 634 | 1 599 516 |
| **Total current liabilities** | | **19 668 709** | **18 698 224** |
| **TOTAL LIABILITIES** | | **43 069 249** | **47 328 464** |
| **TOTAL EQUITY AND LIABILITIES** | | **167 911 792** | **163 787 703** |

Approved for issue and signed on 11 March 2019.

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

Chief Accountant R. V. Stanishevskaya

*(in thousands of Russian Roubles)*

| | Notes | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| **Revenue** | 23 | 92 455 180 | **87 640 582** |
| Operating expenses | 24 | (77 390 199) | (73 906 634) |
| Impairment loss for financial assets | | (2 116 843) | (1 744 527) |
| **Operating profit** | | **12 948 138** | **11 989 421** |
| Finance income | 25 | 388 878 | 324 969 |
| Finance costs | 25 | (1 021 297) | (1 794 864) |
| **Finance costs, net** | | **(632 419)** | **(1 469 895)** |
| **Profit before income tax** | | **12 315 719** | **10 519 525** |
| Income tax expense | 9 | (1 894 317) | (2 592 026) |
| **Profit for the year** | | **10 421 402** | **7 927 499** |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Remeasurements of post-employment benefits obligations | | 225 343 | (147 434) |
| Income tax on remeasurement of post-employment benefit obligations | | (41 051) | 26 345 |
| **Other comprehensive income for the year** | | **184 292** | **(121 089)** |
| **Total comprehensive income for the year** | | **10 605 694** | **7 806 410** |
| **Profit is attributable to:** | | | |
| Owners of the TGC-1 | | 10 118 216 | 7 607 038 |
| Non-controlling interests | | 303 186 | 320 461 |
| **Profit for the year** | | **10 421 402** | **7 927 499** |
| **Total comprehensive income is attributable to:** | | | |
| Owners of the TGC-1 | | 10 300 665 | 7 483 127 |
| Non-controlling interests | | 305 029 | 323 283 |
| **Total comprehensive income for the year** | | **10 605 694** | **7 806 410** |
| Earnings per ordinary share for profit attributable to owners of the TGC-1, basic and diluted (in Russian Roubles) | 26 | 0.0026 | 0.0020 |

Approved for issue and signed on 11 March 2019.

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

Chief Accountant R. V. Stanishevskaya

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

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Merger reserve | Other reserves | Effect of measurements of post-employment benefits obligations | Retained earnings | Total | Non-controlling interest | Total equity |
| **Balance at 1 January 2017** | 38 543 414 | 22 913 678 | (6 086 949) | (1 209 011) | 52 151 | 47 464 616 | 101 677 899 | 8 305 973 | 109 983 872 |
| **Comprehensive income for the year** | | | | | | | | | |
| Profit for the year | - | - | - | - | - | 7 607 038 | 7 607 038 | 320 461 | 7 927 499 |
| **Other comprehensive income** | | | | | | | | | |
| Measurements of post-employment benefits obligations | - | - | - | - | (150 810) | - | (150 810) | 3 376 | (147 434) |
| Income tax on other comprehensive income | - | - | - | - | 26 899 | | 26 899 | (554) | 26 345 |
| *Total other comprehensive expense* | - | - | - | - | (123 911) | - | (123 911) | 2 822 | (121 089) |
| **Total comprehensive income for the year** | - | - | - | - | (123 911) | 7 607 038 | 7 483 127 | 323 283 | 7 806 410 |
| **Transactions with owners** | | | | | | | | | |
| Dividends | - | - | - | - | - | (1 331 043) | (1 331 043) | - | (1 331 043) |
| **Total transactions with owners** | - | - | - | - | - | (1 331 043) | (1 331 043) | - | (1 331 043) |
| **Balance at 31 December 2017** | 38 543 414 | 22 913 678 | (6 086 949) | (1 209 011) | (71 760) | 53 740 611 | 107 829 983 | 8 629 256 | 116 459 239 |
| **Effect of changes in accounting policies** | - | - | - | - | - | (332 846) | (332 846) | (1 680) | (334 526) |
| **Balance at 1 January 2018 (changed)** | 38 543 414 | 22 913 678 | (6 086 949) | (1 209 011) | (71 760) | 53 407 765 | 107 497 137 | 8 627 576 | 116 124 713 |
| **Comprehensive income for the year** | | | | | | | | | |
| Profit for the year | - | - | - | - | - | 10 118 216 | 10 118 216 | 303 186 | 10 421 402 |
| **Other comprehensive income** | | | | | | | | | |
| Measurements of post-employment benefits obligations | - | - | - | - | 223 145 | - | 223 145 | 2 198 | 225 343 |
| Income tax on other comprehensive income | - | - | - | - | (40 696) | - | (40 696) | (355) | (41 051) |
| *Total other comprehensive income* | - | - | - | - | 182 449 | - | 182 449 | 1 843 | 184 292 |
| **Total comprehensive income for the year** | - | - | - | - | 182 449 | 10 118 216 | 10 300 665 | 305 029 | 10 605 694 |
| **Transactions with owners** | | | | | | | | | |
| Dividends | - | - | - | - | - | (1 887 864) | (1 887 864) | - | (1 887 864) |
| **Total transactions with owners** | - | - | - | - | - | (1 887 864) | (1 887 864) | - | (1 887 864) |
| **Balance at 31 December 2018** | 38 543 414 | 22 913 678 | (6 086 949) | (1 209 011) | 110 689 | 61 638 117 | 115 909 938 | 8 932 605 | 124 842 543 |

Approved for issue and signed on 11 March 2019.

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

Chief Accountant — R. V. Stanishevskaya

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

*(in thousands of Russian Roubles)*

| | Notes | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | 12 315 719 | 10 519 525 |
| *Adjustments for:* | | | |
| Depreciation of property, plant and equipment | 7 | 7 768 151 | 8 333 074 |
| Amortisation of intangible assets | 24 | 194 368 | 105 259 |
| Amortisation of investment property | 24 | 15 051 | 16 098 |
| Finance expense, net | 24 | 632 419 | 1 466 292 |
| Change in provision for impairment of accounts receivable | 24 | 2 116 843 | 1 744 527 |
| Loss on disposals of property, plant and equipment | 24 | 180 736 | 551 315 |
| (Decrease)/Increase of post-employment benefits obligations | 19 | (18 146) | 67 367 |
| Other non-cash items | | 258 842 | 12 528 |
| **Operating cash flows before working capital changes** | | **23 463 983** | **22 815 985** |
| Increase in trade and other receivables | 10, 14 | (1 239 538) | (1 100 583) |
| Increase in inventories | 15 | (882 870) | (339 000) |
| Increase/(Decrease) Increase in trade and other payables | 21 | 1 747 664 | (1 372 386) |
| (Decrease)/Increase in other taxes payable | 22 | (537 882) | 393 986 |
| **Cash generated from operations** | | **22 551 357** | **20 398 002** |
| Income taxes paid | | (2 997 026) | (1 051 497) |
| Interest paid | | (1 262 938) | (2 137 979) |
| **Net cash from operating activities** | | **18 291 393** | **17 208 526** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (10 934 064) | (9 522 231) |
| Proceeds from sale of property, plant and equipment | | 136 613 | 151 877 |
| Purchase of intangible assets | | (460 840) | (758 944) |
| Interest received | | 145 289 | 161 416 |
| **Net cash used in investing activities** | | **(11 113 002)** | **(9 967 882)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 16 755 200 | 34 044 585 |
| Repayments of borrowings | | (22 469 214) | (36 465 238) |
| Dividends paid to the Company's shareholders | | (1 887 864) | (1 331 043) |
| **Net cash from financing activities** | | **(7 601 878)** | **(3 751 696)** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(423 487)** | **3 488 948** |
| Effect of exchange rate changes on cash and cash equivalents | | 314 842 | 131 768 |
| **Cash and cash equivalents at the beginning of the year** | | **6 975 598** | **3 354 882** |
| **Cash and cash equivalents at the end of the year** | | **6 866 953** | **6 975 598** |

Approved for issue and signed on 11 March 2019.

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

Chief Accountant R. V. Stanishevskaya

*(in thousands of Russian Roubles)*

## Note 1. The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2018 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** | **2018** | **2017** | **Immediate parent** |
| PJSC Murmanskaya TPP | 98.6791 | 98.6791 | PJSC TGC-1 |
| JSC St Petersburg Heating Grid | 74.9997 | 74.9997 | PJSC TGC-1 |

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

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

## Note 2. Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 28). Ongoing decline in oil prices, political tension in the region and international sanctions against certain Russian companies and individuals had a negative impact on the Russian economy.

Management has determined impairment provisions by considering the economic situation and outlook at the end of the reporting period.

***Government relations and current regulation***

As at 31 December 2018 the Group was controlled by the Gazprom Group (51.79% stake) via its subsidiary Gazprom Energoholding LLC (as at 31 December 2017 - 51.79% stake). The Group's other significant shareholder as at 31 December 2018 was Fortum Power and Heat Oy - 29.45% stake (as at 31 December 2017 - 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 2018 and 31 December 2017.

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

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

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

### *Government relations and current regulation (continued)*

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

As described in Note 28, the government's economic, social and other policies could have a material effect on Group operations.

### *Going concern*

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

## Note 3. Summary of Significant Accounting Polices

### *Basis of preparation*

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

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

### *Consolidated financial statements*

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

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

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

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

## Note 3. Summary of Significant Accounting Polices (continued)

***Consolidated financial statements (continued)***

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

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

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

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

***Presentation currency***

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

***Foreign currency translation***

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

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

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

At 31 December 2018, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar (USD) was USD 1 = RUB 69.4706 (31 December 2016: USD 1 = RUB 57.6002), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 79.4605 (31 December 2017: EUR 1 = RUB 68.8668).

## Note 3. Summary of Significant Accounting Polices (continued)

*Associates*

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

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

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

***Disposals of subsidiaries, associates or joint ventures***

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

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

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

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

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

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

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

## Note 3. Summary of Significant Accounting Polices (continued)

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

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

### *Classification of financial assets*

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

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

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

### *Initial recognition of financial instruments*

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

## Note 3. Summary of Significant Accounting Polices (continued)

### *Initial recognition of financial instruments (continued)*

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

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

### *Derecognition of financial assets*

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

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

### *Property, plant and equipment*

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

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

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

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

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

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

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

*(in thousands of Russian Roubles)*

## Note 3. Summary of Significant Accounting Polices (continued)

### *Property, plant and equipment (continued)*

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

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

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

### *Investment property*

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

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

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

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

### *Operating lease*

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

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

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

### *Finance lease liabilities*

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

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

## Note 3. Summary of Significant Accounting Polices (continued)

### *Intangible assets*

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

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

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

«Software licences» primarily includes SAP software.

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

### *Income taxes*

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

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

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

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

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

### *Inventories*

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

### *Trade and other receivables*

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

## Note 3. Summary of Significant Accounting Polices (continued)

*Impairment of financial assets*

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

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

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

*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 andnon-current portions of an asset are reclassified.

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

## Note 3. Summary of Significant Accounting Polices (continued)

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

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

***Share capital***

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

***Merger reserve***

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

***Other reserves***

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

***Dividends***

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

***Value added tax***

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

***Government grants***

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

***Trade and other payables***

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

***Borrowings***

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

## Note 3. Summary of Significant Accounting Polices (continued)

*Borrowing costs*

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

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

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

*Provisions for liabilities and charges*

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

*Revenue recognition*

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

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

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

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

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

*Offset*

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

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

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

## Note 3. Summary of Significant Accounting Polices (continued)

### *Pension and post-employment benefits*

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

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

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

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

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

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

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

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

### *Employee benefits*

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

### *Environmental liabilities*

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

### *Earnings per share*

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

### *Offsetting*

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

## Note 3. Summary of Significant Accounting Polices (continued)

### *Segment reporting*

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

The Group generates its revenues from the generation of electricity, capacity and heat in the Russian Federation, so the Group holds assets in the same geographical area, i.e. the Russian Federation. The technology of electricity, capacity and heat production does not allow for the segregation of the electricity, capacity and heat segments (Note 30).

### *Changes in presentation*

In order to be in accordance with the parent's company disclosure Group revised Consolidated Statement of Profit or Loss and Other Comprehensive Income for 2017 and indicated effect of reclassification of government grants, operating lease income and exchange differences of translation of receivables and payables, measured in a foreign currency.

The changes in presentation adopted in 2018 did not have significant impact on the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows.

## 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.

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

***Provision for impairment of property, plant and equipment (continued)***

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2018 would be an increase of RUB 607 227 thousand or a decrease it by RUB 592 430 thousand (for the year ended 31 December 2017: increase by RUB 893 851 thousand or decrease by RUB 766 413 thousand).

***Recoverability of accounts receivable***

For all trade receivables the Group applies simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics, type of products or services and the days past due. The Group calculates expected loss rates for trade receivables based on historical data which are a reasonable approximation of current loss rates including external factors and forecasted values (Note 29).

***Pension obligation***

The principal actuarial assumptions used to calculate the defined benefit obligation as at 31 December 2018 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 amendments and interpretations became effective for the Group from 1 January 2018, and had the following impact on consolidated financial statements of the Group:

**IFRS 9 Financial Instruments (issued in November 2009 and effective for annual periods beginning on or after 1 January 2018)**

**a) Classification and measurement of financial assets**

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

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

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

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

There are no changes in classification of financial assets that previously were also measured at amortised cost.

*(in thousands of Russian Roubles)*

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

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

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

**b) Impairment of financial assets**

New model for recognition of impairment losses - expected credit losses (ECL) model was introduced within the Group. The Group applies the expected credit loss model to financial assets measured at amortised cost or at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets.

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

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

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

**c) Classification and measurement of financial liabilities**

New requirements in respect of finance liabilities measured through profit or loss will not have an impact on Group's accounting of finance liabilities because the Group does not have this type of liabilities.

IFRS 9 Financial Instruments (replaced IAS 39 «Financial instruments: Recognition and Measurement») has had a significant effect on the Interim Condensed Consolidated Financial Statements of the Group in respect of: impairment of financial assets, measured at amortised cost (as trade and other receivables) calculated in accordance to model of "expected credit losses", that differs from "incurred loss" model, caused to increase of impairment of accounts receivables as at 1 January 2018 in amount of RUB 409 366 thousand.

The Group applied IFRS 9 Financial Instruments retrospectively and used an option not to restate prior periods in respect of new requirements. The effect of applying IFRS 9 Financial Instruments was recognised in the opening balance of retained earnings and other reserves and non-controlling interest in the Interim Condensed Consolidated Statement of Changes in Equity of the Group as at 1 January 2018.

| | 1 January 2018 | Impact of initial applying of IFRS 9 | 1 January 2018 (restated) |
|---|---|---|---|
| Cumulated loss | 9 036 342 | 409 366 | 9 445 708 |
| Deferred income tax charge | - | (74 840) | - |
| | **9 036 342** | **334 526** | **9 445 708** |

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

**c) Classification and measurement of financial liabilities (continued)**

In accordance to new requirements of IFRS 9 the credit losses in respect of trade and other receivables are presented separately in the Consolidated Statement of Profit and Loss and Other Comprehensive Income. The Group applied this requirement in respect of trade and other receivables in the reporting period and reclassified comparative data for recognised credit losses in the amount of RUB 1 744 527 thousand from «Operating expenses» in «Impairment loss for financial assets» in the Consolidated Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 December 2017.

**IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018)**

Revenue is recognised as the obligation to perform is fulfilled by transferring a promised good or service to a customer. As asset is transferred when the control over such asset is passed to the customer.

Application of IFRS 15 Revenue from Contracts with Customers has not had a significant effect on the consolidated financial statements of the Group. Therefore, comparative data and opening balance of retained earnings and other reserves and non-controlling interest as at 1 January 2018 have not been restated.

***Application of Interpretations and Amendments to existing Standards***

**A number of interpretations and amendments to current IFRSs became effective for the periods beginning on or after 1 January 2018:**

IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016) provides requirements for recognising a non-monetary asset or a non-monetary obligation arising from a result of committing or receiving prepayment until the recognition of the related asset, income or expense.

The amendments to IFRS 2 Share-based Payment (issued in June 2016). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.

The amendments to IAS 40 Investment Property (issued in December 2016). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property.

The Group has reviewed these interpretations and amendments to standards while preparing consolidated financial statements. The interpretations and amendments to standards have no significant impact on the Group's consolidated financial statements.

***Standards, Interpretations and Amendments to existing Standards that are not yet effective and have not been early adopted by the Group***

**Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2019. In particular, the Group has not early adopted the standards and amendments:**

IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. The Group intends to apply modified retrospective approach without restatement of comparative information that means representation of cumulative effect of initial applying IFRS 16 as at initial applying date i.e. 1 January 2019. According to preliminary estimates of the Group one-time increase of non-current assets and liabilities as at 1 January 2019 will be in the range of 5% of the Group's assets.

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

*(in thousands of Russian Roubles)*

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

***Standards, Interpretations and Amendments to existing Standards that are not yet effective and have not been early adopted by the Group (continued)***

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

***Standards, Interpretations and Amendments to existing Standards that are not yet effective and have not been early adopted by the Group (continued)***

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

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 2018 and 31 December 2017 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 2018 and 2017, and had significant outstanding balances as at 31 December 2018 and 31 December 2017 are detailed below.

***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 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Revenue** | | |
| Sales of electricity | 989 663 | 985 687 |
| Sales of heat | 461 144 | 463 371 |
| Other sales | 26 546 | 18 582 |
| **Total sales** | **1 477 353** | **1 467 640** |
| **Purchases** | | |
| Purchases of fuel | (29 293 082) | (28 083 441) |
| Purchases of property, plant and equipment, construction in progress, intangible assets | (8 113 694) | (4 823 956) |
| *Including capitalised expenses of the borrowings* | *(3 102)* | *(129 573)* |
| Purchases of supplies | (652 893) | (591 312) |
| Purchases of electricity | (142 538) | (119 139) |
| Interest expense | (326 301) | (847 284) |
| Other | (3 512 994) | (3 073 221) |
| **Total purchases** | **42 041 502** | **(37 538 353)** |
| **Income** | | |
| Interest income | 13 643 | 74 192 |
| Other income | 3 864 | 23 482 |
| **Total income** | **17 507** | **97 674** |

*(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) (continued)***

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 2018 | 31 December 2017 |
|---|---|---|
| Borrowings (loans and bonds) | 1 247 827 | 6 147 764 |
| Loans issued | - | 10 144 |
| Long-term advances to suppliers | - | 764 664 |
| Advances under capital construction, included in property, plant and equipment | 1 057 807 | 277 788 |
| Trade and other receivables | 1 461 749 | 1 517 518 |
| Long-term payables | 112 920 | 31 993 |
| Trade and other payables | 3 468 650 | 1 756 280 |
| Cash and cash equivalents | 669 | 545 997 |

***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 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Sales** | | |
| Sales of heat | 16 280 862 | 16 065 804 |
| Sales of electricity | 9 854 630 | 10 252 657 |
| Government grants | 669 885 | 71 283 |
| Other sales | 79 944 | 62 682 |
| **Total sales** | **26 885 321** | **26 452 426** |
| **Expenses** | | |
| Purchases of supplies | (4 208 039) | (2 791 135) |
| Water usage expenses | (3 030 678) | (2 834 916) |
| Heat distribution | (847 375) | (848 171) |
| Fees of electricity market operators | (820 688) | (789 550) |
| Security services | (398 470) | (392 184) |
| Interest expenses | (285 804) | (241 884) |
| Electricity purchases | (275 357) | (160 959) |
| Operating lease | (127 773) | (120 984) |
| Purchases of property, plant and equipment, construction in progress, intangible assets | (103 113) | (138 171) |
| *Including capitalised expenses of borrowings* | *(71 234)* | *(121 085)* |
| Transportation expenses | (6 496) | (6 657) |
| Interest income on bank deposits and cash in bank | 34 081 | 5 299 |
| Other operating expenses | (171 159) | (4 289) |
| **Total purchases** | **(10 240 871)** | **(8 323 601)** |

*(in thousands of Russian Roubles)*

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

### *State-controlled entities (continued)*

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

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade and other receivables | 9 723 512 | 9 179 184 |
| Borrowings | 8 512 596 | 10 769 667 |
| Cash and cash equivalents | 4 207 890 | 2 230 659 |
| Trade and other payables | 1 235 520 | 920 222 |

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

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Provision for impairment as at 1 January** | **4 516 031** | **3 180 960** |
| Impairment loss recognised during the period | 834 656 | 1 588 810 |
| Impairment loss reversed during the period | (545 475) | (191 113) |
| Consumed during the period | (6 217) | (62 627) |
| **Provision for impairment as at 31 December** | **4 798 995** | **4 516 030** |

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 2018 | Year ended 31 December 2017 |
|---|---|---|
| Sales of electricity | 28 319 953 | 27 329 319 |
| Electricity purchases | (5 588 166) | (5 125 557) |

The Group had the following significant balances with CFS:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade and other receivables | 1 211 340 | 1 070 539 |
| Trade and other payables | 253 282 | 243 219 |

### *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).

*(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 income/expenses and balances with other related parties:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Sales of electricity (Fortum Power and Heat OY) | 1 191 875 | 358 261 |
| Sales of heat (LLC TGC Service and JSC Hibinskaya Heating Company) | 77 812 | 78 625 |
| Other income (LLC TGC Service and JSC Hibinskaya Heating Company) | 7 407 | 7 271 |
| Purchases of property, plant and equipment, construction in progress, intangible assets | (1 179 847) | (1 104 801) |
| Repairs and maintenance (LLC TGC Service) | (1 012 102) | (1 164 414) |
| Heat distribution (JSC Hibinskaya Heating Company) | (679 147) | (709 112) |
| Other expenses (LLC TGC Service) | (39 129) | (36 994) |
| Purchases of supplies (LLC TGC Service) | (886) | (1 351) |

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

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade and other receivables (LLC TGC Service) | 308 952 | 229 070 |
| Trade and other receivables (Fortum Power and Heat OY) | 169 564 | 27 703 |
| Advances under capital construction, included in property, plant and equipment (LLC TGC Service) | 147 551 | 108 153 |
| Trade and other receivables (JSC Hibinskaya Heating Company) | 10 174 | 12 272 |
| Accounts payable (LLC TGC Service) | (675 039) | (659 559) |
| Accounts payable (JSC Hibinskaya Heating Company) | (77 309) | (94 948) |

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 2018, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment connected to related parties in the amount of RUB 8 592 067 thousand (31 December 2017: 9 178 891 RUB thousand). Sales commitments are disclosed in Note 27.

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 2018 | Year ended 31 December 2017 |
|---|---|---|
| PJSC Gazprom and its subsidiaries | 8 122 367 | 6 915 103 |
| State-controlled entities | 63 009 | 67 519 |
| Other related parties | 406 691 | 2 196 269 |
| **Total** | **8 592 067** | **9 178 891** |

*(in thousands of Russian Roubles)*

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

***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 2018 | Year ended 31 December 2017 |
|---|---|---|
| Salaries | 120 683 | 105 138 |
| Short-term bonuses | 75 922 | 78 492 |
| Benefits to the Board of Directors | 28 969 | 31 250 |
| Termination benefits | 1 284 | 11 725 |
| **Total** | **226 858** | **226 605** |

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 2018 | 31 December 2017 |
|---|---|---|
| Payables to key management | 3 617 | 5 478 |
| **Total** | **3 617** | **5 478** |

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

*(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 2016** | **28 369 324** | **15 851 072** | **54 204 797** | **51 813 089** | **17 855 040** | **36 753 179** | **10 594 715** | **215 441 216** |
| Effect of reclassifications | - | - | (3 466) | - | (221 500) | 224 966 | - | - |
| **Balance as at 31 December 2016 (including effect of reclassifications)** | **28 369 324** | **15 851 072** | **54 201 331** | **51 813 089** | **17 633 540** | **36 978 145** | **10 594 715** | **215 441 216** |
| Additions | 24 433 | - | 67 579 | 411 682 | - | 341 479 | 9 235 802 | 10 080 975 |
| Transfers | 973 800 | 81 873 | 1 490 868 | 1 326 004 | 500 702 | 3 262 942 | (7 636 189) | - |
| Disposals | (12 665) | (238) | (1 383 807) | (515 700) | (57 818) | (282 674) | (626 832) | (2 879 734) |
| Reclassification to non-current assets held for sale | - | - | - | - | - | (7 956) | - | (7 956) |
| **Balance as at 31 December 2017** | **29 354 892** | **15 932 707** | **54 375 971** | **53 035 075** | **18 076 424** | **40 291 936** | **11 567 496** | **222 634 501** |
| **Accumulated depreciation (including impairment)** | | | | | | | | |
| **Balance as at 31 December 2016** | **(9 307 731)** | **(8 190 983)** | **(21 681 579)** | **(24 069 330)** | **(4 635 571)** | **(14 916 796)** | **(170 485)** | **(82 972 475)** |
| Effect of reclassifications | - | - | 3 163 | - | 20 319 | (23 482) | - | - |
| **Balance as at 31 December 2016 (including effect of reclassifications)** | **(9 307 731)** | **(8 190 983)** | **(21 678 416)** | **(24 069 330)** | **(4 615 252)** | **(14 940 278)** | **(170 485)** | **(82 972 475)** |
| Charge for the year | (642 216) | (245 797) | (2 563 754) | (1 568 930) | (678 430) | (2 633 947) | - | (8 333 074) |
| Disposals | 9 574 | 238 | 1 312 388 | 347 536 | 41 280 | 208 211 | 163 627 | 2 082 854 |
| **Balance as at 31 December 2017** | **(9 940 373)** | **(8 436 542)** | **(22 929 782)** | **(25 290 724)** | **(5 252 402)** | **(17 366 014)** | **(6 858)** | **(89 222 695)** |
| **Net book value as at 31 December 2016 (including effect of reclassifications)** | **19 061 593** | **7 660 089** | **32 522 915** | **27 743 759** | **13 018 288** | **22 037 867** | **10 424 230** | **132 468 741** |
| **Net book value as at 31 December 2017** | **19 414 519** | **7 496 165** | **31 446 189** | **27 744 351** | **12 824 022** | **22 925 922** | **11 560 638** | **133 411 806** |

*(in thousands of Russian Roubles)*

## 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 2018 the advances given to contractors, which amounted to RUB 1 305 922 thousand, net of VAT (as at 31 December 2017: RUB 1 500 758 thousand), are recognised within the construction in progress balance.

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

The total amount of capitalised interests that were calculated using 7.26% capitalization rate for the year ended 31 December 2018 is RUB 214 576 thousand (9.22% capitalization rate for the year ended 31 December 2017: RUB 280 809 thousand). The payment of capitalised interests is recorded in Consolidated Statement of Cash Flow in respect of operating activities.

***Impairment***

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 30).

As a result of the impairment test, impairment loss was not recognised as at 31 December 2018.

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 impairment test as at 31 December 2018 based on Gordon model with five years forecast period and terminal cost with four percent growth rate for terminal period.

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 2017: 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 | 25 |
| Karelsky branch | 23 |
| Nevsky branch HPS | 22 |
| Nevsky branch TPP | 24 |
| St Petersburg Heating Grid | 17 |
| Murmanskaya TPP | 13 |

As at 31 December 2017 there was no impairment of property, plant and equipment.

*(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 2018 | 31 December 2017 |
|---|---|---|
| Investments in LLC TGC Service | 10 249 | - |
| Investments in JSC HHC | 400 469 | 371 926 |
| **Total investments** | **410 718** | **371 926** |

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

As at 31 December 2018, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

| Name | Total assets | Total liabilities | Revenue | Profit/ (loss) | % interest held | Country of incorporation |
|---|---|---|---|---|---|---|
| LLC TGC Service | 1 923 201 | 1 865 810 | 3 002 810 | 47 260 | 26% | Russia |
| JSC HHC | 1 876 258 | 1 075 320 | 704 906 | 47 963 | 50% | Russia |
| **Total** | **3 799 459** | **2 941 130** | **3 707 716** | **95 223** | | |

As at 31 December 2017, 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 | 1 922 106 | 1 911 974 | 3 333 940 | 17 077 | 26% | Russia |
| JSC HHC | 2 128 359 | 1 384 506 | 751 446 | 23 050 | 50% | Russia |
| **Total** | **4 050 465** | **3 296 480** | **4 085 386** | **40 127** | | |

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 2018 | Year ended 31 December 2017 |
|---|---|---|
| Current income tax charge | (2 203 389) | (2 371 132) |
| Deferred income tax charge | (45 572) | 131 400 |
| Effect of change in income tax rate, recorded in profit and losses | 354 644 | (352 294) |
| **Total expense tax charge, recorded in profit and losses** | **(1 894 317)** | **(2 592 026)** |
| Movement during the year, recorded in other comprehensive income | (41 051) | 26 345 |
| **Total (expense)/income tax charge, recorded in other comprehensive income** | **(41 051)** | **26 345** |
| **Total expense tax charge** | **(1 935 368)** | **(2 565 681)** |

The Group's companies applied the following tax rates in 2018: PJSC "TGC-1" - 17.2%, PJSC "Murmanskaya TPP" - 20%, JSC "St Petersburg Heating Grid" - 15.55% (2016: PJSC "TGC-1" - 17.8%, PJSC "Murmanskaya TPP" - 20%, JSC "St Petersburg Heating Grid" - 16.55%).

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

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Profit before tax** | **12 315 719** | **10 519 525** |
| Theoretical tax charge at the statutory tax rate of 20% | (2 463 144) | (2 103 905) |
| Tax effects of items which are non-deductible for income tax purposes | (70 962) | (337 608) |
| Effect of tax benefit applying | 285 145 | 201 781 |
| Effect of change in income tax rate | 354 644 | (352 294) |
| **Total expense tax charge, recorded in profit and losses** | **(1 894 317)** | **(2 592 026)** |
| **Other comprehensive income** | **225 343** | **(147 434)** |
| Theoretical tax charge at the statutory tax rate of 20% | (45 069) | 29 487 |
| Effect of tax benefit applying | 4 464 | (2 815) |
| Effect of change in income tax rate | (446) | (327) |
| **Total (expense)/Income tax charge, recorded in other comprehensive income** | **(41 051)** | **26 345** |
| **Total expense tax charge** | **(1 935 368)** | **(2 565 681)** |

### *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 2018: PJSC «TGC-1» - 17.2%, PJSC «Murmanskaya TPP» - 20%, JSC «St Petersburg Heating Grid» - 15.55% (as at 31 December 2017: JSC «TGC-1» - 17.8%, PJSC «Murmanskaya TPP» - 20%, JSC «St Petersburg Heating Grid» - 16.55%). 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 2018 | Recognised in profit or losses | Effect of change in income tax rate, recorded in profit and losses | Movement during the year, recorded in other comprehensive income | Effect of change in income tax rate, recorded in other comprehensive income | Effect of initial applying of IFRS 9 recognized in the opening balance | 31 December 2017 |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | (11 266 927) | (268 780) | 363 535 | - | - | - | (11 361 680) |
| Trade and other receivables | 254 716 | 262 423 | 1 776 | | | 43 024 | (52 508) |
| Trade and other payables | 48 197 | (3 036) | (1 847) | - | - | - | 53 080 |
| Pension liabilities | 143 172 | (2 502) | (6 237) | (34 428) | (446) | - | 186 783 |
| Other | 43 783 | (46 026) | (2 583) | - | - | - | 92 393 |
| **Total deferred income tax liability** | **(10 077 059)** | **(57 921)** | **(354 644)** | **(34 428)** | **(446)** | **43 024** | **(11 081 932)** |

**Deferred income tax liabilities**

| | 31 December 2017 | Recognised in profit or losses | Effect of change in income tax rate, recorded in profit and losses | Movement during the year, recorded in other comprehensive income | Effect of change in income tax rate, recorded in other comprehensive income | 31 December 2016 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | (11 361 680) | (205 176) | (348 039) | - | - | (10 808 465) |
| Trade and other receivables | (52 508) | 410 697 | (15 612) | - | - | (447 593) |
| Trade and other payables | 53 080 | 7 901 | 1 751 | - | - | 43 428 |
| Pension liabilities | 186 783 | 11 308 | 5 758 | 24 375 | (327) | 145 669 |
| Other | 92 393 | (25 676) | 3 848 | - | - | 114 221 |
| **Total deferred income tax liability** | **(11 081 932)** | **199 054** | **(352 294)** | **24 375** | **(327)** | **(10 952 740)** |

*(in thousands of Russian Roubles)*

## Note 9. Income Taxes (continued)

*Deferred income tax assets and liabilities (continued)*

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

| | Deferred income tax assets | | | |
|---|---|---|---|---|
| | 31 December 2017 | Recognised in profit or losses | Recognised in other comprehensive income | 31 December 2016 |
| Property, plant and equipment | (19 024) | (9 105) | - | (9 919) |
| Tax loss carried forward | 13 495 | 13 495 | - | |
| Trade and other receivables | 441 813 | (73 246) | - | 515 059 |
| Trade and other payables | 8 371 | 542 | - | 7 829 |
| Pension liabilities | 16 895 | 660 | 2 297 | 13 938 |
| **Total deferred income tax assets** | **461 550** | **(67 654)** | **2 297** | **526 907** |

## Note 10. Other Non-Current Assets

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Long-term receivables net of provision for impairment of RUB 728 751 thousand (31 December 2017: RUB 892 519 thousand) | 255 101 | 250 424 |
| Advances to suppliers | - | 764 664 |
| Loan issued | - | 4 370 |
| **Total financial receivables** | **255 101** | **1 019 458** |
| VAT in prepayments on capital construction | 467 | - |
| **Total other non-current assets** | **255 568** | **1 019 458** |

## Note 11. Cash and Cash Equivalents

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Cash in bank and in hand in RUB | 4 191 977 | 4 860 439 |
| Foreign currency accounts in EUR | 2 674 976 | 2 115 159 |
| **Total cash and cash equivalents** | **6 866 953** | **6 975 598** |

*(in thousands of Russian Roubles)*

## Note 11. Cash and Cash Equivalents (continued)

Non-cash transactions from financing activities are presented in the reconciliation of liabilities from financing transactions overleaf in the table below:

| | Long-term loans and borrowings | Short-term loans and borrowings | Total |
|---|---|---|---|
| **As at 1 January 2018** | **16 351 350** | **8 358 294** | **24 709 644** |
| Cash Flows | (4 435 503) | (2 461 467) | (6 896 970) |
| Non-cash flows: | | | |
| Effects of foreign exchange | 33 512 | 57 512 | 91 024 |
| Loans and borrowings classified as non-current at 31 December 2017, becoming current during 2018 | (351 359) | 351 359 | - |
| Interest accruing in period | - | 1 155 891 | 1 155 891 |
| **As at 31 December 2018** | **11 598 000** | **7 461 589** | **19 059 589** |

| | Long-term loans and borrowings | Short-term loans and borrowings | Total |
|---|---|---|---|
| **As at 1 January 2017** | **17 022 529** | **10 129 851** | **27 152 380** |
| Cash Flows | 7 019 769 | (11 505 652) | (4 485 883) |
| Non-cash flows: | | | |
| Effects of foreign exchange | 24 160 | 24 847 | 49 007 |
| Loans and borrowings classified as non-current at 31 December 2016, becoming current during 2017 | (7 715 108) | 7 715 108 | - |
| Interest accruing in period | - | 1 994 140 | 1 994 140 |
| **As at 31 December 2017** | **16 351 350** | **8 358 294** | **24 709 644** |

## Note 12. Short-term Investments

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Loan issued | 4 370 | 10 144 |
| **Total short-term investments** | **4 370** | **10 144** |

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

## Note 13. Non-current Assets Held for Sale

As at 31 December 2018 the property, plant and equipment with a total net book value amounting to RUB 117 440 thousand were classified as assets held for sale (31 December 2017: RUB 110 070 thousand). Movements of non-current assets held for sale for current and prior periods were as follows:

| 31 December 2018 | Impairment loss for non-current assets held for sale | Sale | Classification as assets held for sale | 31 December 2017 |
|---|---|---|---|---|
| 117 440 | (5 535) | (2 732) | 15 637 | 110 070 |

| 31 December 2017 | Sale | Classification as assets held for sale | 31 December 2016 |
|---|---|---|---|
| 110 070 | (34 999) | 7 955 | 137 114 |

*(in thousands of Russian Roubles)*

## Note 14. Trade and other receivables

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade receivables, net of provision for impairment of RUB 10 123 997 (31 December 2017: RUB 8 040 152 thousand) | 12 953 961 | 13 861 078 |
| Other receivables, net of provision for impairment of RUB 113 936 (31 December 2017: RUB 103 671 thousand) | 288 094 | 1 535 520 |
| **Total financial receivables** | **13 242 055** | **15 396 598** |
| Value-added tax receivables | 198 471 | 148 841 |
| Advances to suppliers | 1 501 061 | 1 120 197 |
| Other taxes receivable | 8 413 | 12 698 |
| **Total trade and other receivables** | **14 950 000** | **16 678 334** |

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

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Ultimate domestic customers | 9 935 091 | 11 683 780 |
| Wholesale customers | 1 834 634 | 2 580 912 |
| Free market | 1 211 340 | 1 070 539 |
| Export customers | 260 990 | 61 367 |
| **Total** | **13 242 055** | **15 396 598** |

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 2018 | 9 372 520 | 4 124 636 | 10 966 684 |
| Total financial receivables as at 31 December 2017 | 11 296 786 | 4 350 236 | 9 036 342 |

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.
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 2019.

Movements in impairment provision for financial receivables are as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Provision for impairment as at 1 January** | **9 036 342** | **7 882 923** |
| Impairment loss recognized as at 1 January 2018 (impact of initial applying of IFRS 9) | 409 366 | - |
| Impairment loss recognised during the period | 2 791 879 | 2 171 985 |
| Impairment loss reversed during the period | (709 811) | (437 124) |
| Consumed | (561 092) | (581 442) |
| **Provision for impairment as at 31 December** | **10 966 684** | **9 036 342** |
| Account receivable directly written-off to profit and loss | 34 775 | 9 667 |

Increase of impairment provision for financial receivables in 2018 caused by deterioration of collectability of ultimate domestic customers and wholesale customers, including the volatility of economic situation in Russian Federation (Note 2).

*(in thousands of Russian Roubles)*

## Note 15. Inventories

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Fuel | 3 296 301 | 2 428 773 |
| Spare parts | 176 545 | 145 247 |
| Raw materials and other supplies | 540 795 | 543 979 |
| **Total inventories** | **4 013 641** | **3 117 999** |

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

## Note 16. Share capital

### *Share capital*

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

### *Share premium*

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

### *Merger reserve*

As at 31 December 2018 and as at 31 December 2017 the merger reserve amounted to RUB 6 086 949 thousand.

### *Dividends*

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

At the General Shareholders' Meeting held on 7 June 2018, the decision was made to pay a total of RUB 1 887 864 thousand in annual dividends for 2017 (2017: RUB 1 331 043 thousand for 2016).

*(in thousands of Russian Roubles)*

## Note 17. Long-term Borrowings

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Bank borrowings and bonds issued | 11 598 000 | 16 351 350 |
| **Total long-term borrowings** | **11 598 000** | **16 351 350** |

| | Currency | Contractual interest rate | Maturity | 31 December 2018 | | 31 December2017 | |
|---|---|---|---|---|---|---|---|
| | | | | Carriyng amounts | Fair values | Carriyng amounts | Fair values |
| Long-term bonds (03) | RUB | CPI+1.5% | 2021 | 2 002 860 | 1 832 110 | 2 004 540 | 1 859 243 |
| Long-term bonds (04) | RUB | CPI+1.5% | 2022 | 2 029 180 | 1 810 525 | 2 049 900 | 1 844 888 |
| Bank Rossiya | | 8.5% | 2020 | 3 098 000 | 3 091 025 | 3 098 000 | 3 040 631 |
| VTB | RUB | 7.9-9.0% | 2020-2021 | 2 306 163 | 2 310 255 | 6 208 325 | 6 131 582 |
| Gazprom | RUB | 7.76% | 2022 | 1 800 000 | 1 748 044 | 4 900 000 | 4 418 487 |
| Sberbank RF | RUB | 7.8-8.15% | 2019 | 901 409 | 896 626 | 4 561 342 | 4 491 424 |
| NORDIC Investment Bank | RUB | ЕВРИБОР + 3% | 2019 | 369 126 | 369 126 | 639 773 | 639 773 |
| | | | | **12 506 738** | **12 057 711** | **23 461 880** | **22 426 028** |
| Less: current portion | | | | | | | |
| Long-term bonds (03) | RUB | CPI+1.5% | 2021 | (2 860) | (2 860) | (4 540) | (4 540) |
| Long-term bonds (04) | RUB | CPI+1.5% | 2022 | (29 180) | (29 180) | (49 900) | (49 900) |
| Sberbank RF | RUB | 7.8-8.15% | 2019 | (501 409) | (501 409) | (525 839) | (522 399) |
| NORDIC Investment Bank | EUR | ЕВРИБОР + 3% | 2019 | (369 126) | (369 126) | (321 926) | (321 926) |
| VTB | RUB | 7.9-9.0% | 2018 | (6 163) | (6 163) | (6 208 325) | (6 131 582) |
| **Total long-term bank borrowings and bonds issued** | | | | **11 598 000** | **11 157 847** | **16 351 350** | **15 395 681** |

The exposure of the Group's borrowings to interest rate changes at the end of the reporting period is disclosed in Note 29.

### *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 2018 and 2017.

*(in thousands of Russian Roubles)*

## Note 18. Other Non-Current Liabilities

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Long-term accounts payable | 130 231 | 58 219 |
| **Total other non-current liabilities** | **130 231** | **58 219** |

Other non-current liabilities are mainly presented by capital construction liabilities.

## 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 2018 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 2018 and 31 December 2017.

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 2018 | 31 December 2017 |
|---|---|---|
| Discount rate for benefits at accumulation phase | 8.8% | 7.5% |
| Indexation of fixed benefits | 4.1% | 4.3% |
| Life expectancy table | Adjusted mortality table of urban population of Northwestern Federal District 2016, the correction factor 0,5 | Adjusted mortality table of urban population of Northwestern Federal District 2016, the correction factor 0,5 |
| Retirement age | Curve in depend on age | Curve in depend on age |
| Personnel rotation | Curve in depend on service | Curve in depend on service |

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

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Benefit obligations as at the beginning of the period** | **1 138 739** | **923 938** |
| Current service cost | 68 166 | 39 695 |
| Past service cost | (78 671) | - |
| Interest cost | 79 982 | 72 749 |
| (Gain)/loss from remeasurements of post-employment benefit obligations | (240 660) | 170 429 |
| Actuarial (gain)/losses - changes in financial assumptions | (171 426) | 36 535 |
| Actuarial (gain)/losses - changes in demographic assumptions | - | 136 273 |
| Actuarial (gain)/losses - adjustments | (69 234) | (2 379) |
| Program benefits | (72 306) | (68 072) |
| **Benefit obligations as at the end of the period** | **895 250** | **1 138 739** |

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

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Cost of service: | (10 505) | 39 695 |
| Current service cost | 68 166 | 39 695 |
| Past service cost | (78 671) | - |
| Interest expenses, net | 79 982 | 72 749 |
| (Gain)/loss from remeasurements of post-employment benefit obligations | (15 318) | 22 995 |
| Actuarial (gain)/losses - changes in financial assumptions | (11 090) | 2 330 |
| Actuarial (gain)/losses - changes in demographic assumptions | - | 32 951 |
| Actuarial (gain)/losses - adjustments | (4 228) | (12 286) |
| **Total pension expenses, net** | **54 159** | **135 439** |

*(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 2018 | Year ended 31 December 2017 |
|---|---|---|
| Loss/(gain)/loss from remeasurements of post-employment benefit obligations | (225 343) | 147 434 |
| Actuarial losses/(gain) - changes in financial assumptions | (160 336) | 34 205 |
| Actuarial losses - changes in demographic assumptions | - | 103 322 |
| Actuarial (gain)/losses - adjustments | (65 007) | 9 907 |
| **Total comprehensive income** | **(225 343)** | **147 434** |

Best estimate of contributions expected to be paid to the plan during the annual period beginning after 31 December 2018 equals to RUB 74 506 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 | 17 959 | 15 095 | 36 660 | 130 357 | 200 071 |
| Lump sum benefits | 34 327 | 32 878 | 88 845 | 183 611 | 339 661 |
| Monthly benefits | 22 220 | 21 321 | 57 826 | 254 151 | 355 518 |
| **Total** | **74 506** | **69 294** | **183 331** | **568 119** | **895 250** |

Sensitivity analysis results of the defined benefit obligations as at 31 December 2018 is presented below. Sensitivity analysis was calculated for three parameters: discount rate, indexed fixed benefits and personnel rotation.

| | Decrease | Calculated rate | Increase |
|---|---|---|---|
| **Discount rate** | 7.8% | 8.8% | 9.8% |
| absolute value | 997 152 | 895 250 | 810 893 |
| change in obligations (%) | 11.4% | - | (9.4%) |
| **Indexation of fixed benefits** | 3.1% | 4.1% | 5.1% |
| absolute value | 806 659 | 895 250 | 1 001 119 |
| change in obligations (%) | (9.9%) | - | 11.8% |

| **Personnel rotation** | Increase of personnel rotation for 10% | Calculated rate | Decrease of personnel rotation for 10% |
|---|---|---|---|
| absolute value | 889 564 | 895 250 | 901 116 |
| change in obligations (%) | (0.6%) | - | 0.7% |

*(in thousands of Russian Roubles)*

## Note 20. Short-Term Borrowings

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Bank borrowings and bonds issued | 7 461 589 | 8 358 294 |
| **Total short-term borrowings** | **7 461 589** | **8 358 294** |

| Name of lender | Currency | Contractual interest rate | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|---|---|
| | | | Carrying amounts | Fair values | Carrying amounts | Fair values |
| Sberbank RF | RUB | 8.65% | 5 305 024 | 5 305 024 | - | - |
| Gazprombank | RUB | 9.5-9.75% | 1 247 827 | 1 247 827 | 1 247 764 | 1 247 764 |
| **Current portion of long-term borrowings:** | | | | | | |
| Long-term bonds (03) | RUB | CPI+1.5% | 2 860 | 2 860 | 4 540 | 4 540 |
| Long-term bonds (04) | RUB | CPI+1.5% | 29 180 | 29 180 | 49 900 | 49 900 |
| Sberbank RF | RUB | 7.8-8.15% | 501 409 | 501 409 | 525 839 | 522 399 |
| NORDIC Investment Bank | EUR | ЕВРИБОР+3% | 369 126 | 369 126 | 321 926 | 321 926 |
| VTB | RUB | 7.9-9.0% | 6 163 | 6 163 | 6 208 325 | 6 131 582 |
| **Total bank borrowings and bonds issued** | | | **7 461 589** | **7 461 589** | **8 358 294** | **8 278 111** |

## Note 21. Trade and other payables

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade accounts payable | 5 065 792 | 4 090 222 |
| Accounts payable for capital construction | 2 286 021 | 1 358 094 |
| Accrued liabilities and other payables | 437 315 | 359 743 |
| **Total financial payables** | **7 789 128** | **5 808 059** |
| Advances from customers | 2 189 453 | 1 528 443 |
| Current employee benefits | 540 293 | 507 243 |
| **Total trade and other payables** | **10 518 874** | **7 843 745** |

## Note 22. Other Taxes Payable

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Property tax | 419 513 | 439 280 |
| VAT payable | 308 343 | 856 984 |
| Employee taxes | 243 905 | 192 763 |
| Personal Income Tax | 70 356 | 64 163 |
| Other taxes | 19 517 | 46 326 |
| **Total taxes payable** | **1 061 634** | **1 599 516** |

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

*(in thousands of Russian Roubles)*

## Note 23. Revenue

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Sales of electricity and capacity | 53 556 633 | 50 693 819 |
| Sales of heat | 36 810 516 | 35 275 073 |
| Other sales | 2 088 031 | 1 671 690 |
| **Total sales** | **92 455 180** | **87 640 582** |

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

In 2018 Group received a grant for the compensation of income in relation to providing heating services (sales to consummers of heat) per tariffs that don't cover expenses from Murmansk Region budget for a total amount of RUB 669 885 thousand (in 2017 - RUB 71 283 thousand).

## Note 24. Operating Expenses

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Fuel | 34 815 586 | 31 893 100 |
| Employee benefits | 8 066 922 | 7 620 292 |
| Electricity, capacity and heat purchases | 7 776 222 | 7 059 650 |
| Depreciation of property, plant and equipment | 7 768 151 | 8 333 074 |
| Repairs and maintenance | 3 630 243 | 3 537 516 |
| Water usage expenses | 3 033 624 | 2 837 862 |
| Operating lease expenses | 2 725 026 | 2 518 214 |
| Heat and electricity distribution | 2 281 341 | 2 598 791 |
| Taxes other than income tax | 2 012 200 | 1 778 263 |
| Other materials | 905 837 | 848 440 |
| Fees of electricity market operators | 855 021 | 821 119 |
| Security expenses | 480 721 | 550 195 |
| IT services | 349 078 | 331 592 |
| Insurance cost | 292 376 | 286 192 |
| Fees of electricity market operators | 263 427 | 255 027 |
| Telecommunication expenses | 256 769 | 235 900 |
| Amortisation of intangible assets | 194 368 | 105 259 |
| Loss on disposal of property, plant and equipment | 180 736 | 551 315 |
| Consulting, legal and audit expenses | 86 751 | 85 748 |
| Amortisation of investment property | 15 051 | 16 098 |
| Other operating expenses | 1 400 749 | 1 642 987 |
| **Total operating expenses** | **77 390 199** | **73 906 634** |

Employee benefits are generally presented by wages and salaries. Social insurance contributions are included in "Employee benefits" in the amount of RUB 1 735 118 thousand (in 2017 - in the amount of RUB 1 724 226 thousand).

## Note 25. Finance Income and Finance Costs

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Interest income | 145 289 | 161 416 |
| Exchange differences (net) | 226 070 | 75 550 |
| Effect of discounting of financial instruments | 17 519 | 88 003 |
| **Finance income** | **388 878** | **324 969** |
| Interest expense | (1 021 297) | (1 786 080) |
| Effect of discounting of financial instruments | - | (8 784) |
| **Finance costs** | **(1 021 297)** | **(1 794 864)** |

*(in thousands of Russian Roubles)*

## Note 26. Earnings per Share

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Profit attributable to owners of the Company | 10 118 216 | 7 607 038 |
| 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** | **0.0026** | **0.0020** |

## Note 27. Commitments

*Sales commitments*

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

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

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

The Group also concluded export contracts with Fortum Power and Heat OY and RAO Nordic Oy. The Group's sales commitments under these contracts, as at 31 December 2018, were: 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy (as at 31 December 2017 - 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy).

*Fuel commitments*

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

*Contractual capital commitments*

As at 31 December 2018, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment in the amount of RUB 11 677 847 thousand (31 December 2017: RUB 13 223 650 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 2018 | 31 December 2017 |
|---|---|---|
| Not later than one year | 109 072 | 103 934 |
| Later than one year and not later than five years | 409 844 | 396 638 |
| Later than five years | 2 716 515 | 2 612 342 |
| **Total operating lease** | **3 235 431** | **3 112 914** |

## Note 28. Contingencies

### *Political environment*

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

### *Insurance*

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

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

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

### *Legal proceedings*

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

### *Tax legislation*

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

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

As at 31 December 2018 and 31 December 2017 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.

*(in thousands of Russian Roubles)*

## Note 28. Contingencies (continued)

*Environmental matters (continued)*

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

## Note 29. 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 2018 | 31 December 2017 |
|---|---|---|---|---|---|
| **Cash at bank and cash equivalents** | | | | | |
| VTB | Expert RA | ruAAA | - | 4 123 982 | 98 475 |
| Bank Rossiya | AKRA | A+(RU) | - | 2 657 892 | 4 197 004 |
| Sberbank RF | AKRA/Moody's | AAA(RU) | Baa3 | 83 908 | 2 132 184 |
| Gazprombank | AKRA | AA(RU) | - | 669 | 545 997 |
| Other | - | - | - | 502 | 1 938 |
| **Total cash at bank and cash equivalents** | | | | **6 866 953** | **6 975 598** |

** 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 2018 | 31 December 2017 |
|---|---|---|
| Cash and cash equivalents (Note 11) | 6 866 953 | 6 975 598 |
| Short - term investments (Note 12) | 4 370 | 10 144 |
| Total short-term financial receivables (Note 14) | 13 242 055 | 15 396 598 |
| Total long-term financial receivables (Note 10) | 255 568 | 1 019 458 |
| **Total** | **20 368 946** | **23 401 798** |

*(in thousands of Russian Roubles)*

## Note 29. 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 2018, the Group had the following currency positions:

| | RUB | USD | EUR | Total |
|---|---|---|---|---|
| **Monetary financial assets** | | | | |
| Cash and cash equivalents | 4 191 977 | - | 2 674 976 | 6 866 953 |
| Total short-term financial receivables | 12 981 065 | - | 260 990 | 13 242 055 |
| Advances to suppliers | 1 498 138 | 2 923 | - | 1 501 061 |
| Total long-term financial receivables | 255 568 | - | - | 255 568 |
| **Total financial assets** | **18 926 748** | **2 923** | **2 935 966** | **21 865 637** |
| **Monetary financial liabilities** | | | | |
| Long-term borrowings | (11 598 000) | - | - | (11 598 000) |
| Short-term borrowings | (7 092 463) | - | (369 126) | (7 461 589) |
| Advances from customers | (2 189 453) | - | - | (2 189 453) |
| Total other financial liabilities | (7 919 359) | - | - | (7 919 359) |
| **Total financial liabilities** | **(28 799 275)** | **-** | **(369 126)** | **(29 168 401)** |
| **Net balance sheet position** | **(9 872 527)** | **2 923** | **2 566 840** | **(7 302 764)** |

**As at 31 December 2017, the Group had the following currency positions:**

| | RUB | USD | EUR | Total |
|---|---|---|---|---|
| **Monetary financial assets** | | | | |
| Cash and cash equivalents | 4 860 439 | - | 2 115 159 | 6 975 598 |
| Total short-term financial receivables | 15 335 230 | - | 61 367 | 15 396 597 |
| Advances to suppliers | 1 117 553 | 2 645 | - | 1 120 198 |
| Total long-term financial receivables | 1 019 458 | - | - | 1 019 458 |
| **Total financial assets** | **22 332 680** | **2 645** | **2 176 526** | **24 511 851** |
| **Monetary financial liabilities** | | | | |
| Long-term borrowings | (16 033 503) | - | (317 847) | (16 351 350) |
| Short-term borrowings | (8 036 368) | - | (321 926) | (8 358 294) |
| Advances from customers | (1 528 360) | - | (83) | (1 528 443) |
| Total other financial liabilities | (5 866 278) | - | - | (5 866 278) |
| **Total financial liabilities** | **(31 464 509)** | **-** | **(639 856)** | **(32 104 365)** |
| **Net balance sheet position** | **(9 131 829)** | **2 645** | **1 536 670** | **(7 592 514)** |

*(in thousands of Russian Roubles)*

## Note 29. Financial Risk Management (continued)

### *Currency risk (continued)*

As at 31 December 2018, if the Russian Rouble had weakened/strengthened by 30% (2017: 30%) against the EURO with all other variables remaining constant, the year's profit would have been RUB 770 052 thousand (2017: RUB 461 001 thousand) lower/higher.

As at 31 December 2018, 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 877 thousand lower/higher (2017: RUB 793 thousand).

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

### *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.

| | | Contractual cash flows | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **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 2018** | | | | | | | | | |
| Long-term and short-term bonds | 5 832 040 | 7 027 694 | 150 494 | 187 546 | 373 920 | 2 373 920 | 3 941 814 | - | - |
| Long-term and short-term loans | 13 227 549 | 14 696 070 | 1 773 257 | 6 630 012 | 4 909 459 | 1 383 342 | - | - | - |
| Total other financial liabilities | 7 919 359 | 7 934 817 | 5 382 428 | 2 406 700 | 87 061 | 56 705 | 1 923 | - | - |
| **Total financial liabilities** | **26 978 948** | **29 658 581** | **7 306 179** | **9 224 258** | **5 370 440** | **3 813 967** | **3 943 737** | **-** | **-** |
| **As at 31 December 2017** | | | | | | | | | |
| Long-term and short-term bonds | 8 954 440 | 11 417 055 | 330 080 | 275 440 | 547 680 | 547 680 | 2 547 680 | 7 168 495 | - |
| Long-term and short-term loans | 15 755 204 | 17 160 774 | 8 471 738 | 650 250 | 4 717 044 | 3 321 742 | - | - | - |
| Total other financial liabilities | 5 866 278 | 5 870 791 | 3 224 188 | 2 583 871 | 39 524 | 13 506 | 7 779 | 1 923 | - |
| **Total financial liabilities** | **30 575 922** | **34 448 620** | **12 026 006** | **3 509 561** | **5 304 248** | **3 882 928** | **2 555 459** | **7 170 418** | **-** |

*(in thousands of Russian Roubles)*

## Note 29. 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 2018 | 31 December 2017 |
| **Fixed rate instruments** | | |
| Long-term loans and borrowings | 7 598 000 | 12 033 503 |
| Short-term loans and borrowings | 7 060 423 | 7 981 928 |
| **Variable rate instruments** | | |
| Long-term loans and borrowings | 4 000 000 | 4 317 847 |
| Short-term loans and borrowings | 401 166 | 376 366 |
| **Total financial instruments** | **19 059 589** | **24 709 644** |

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 2017 seven percent) in interest rates would have decreased/increased the Group's profit after income tax for the year ended 31 December 2018 by approximately RUB 303 961 thousand (for the year ended 31 December 2017: RUB 333 173 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 2018 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 2018 (Note 17).

### *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.

## Note 29. Financial Risk Management (continued)

### *Capital management (continued)*

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 2018 was RUB 115 905 187 thousand (2017: RUB 107 829 983 thousand). Capital management is linked to maintaining certain financial ratios to comply with bank-imposed covenants (Notes 17 and 20).

## Note 30. 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 30. Segment Information (continued)

| Year ended 31 December 2018 | 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: | 53 676 589 | 5 644 826 | 8 556 892 | 11 756 736 | 7 684 784 | 6 247 689 | 8 316 916 | **101 884 432** | (9 713 343) | 284 091 | **92 455 180** |
| *including export* | - | 1 191 875 | - | 1 613 537 | - | - | - | **2 805 412** | - | - | **2 805 412** |
| Depreciation of property, plant, equipment | 6 197 628 | 428 967 | 2 483 844 | 715 835 | 491 835 | 45 528 | 238 118 | **10 601 755** | - | (2 833 604) | **7 768 151** |
| *Reportable segment profit / (loss)* | 829 306 | 2 439 056 | 490 920 | 2 175 686 | 985 751 | 45 618 | 2 112 354 | **9 078 691** | (215 385) | 3 452 413 | **12 315 719** |

| Year ended 31 December 2017 | 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: | 50 889 089 | 4 964 216 | 8 495 894 | 11 099 212 | 8 033 525 | 5 607 187 | 7 865 114 | **96 954 237** | (9 589 342) | 275 687 | **87 640 582** |
| *including export* | - | 358 261 | - | 1 003 931 | - | - | - | **1 362 192** | - | - | **1 362 192** |
| Depreciation of property, plant, equipment | 6 732 983 | 431 774 | 2 449 688 | 726 306 | 448 339 | 43 862 | 85 717 | **10 918 669** | - | (2 585 595) | **8 333 074** |
| *Reportable segment profit / (loss)* | 4 216 917 | 3 245 939 | 523 231 | 3 798 229 | 1 998 289 | 155 692 | (4 460 952) | **9 477 345** | (210 595) | 1 252 775 | **10 519 525** |

*(in thousands of Russian Roubles)*

## Note 30. Segment Information (continued)

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

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Revenue reclassification adjustments | 284 091 | 275 687 |
| Depreciation adjustment | 2 833 604 | 2 585 595 |
| Actuarial losses | 18 147 | (67 365) |
| Effect of discounting | 17 520 | 79 218 |
| Income of share revaluation of Murmanskaya TPP | - | (2 035 502) |
| Other adjustments | 299 051 | 415 142 |
| | **3 168 322** | **977 088** |
| **Total adjustments to profit before income tax** | **3 452 413** | **1 252 775** |

Segment's assets are disclosed below:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| TPP of Nevsky branch | 52 284 227 | 54 846 394 |
| HPS of Nevsky branch | 9 200 575 | 8 724 655 |
| St. Petersburg Heating Grid | 42 966 878 | 41 730 522 |
| Kolsky branch | 14 988 356 | 13 110 121 |
| Karelsky branch | 7 507 342 | 6 376 082 |
| Murmanskaya TPP | 4 065 429 | 3 532 493 |
| Unallocated segments | 42 071 943 | 42 323 133 |
| **Total segments** | **173 084 750** | **170 643 400** |
| Eliminations | (21 234 285) | (20 439 250) |
| Adjustments | 16 061 327 | 13 583 553 |
| **Total assets** | **167 911 792** | **163 787 703** |

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

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Property, plant and equipment adjustment | 18 037 024 | 15 196 485 |
| Provision for impairment of accounts receivable | (390 900) | - |
| Deferred tax assets | (216 848) | (4 496) |
| Discounting of accounts receivables and investments | (111 956) | (118 531) |
| Other adjustments | (1 255 993) | (1 489 905) |
| **Total assets adjustments** | **16 061 327** | **13 583 553** |

*(in thousands of Russian Roubles)*

## Note 30. 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 31. 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 2018** | | | | | |
| JSC St Petersburg Heating Grid | Saint-Petersburg | 25% | 304 014 | 8 934 056 | - |
| PJSC Murmanskaya TPP | Murmansk | 1,3% | (828) | (1 451) | - |
| **Total** | | | **303 186** | **8 932 605** | |
| **Year ended 31 December 2017** | | | | | |
| JSC St Petersburg Heating Grid | Saint-Petersburg | 25% | 319 266 | 8 628 457 | - |
| PJSC Murmanskaya TPP | Murmansk | 1,3% | 1 194 | 799 | - |
| **Total** | | | **320 460** | **8 629 256** | - |

The summarised financial information of JSC St Petersburg Heating Grid and PJSC Murmanskaya TPP was as follows at 31 December 2018:

| | Current assets | Non-current assets | Current liabilities | Non-current liabilities | Revenue | Profit/ (loss) | Total compre-hensive income | Cash flows |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2018** | | | | | | | | |
| JSC St Petersburg Heating Grid | 1 712 357 | 33 850 392 | 3 837 665 | 5 550 964 | 8 557 444 | 1 216 056 | 1 222 522 | (35 810) |
| PJSC Murmanskaya TPP | 2 273 330 | 1 669 389 | 1 980 518 | 1 808 355 | 6 219 131 | (62 758) | (44 461) | (94 732) |
| **Total** | **3 985 687** | **35 519 781** | **5 818 183** | **7 359 319** | **14 776 575** | **1 153 298** | **1 178 061** | **(130 542)** |
| **Year ended 31 December 2017** | | | | | | | | |
| JSC St Petersburg Heating Grid | 1 635 865 | 32 154 036 | 3 030 230 | 5 592 690 | 8 539 885 | 1 277 065 | 1 288 842 | 40 493 |
| PJSC Murmanskaya TPP | 2 169 685 | 1 454 422 | 1 925 058 | 1 371 173 | 5 571 209 | 90 482 | 81 292 | 101 367 |
| **Total** | **3 805 550** | **33 608 458** | **4 955 288** | **6 963 863** | **14 111 09** | **1 367 547** | **1 370 134** | **141 860** |

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

## Note 32. Events after the Reporting Period

### *Borrowings*

During the period between reporting date and signing date, the Group received short-term borrowings of RUB 779 500 thousand.

During the period between reporting date and signing date, the Group repaid borrowings a total of RUB 3 718 600 thousand.

### *Government grants*

During the period between reporting date and signing date Group PJSC received a grant from Saint-Petersburg regional budget for a total amount of RUB 253 730 thousand and from Murmansk Region budget for a total amount of RUB 590 893 thousand.

Approved for issue and signed on 11 March 2019.

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

Chief Accountant R. V. Stanishevskaya