Translation from the Russian original

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

Consolidated Financial Statements
for the year ended 31 December 2020
and Independent Auditor's Report

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Translation from the Russian original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of PJSC "Territorial Generating Company No.1"

Opinion

We have audited the consolidated financial statements of PJSC "Territorial Generating Company No.1" (OGRN 1057810153400, Build. 2A, 16 Dobrolyubova Avenue, Saint-Petersburg, 197198) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of 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 2020 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 2020, 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 impairment of accounts receivable

We paid special attention to the issue of determining the allowance for impairment of accounts receivable because the appraisal process is complex and requires management to make significant judgments (Note 8 and 24 to the consolidated financial statements).

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

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

Assessment of impairment of property, plant and equipment

At each reporting date, the Group checks for signs of impairment of property, plant and equipment and, if necessary, conducts appropriate testing. 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 checking the initial data for the test and analysing cash flows, to which the results of the impairment test are the most sensitive and which have the most significant effect on determining the recoverable amount of property, plant and equipment

The results of the impairment test and the key assumptions used are presented in Note 6 to the consolidated financial statements.

Other Information

Management organisation LLC Gazprom Energoholding (management) is responsible for the other information. The other information comprises the information included in the Annual report and Issuer's quarterly report for the 1st quarter of 2021, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report and Issuer's quarterly report for the 1st quarter of 2021 are 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 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 and Issuer's quarterly report for the 1st quarter of 2021, 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

Management organisation LLC Gazprom Energoholding 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.

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

Audit company:
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Member of the Self-regulatory organization of auditors Association "Sodruzhestvo"
Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: 12006020340

9 March 2021

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PJSC TERRITORIAL GENERATING COMPANY №1
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020
(in millions of Russian Roubles)

	Notes	31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	6	151 135	148 607
Investment property		139	164
Intangible assets	7	3 859	3 108
Investments in associates	10	436	421
Trade receivables and prepayments	8	1 391	1 445
Deferred income tax assets	18	140	316
Total non-current assets		**157 100**	**154 061**
Current assets			
Inventories	11	3 728	3 613
Trade receivables and prepayments	8	14 057	13 715
Current income tax prepayments		49	156
Cash and cash equivalents	12	1 036	881
Financial assets	9	14 817	10 010
		33 687	**28 375**
Non-current assets held for sale		-	68
Total current assets		**33 687**	**28 443**
Total assets		**190 787**	**182 504**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	38 543	38 543
Share premium	13	22 914	22 914
Accumulated earnings and other reserves		66 803	61 295
Equity attributable to the shareholders of PJSC TGC-1		**128 260**	**122 752**
Non-controlling interest		10 698	8 921
Total equity and reserves		**138 958**	**131 673**
Non-current liabilities			
Borrowings	14	9 500	4 000
Post-employment benefits obligations	17	1 166	1 159
Trade and other payables	15	444	290
Lease liabilities		5 245	7 264
Deferred tax liabilities	18	10 228	10 328
Total non-current liabilities		**26 583**	**23 041**
Current liabilities			
Borrowings	14	7 747	13 258
Trade and other payables	15	12 897	11 248
Current income tax payable		747	32
Other taxes payable	16	1 557	986
Lease liabilities		2 298	2 266
Total current liabilities		**25 246**	**27 790**
Total liabilities		**51 829**	**50 831**
Total equity and liabilities		**190 787**	**182 504**

V. E. Vederchik
Managing Director

«09» March 2021

R. V. Stanishevskaya
Chief Accountant

«09» March 2021

(in millions of Russian Roubles)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Revenue	19	88 889	97 256
Operating expenses	20	(76 913)	(85 599)
Impairment (loss)/gain on financial assets	24	(1 152)	492
Operating profit		**10 824**	**12 149**
Finance income	21	570	539
Finance costs	21	(1 174)	(2 360)
Share of profit of associates		15	11
Profit before income tax		**10 235**	**10 339**
Income tax expense	18	(1 982)	(2 349)
Profit for the period		**8 253**	**7 990**
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits obligations		27	(175)
Other comprehensive income/(expense) for the period		**27**	**(175)**
Total comprehensive income for the period		**8 280**	**7 815**
Profit/(loss) for the period is attributable to:		**8 253**	**7 990**
Owners of the TGC-1		8 062	8 928
Non–controlling interests		191	(938)
Total comprehensive income/(expense) for the period is attributable to:		**8 280**	**7 815**
Owners of the TGC-1		8 086	8 759
Non–controlling interests		194	(944)
Earnings per ordinary share for profit attributable to owners of the TGC-1, basic (in Russian Roubles)	22	**0.0021**	**0.0023**

V. E. Vederchik
Managing Director

«09» March 2021

R. V. Stanishevskaya
Chief Accountant

«09» March 2021

(in millions of Russian Roubles)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Cash flows from operating activities			
Profit before income tax		**10 235**	**10 339**
Adjustments for:			
Depreciation and amortisation	20	11 111	10 351
Impairment (loss)/gain on financial assets	24	1 152	(492)
Impairment loss on non-financial assets	20	1 295	5 169
Share of profit of associates	21	(15)	(11)
(Gain) / loss on disposals of property, plant and equipment and other assets	20	(6)	401
Finance income	21	(570)	(539)
Finance expense	21	1 174	2 360
Other non-cash items		96	(15)
Operating cash flows before working capital changes		**24 472**	**27 563**
Changes in working captal:			
Change in trade receivables and prepayments	8	(1 214)	(597)
Change in inventories	11	(264)	363
Change in trade and other payables	15	14	(165)
Change in other taxes payable	16	572	(76)
Change in employee benefit liabilities	17	8	52
Changes in working captal		**(884)**	**(423)**
Income taxes paid		(1 123)	(3 310)
Interest paid		(1 172)	(1 527)
Net cash from operating activities		**21 293**	**22 303**
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets and other non-current assets		(13 922)	(13 624)
Proceeds from sale of property, plant and equipment and other assets		50	159
Borrowings issued		(14 727)	(9 994)
Repayment of borrowings		9 994	1
Interest paid and capitalised		(106)	(151)
Interest received		242	240
Net cash used in (from) investing activities		**(18 469)**	**(23 369)**
Cash flows from financing activities			
Proceeds from borrowings		13 445	10 691
Repayments of borrowings		(13 445)	(12 466)
Repayments of lease liabilities		(1 676)	(1 843)
Proceeds from subsidiary share issue		3 000	1 500
Dividends paid to the Company's shareholders		(3 995)	(2 485)
Net cash from financing activities		**(2 671)**	**(4 603)**
Effect of exchange rate changes on cash and cash equivalents		2	(317)
Net increase / (decrease) in cash and cash equivalents		**155**	**(5 986)**
Cash and cash equivalents at the beginning of the year	12	881	6 867
Cash and cash equivalents at the end of the year	12	**1 036**	**881**

V. E. Vederchik
Managing Director

«09» March 2021

R. V. Stanishevskaya
Chief Accountant

«09» March 2021

(in millions of Russian Roubles)

	Attributable to owners of the Company					
	Share capital	Share premium	Accumulated earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2019	**38 543**	**22 914**	**54 453**	**115 910**	**8 933**	**124 843**
Profit for the period	-	-	8 928	8 928	(938)	7 990
Other comprehensive income:	-	-	-	-	-	-
Remeasurement of post-employment benefits obligations	-	-	(169)	(169)	(6)	(175)
Comprehensive income for the period	-	-	**8 759**	**8 759**	**(944)**	**7 815**
Transactions with shareholders recognised directly in equity						
Dividends declared	-	-	(2 485)	(2 485)	-	(2 485)
Change in ownership of subsidiary	-	-	568	568	932	1 500
Balance at 31 December 2019	**38 543**	**22 914**	**61 295**	**122 752**	**8 921**	**131 673**
Balance at 1 January 2020	**38 543**	**22 914**	**61 295**	**122 752**	**8 921**	**131 673**
Profit for the period	-	-	8 062	8 062	191	8 253
Other comprehensive income:						
Remeasurement of post-employment benefits obligations	-	-	24	24	3	27
Comprehensive income for the period	-	-	**8 086**	**8 086**	**194**	**8 280**
Transactions with shareholders recognised directly in equity						
Dividends declared	-	-	(3 995)	(3 995)	-	(3 995)
Change in ownership of subsidiary	-	-	1 417	1 417	1 583	3 000
Balance at 31 December 2020	**38 543**	**22 914**	**66 803**	**128 260**	**10 698**	**138 958**

V. E. Vederchik
Managing Director

«09» March 2021

R. V. Stanishevskaya
Chief Accountant

«09» March 2021

The accompanying notes on the pages 11-56 are an integral part of these consolidated financial statements.

(in millions of Russian Roubles)

Note 1. General information

1.1 Organisation and operations

Public Joint-Stock Company (PJSC) Territorial Generating Company № 1 (here in after "TGC-1" and the "Company") was incorporated and is domiciled in the Russian Federation.

The Company's principal business activity is production and sale of electric energy, heat energy and capacity. The Group includes 52 power plants located in four regions of Russia: St. Petersburg, Karelia region, the Leningrad region and the Murmansk region.

The Company is registered in the Russian State Tax Inspection of Saint-Petersburg № 15. The Company's registered office is located at 16 Dobrolyubova prospect, 2A building, St. Petersburg, Russian Federation, 197198.

PJSC "TGC-1" and its subsidiaries, presented below, are the Group TGC-1 (here in after the "Group"):

Subsidiary	Type of business activity	% of ownership 31 December 2020	31 December 2019
JSC Murmanskaya TPP	production of electric energy and capacity, heat energy, heat capacity	98.8536	98.8536
JSC St Petersburg Heating Grid	transfer and distribution of heat	65.5814	71.5734
LLC TSTP SEVERO-ZAPAD	transfer and distribution of heat	65.5814	71.5734

In October 2020 LLC St Petersburg Heating Grid was renamed into LLC TSTP SEVERO-ZAPAD.

In six months 2020 JSC St Petersburg Heating Grid received the budget funding of Saint-Petersburg under reconstruction heat grids in the amount of RUB 3 000 million. Budget funding resulted to increase in the ownership of Saint-Petersburg for the part of share capital of JSC St Petersburg Heating Grid and reducing of TGC-1 share to 65.5814%.

In 2019 JSC St Petersburg Heating Grid received the budget funding of Saint-Petersburg under reconstruction heat grids in the amount of RUB 1 500 million. Budget funding resulted to increase in the ownership of Saint-Petersburg for the part of share capital of JSC St Petersburg Heating Grid and reducing of TGC-1 share to 71.5734%.

The information about significant subsidiaries with significant non-controlling interest, based on the amounts before excluding transactions between Group's organisations, is presented in the table below.

	Non-controlling interest %	Profit / (loss) attributable to non-controlling interest	Other comprehensive income / (loss) attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
As at and for the year ended 31 December 2020				
JSC Murmanskaya TPP	1,15%	10	-	26
JSC St Petersburg Heating Grid	34,42%	179	3	10 669
Total		**189**	**3**	**10 695**
As at and for the year ended 31 December 2019				
JSC Murmanskaya TPP	1,15%	18	-	16
JSC St Petersburg Heating Grid	28,43%	(956)	(7)	8 905
Total		**(938)**	**(7)**	**8 921**

(in millions of Russian Roubles)

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/loss	Total compre-hensive income/ (expense)
As at and for the year ended 31 December 2020							
JSC Murmanskaya TPP	2 581	1 586	1 722	90	5 658	843	844
JSC St Petersburg Heating Grid	2 803	34 126	6 879	2 669	9 779	594	603
As at and for the year ended 31 December 2019							
JSC Murmanskaya TPP	2 692	1 685	2 771	95	7 806	1 371	1 358
JSC St Petersburg Heating Grid	2 592	31 006	6 910	2 687	9 931	(3 354)	(3 377)

1.2 Government relations and influence on the Group's activities

At the date of consolidated financial statements the Russian Federation owned (both directly and indirectly) over 50% in PJSC Gazprom through its 100% subsidiary LLC Gazprom energoholding (immediate Group's parent company) which holds 51,79% of PJSC "TGC-1" as at 31 December 2020. Thus PJSC Gazprom is the parent company of the Group and the Russian Federation is the ultimate controlling party of the Group.

The Group's customer base includes a large number of entities controlled by or related to the Government. The Group's supply chain includes subsidiaries of PJSC Gazprom. The Government also controls the number of Group's suppliers.

The government of the Russian Federation directly affects the Group's operations through regulations of wholesale and retail sales of electricity and heat exercised by the Federal Antimonopoly Service (the FAS) and the executive authorities in tariff regulation. JSC System Operator of the Unified Energy System (SO UPS), which is controlled by the Russian Federation as Federal Agency of State Property Management regulates operations of generating assets of the Group.

As disclosed in the Note 23 the Government's economic, social and other policies could materially affect operations of the Group.

1.3 Business environment in the Russian Federation

The economy of the Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation of the Russian Federation continues to develop and are a subject to varying interpretations. Fluctuations in oil prices, continuing political tensions in the region, as well as international sanctions against some Russian organisations and citizens have had and can continue to affect the economy of the Russian Federation.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

The COVID-19 pandemic outbreak that occurred in the first quarter of 2020 had significant negative effect on the global economy. The response measures adopted to limit the virus spreading resulted in lower of economic activity of electricity market participants. The scale and duration of that events remain uncertain and have effect on the Group's financial standing and results.

The Group's management considers that takes all necessary measures to support constancy and development of business in current circumstances. During pandemic spreading the Company adopted operational response measures to prevent virus spreading on the Group's objects that resulted in excluding the virus influence on the Group's technological and functional processes stability.

Management takes measures currently in respect of fixed costs optimization and redeployment of investment program expenses. Future economic situation in Russian Federation depends on external factors and measures, adopting by Russian government. The effect may differ from the management's current expectations.

Note 2. Significant accounting policies

2.1 Basis of preparation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including all the IFRS adopted and operating in the reporting period, and interpretations, adopted by International Accounting Standards Board and comply with it completely.

The consolidated financial statements are prepared on the historical cost basis except non-current assets held for sale.

The principal accounting policies applied in the preparation of these consolidated financial statements are presented below.

2.2 General provisions

2.2.1 Functional and presentation currency

The national currency of the Russian Federation is the Russian Ruble (RUB), which is the Group's functional currency and the presentation currency of these consolidated financial statements. All financial information presented in RUB has been rounded to the nearest million unless otherwise stated.

2.2.2. Foreign currency

The Group's monetary assets and liabilities denominated in foreign currencies at the reporting date are converted into Russian rubles at official exchange rates at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date when the fair value was determined. Transactions in foreign currencies are accounted for at the exchange rates prevailing at the dates of the transactions.

Gains and losses resulting from the settlement of such transactions and from the transaction of the monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income in the profit or loss.

As at 31 December 2020, 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 73.8757 (31 December 2019: USD 1 = RUB 61.9057), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 90.6824 (31 December 2019: EUR 1 = RUB 69.3406).

2.3. Consolidation

2.3.1 Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and those entitles whose operations are controlled by the Company.

Subsidiaries are those investees that the Group controls because the Group (a) has power to direct relevant activities of the investees that significantly affect their returns, (b) has exposure, or rights, to variable returns from its involvement with the investees, and (c) 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 substantive rights over the investee.

The financial statements of subsidiaries are consolidated from the date when control is transferred to the Group and are deconsolidated from the date on which control ceases.

In some cases, changes are made to the accounting policies of subsidiaries to be in correspondence with the Group's Accounting Policies.

In case of control loss of a subsidiary the Group derecognizes its assets and liabilities, and also non-controlling interest, attributable to subsidiary, and other components of equity. Any differences resulted from control loss are recognised in profit or loss for the period. In addition, all amounts previously recognised in other comprehensive income are transferred to profit or loss.

In case of any investment retained in the former subsidiary, this interest is measured at the fair value at the date of control loss. Subsequently this interest is accounted as investment in associate (using equity method), or financial asset, measured at fair value through profit or loss, or financial asset, measured at fair value through other comprehensive income.

2.3.2 Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method and are recognised initially at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the period as share of income (loss) of associates, the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, 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 income of associates. When the Group's share of losses of associates accounted for using the equity method exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

2.3.3 Business Combinations

Business Combinations are accounted for using the acquisition method. 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.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire, and the equities issued by the Group in exchange for control of the acquiree.

The identifiable assets acquired and the liabilities assumed, except acquired from the entities under common control, are recognised at fair value at the acquisition date.

The non-controlling interests, representing current ownership interest and providing the right for the holder to a proportionate share of net assets in case of liquidation, initially recognised proportionally to the share of net assets of entity acquired, attributable to the holders of its non-controlling interests.

The Group measures the non-controlling interest representing current ownership interest and providing the right for the holder to a proportionate share of net assets in case of liquidation, separately for each transaction proportionally to the non-controlling interest in the net assets of the acquiree. The non-controlling interest that is not the ownership interest directly is measured at fair value.

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

2.3.4 Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealised gains and losses, arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.3.5 Transactions between entities under common control

Acquisition of subsidiaries from the entities under common control is accounted by the method the predecessor. The consolidated financial statements include the results of an acquired company from the date of acquisition. The corresponding figures of the previous period are not restated. The assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's carrying amounts. The predecessor entity is considered the highest reporting entity in which the IFRS subsidiary's financial statement was consolidated. The carrying amounts of the assets and liabilities of the subsidiary's financial statements are used in case there aren't these consolidated financial statements. Any difference between the carrying amount of net assets, including the amount of goodwill, generated by the immediate parent company, and the amount of the consideration paid, is recognised in the consolidated financial statements as adjustment in equity/net assets, attributable to the Company's shareholders.

2.4 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes party to the contractual provisions of the instrument.

Except for trade receivables that do not contain a significant financing component and are determined by the transaction cost in accordance with IFRS 15 "Revenue from Contracts with Customers" at initial recognition, the Group measures a financial asset or financial liability at fair value adjusted on the transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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 fair value of financial assets and liabilities is determined as follows:

Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market closing prices at the reporting date.

Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using various valuation methods, primarily based on market or income approach, such as discounted cash flows valuation method. These valuation methods maximise the use of observable market data where it is available and rely as little as possible on Group specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Financial instruments in Level 3

If one or more of the significant inputs in the valuation model used to fair value an instrument are not based on observable market data, the instrument is included in Level 3.

2.4.1 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 financial assets 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. The loans issued receivables, deposits, cash and cash equivalents belong to this category of financial assets of the Group.

The loans issued and receivables include financial assets with the fixed or determinable payments that are not quoted in an active market. After initial recognition the loans issued and receivables are estimated at the amortised cost using the effective interest method.

Cash and cash equivalents include cash on hand, banks accounts and highly liquid financial assets with original maturity no more than three months.

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.

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.

Gains and losses associated with this category of financial assets are recognised in other comprehensive income, except for impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When a financial asset is disposed of, cumulative previous gain or loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss in the consolidated statement of comprehensive income. Interest income from these financial assets is calculated using the effective interest method and included in financial income.

The Group's management can make an unmodified decision to recognise changes in fair value of equity instruments in other comprehensive income if the instrument is not expected to be sold. Other comprehensive income (loss) from changes in fair value of such instruments shall not be subsequently reclassified to profit or loss in the consolidated statement of comprehensive income. The Group does not have such category of financial assets.

Financial assets measured subsequently at fair value with changes recognised through profit or loss.
Financial assets that do not meet the criteria of recognition as financial assets measured at amortised cost or measured at fair value through other comprehensive income are measured at fair value through profit or loss. The Group does not have such category of financial assets.

2.4.2 Impairment of financial assets

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

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

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

For trade receivables measurement based on lifetime expected credit losses is applied, which uses a lifetime expected loss allowance.

The expected credit losses represent calculation appraisal of the credit losses throughout the expected period of validity of a financial instrument measured on degree of probability of approach of a default.

As the expected credit losses consider the amount and date of disbursement, the credit loss also arises if the Group expects to receive all amounts in full, than it is provided by the contract.

The Group estimates the expected credit losses in this way:

- the impartial and measured based on probability amount determined by the analysis of range of possible results,
- time value of money,
- and the proved and confirmed information on previous events, the current conditions and the predicted future business environment available for reporting date without excessive costs.

2.4.3 Classification of financial liabilities

The Group classifies all financial liabilities as measured subsequently at amortised cost. The Group's financial liabilities include trade and other payables, lease liability and borrowings.

If financial liability is replaced by another liability of the same creditor under significantly other terms, or there are changes in the terms of the existing liability, the exchange or modification are recognized as a write-off initial liability and recognizing of the new liability. The differences in book value are recognised in the consolidated statement of comprehensive income.

2.4.4 Derecognition of financial instruments

The Group derecognises a financial asset when, and only when the contractual rights to the cash flows from the financial asset expire, or when the entity transfers substantially all the risks and rewards of ownership of the financial asset.

The Group derecognises a financial liability when and only when it is repaid, when the contractual obligation is discharged, cancelled or expired.

If the significant financial liability is replaced by another liability of the same creditor under significantly other terms, or there are changes in the terms of the existing liability, the exchange or modification are recognized as a write-off initial liability and recognizing of the new liability. The differences in book value are recognised in the consolidated statement of comprehensive income.

2.5 Property, Plant and Equipment

2.5.1 Recognition and measurement

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation and accumulated impairment (where necessary).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed (built) assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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. The cost includes expenses earmarked and non-earmarked borrowings that are borrowed specifically for qualifying assets.

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.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted as separate items (major components) of property, plant and equipment.

2.5.2 Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs, and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

Where funds are borrowed specifically for qualifying asset, capitalised costs are the actual costs incurred less any income earned on the temporary investment of such borrowings.

Where funds are part of a general pool, including qualifying asset, capitalised costs are calculated at the basis of the average cost of the Group's financing less borrowings, engaged specifically for qualifying asset (weighted average interest costs are applied to expenses on qualifying assets).

In case the calculated amount of capitalised costs exceeds the actual borrowing costs, the actual borrowing costs of the period are capitalised less any income earned on the temporary investment of such borrowings.

2.5.3 Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probability of the future economic benefits for the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the current servicing of property, plant and equipment are recognised in the statement of consolidated comprehensive income as incurred.

2.5.4 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. Depreciation of an asset begins when it is available for use. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Land and assets under construction are not depreciated.

The useful lives of property, plant and equipment were as follows:

Type of facility	
Production buildings	5-80
Machinery and equipment	1-40
Heating networks	5-80
Vehicles and other	1-30

2.6 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. Another words the Group estimates if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies unified approach to recognizing and estimation of all lease agreements excluding short-term leases that expired within twelve months and leases in which the underlying asset has a low cost. Short-term lease payments and payments on lease with a low cost asset are recognized as an expense on a straight-line basis over the lease term.

2.6.1 Right-of-use assets

The Group recognises the right-of-use assets at the commencement date of the lease (the date on which an underlying asset is available for use). The right-of-use assets are initially measured at the present value less any accumulated depreciation and any accumulated impairment losses adjusted for any remeasurement of the lease liability.

The initial cost of right-of-use assets includes the amount of the initial estimate of the lease liability, initial direct costs and rental payments made before or at the commencement date, less any lease incentives received. The right-of-use assets are depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Depreciation of right-of-use-assets is reflected on the line "Depreciation and amortisation" in operating expenses.

The Group presents right-of-use assets in property, plant and equipment.

2.6.2 Lease liability

At the commencement date, the Group recognises the lease liabilities estimated at the present value of the lease payments that should be paid over the lease term. The lease payments comprise fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be payable under residual value guarantees. Variable lease payments that don't depend on an index or a rate are recognized as an expense (less the expenses for inventories production) in the period in which the event or condition that triggers those payments occurs.

The Group discounts the lease payments using incremental borrowing rate at the commencement date because the interest rate implicit in the lease agreement cannot be readily determined. After the commencement date, the Group increases the carrying amount of the lease liability to reflect interest on the lease liability and reduces it to reflect the lease payments made. The Group remeasures the carrying amount of the lease liability to reflect any lease modifications, change in the lease term, change in the lease payments (for example a change in future lease payments resulting from a change in an index or a rate used to determine those payments) or a change in the assessment of an option to purchase the underlying asset. Interest expense on lease are recognised in finance costs.

2.7 Intangible assets

Intangible assets are recognised at cost less accumulated amortization and accumulated impairment losses (where necessary).

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of the software for the current and comparative periods equal to 10 years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them into use.

2.8 Investment property

Investment property is property or construction in progress held or constructed either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially recognised at cost, including transaction costs, and subsequently recognised at actual costs.

2.8 Equity

2.8.1 Share capital

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

2.8.2 Treasury shares

The fair value of consideration paid by the Group's parent Company in exchange on purchase of own shares, that it holds at the reporting date for any purposes, is reflected in the line "Treasury shares" of the statement of financial position. At the same time, the value of own shares is increased by the amount of costs directly attributable to the purchase.

Upon a subsequent sale, the consideration received in case of negative or positive result as well as the cancellation of own repurchased shares, is recognised in equity, taking into account requirements of Russian legislation in respect to own capital.

Until own shares realised the declines of its fair value are not recognised in the financial statements.

2.8.3 Dividends

Dividends are recognised as liabilities and deducted from equity in the period when they are recommended by the Board of Directors and approved at the General Meeting of Shareholders.

2.9 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash-generating unit"). To calculate the recoverable amount in respect of a specific group of assets, the Group uses the fair value method, based on the possibility of alternative use.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in other comprehensive income in profit or loss.

2.10 Inventories

Inventories are recorded at the lower of cost and net realizable value. The actual acquisition cost includes the costs associated with the acquisition of inventory, their production and processing, as well as other costs aimed at bringing the inventory to a state of readiness for use and delivery to the point of use. With regard to stocks of own production and work in progress, the actual cost also includes the corresponding share of overheads, calculated based on the standard production volume with normal utilization of the production capacity of the enterprise. Inventories are written off at a weighted average cost.

Net realizable value is estimated selling price in the ordinary course of business less the estimated costs of completion and costs to sell.

An allowance for inventory obsolescence is created in the amount of potential losses from the write-off of obsolete and low-turnover inventories, taking into account the expected life of such inventory and the future selling price.

2.11 Prepayments

Prepayments are recognized in the consolidated financial statements at cost less allowance for impairment losses. The prepayment is classified as non-current if the expected date of receipt of the goods or services related to it exceeds one year, or if the prepayment relates to an asset that will be accounted for as non-current on initial recognition, and the amount of the prepayment for the acquisition of the asset is included in its carrying the cost when the Group gains control over the asset and it is probable that the future economic benefits associated with flow to the Group.

If there is an indication that assets, goods or services related to the prepayment will not be received, the carrying amount of the prepayment is reduced and the corresponding impairment loss recognized in profit or loss for the reporting period.

Advances paid to construction contractors and suppliers of property, plant and equipment are recorded as property, plant and equipment in the consolidated statement of financial position, net of VAT. VAT on prepayments to construction contractors and suppliers of property, plant and equipment is included in the book value of non-current assets, in the line Accounts receivable and prepayments, if the expected period tax reimbursement exceeds one year. If the period of VAT refund on prepayments does not exceed one year, VAT is recorded in accounts receivable as part of current assets. Other prepayments are set off upon receipt of goods or services related to them. If there is an indication that assets, goods or services related to the prepayment will not be received, the carrying amount of the prepayment is subject to write-down and a corresponding impairment loss is recognized in consolidated statement of comprehensive income.

2.12 Assets held for sale

Non-current assets and disposal groups (which may include non-current and short-term assets) are reported in the consolidated statement of financial position as «Non-current assets held for sale» if their carrying amount is recovered principally through sale (including loss of the control for the subsidiary that owns the assets) within 12 months after the reporting date.

Non-current assets or disposal groups that are classified as held for sale in the consolidated statement of financial position in the reporting period are not reclassified or changed in the comparative data of the consolidated statement of financial position to be consistent with the classification at the end of the reporting period.

A disposal group is a group of assets (current and non-current) to be disposed of, by sale or otherwise, together as a group in single transaction, and liabilities directly related to those assets that will be transferred as a result of that transaction . Goodwill is accounted for a disposal group if the disposal group is 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 received more than 12 months after the reporting date. If it becomes necessary to change the classification, such change is made for both the short-term and long-term part of the asset.

Held-for-sale disposal groups are generally measured at the lesser of the carrying amount and fair value less costs to sell. Property, plant and equipment, investment property and intangible assets held for sale are not depreciated.

Reclassified long-term financial instruments, deferred taxes and investment properties carried at fair value are not subject to write-down to the lower of their carrying amount and fair value less costs to cell. Liabilities directly attributable to the disposal group transferred on disposal are reclassified and presented on a separate line in the consolidated statement of financial position.

2.13 Government grants

Grants are provided by the government of Saint-Petersburg, Leningradskaya and Murmanskaya regions in order to compensate for losses incurred by the Group as a result of the supply of heat to the population at regulated preferential tariffs, and are recognised in profit and loss in the corresponding period under the line «Revenue».

2.14 Provisions

Provisions are recognised in the Group's consolidated statement of financial position when the Group has a legal or constructive obligation as a result of an event occurring before the end of the reporting period, it is a probable that the fulfillment of this obligation will result in a cash outflow and the cost of its implementation can be reliably estimated. The provision is determined by discounting expected cash flows at a pre-tax rate that reflects current market assessments of the impact of changes in the value of money over time and the risks inherent in the liability.

2.15 Revenue

Revenue from contracts with customers is measured at the fair value of the consideration received or receivable. Revenue is recognized when (or as) an entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the acquirer receives the control over the asset. The moment of control transfer varies in depend on the contractual terms.

Revenues from the sale of electricity, capacity and heat are recognised when they are delivered to consumers.

Certain group of population receive government subsidies based on specific conditions (for example, disability, war veteran status, etc.), which are provided in the form of reduction in amount of payment for the heat energy that the Group charges directly to the consumer. The Group receives compensatory payments from the relevant municipal authorities. Revenue in such cases is recognised based on the total amount that will be received from both the customer and government agencies.

Revenue from contracts for services and work is recognised in profit and loss to the extent that it relates to the completed stage of services and work under the contract at the reporting date. The stage of completion is defined as a proportion of contract costs incurred in connection with the completion of services and works completed at the reporting date in the total planned contract cost.

Rental income is recognised on a straight-line basis over the term of the lease in profit or loss.

Revenue from sale of goods other than electricity and heat is recognised on delivery.

The usual terms of settlements with customers imply payment upon delivery.

A receivable is recognised when the amount of consideration that is unconditional (that is, the moment when such consideration becomes payable is conditional only on the passage of time) becomes payable by customer. Accounting policies for financial assets are given in Note 2.4.

2.16 Employee benefit liabilities

2.16.1 Defined benefit pension plan

The Group has a defined benefit pension plan, which is other than a defined contribution plan. A defined benefit plan determines the amount of retirement benefit than an employee will receive upon or after retirement, which usually depends on one or more factors, such as age, length of service and salary level.

The amount recognised as a liability for a defined benefit plan is a present value of the liability at the end of the reporting period, less the fair value of the existing plan assets. A qualified actuary performs the appropriate calculation annually using the projected unit credit method.

The Group's net defined benefit pension plan obligation is calculated by estimating the amount of future benefits employees have acquired for service in the current and prior periods using interest rates on the government bonds denominated in the same currency in which payments will be made and that have maturities that approximate the terms of the related pensions obligations.

Actuarial gains and losses from post-employment benefit plans arising in the reporting period as a result of experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise.

The current service cost, interest expense, past service cost, and the effect of any sequestration or final settlement of the program are recognised in profit or loss.

2.16.2 Other long-term employee benefit liabilities

The Group's net liability for long-term employee benefits other than retirement benefits represents the amount of future benefits than employees have earned in the current and prior reporting periods. These future benefits are discounted to determine their present value with the fair value of any related assets being deducted. The discount rate is the rate of return at the reporting date government bonds with the maturity dates approximating the terms of the Group's liabilities.

Calculations are made using the projected unit credit method. Any actuarial gains or losses on other long-term employee benefit plans are recognized in profit or loss in the reporting period in which they arise.

2.17 Finance income and expense

Finance income comprises interest income on funds invested, dividend income, unwinding of the discount on financial. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance expense comprises interest expense on borrowings, unwinding of the discount on financial obligation, interest expense on lease obligations. All borrowing costs are recognised in profit or loss using the effective interest method except for those which are capitalised.

Gains and losses on exchange differences on operating items are reflected in the operating expenses on net basis, and others – are separately in financial income and expenses.

2.18 Segment reporting

Operating segments are reported in the consolidated financial statements in a manner consistent with the internal reporting provided to the Chief operating decision-maker. The Chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors and Managing Director who makes strategic decisions. Segments with revenues, profits or assets of 10% or more of all segments are reported separately.

2.19 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income.

Current tax is the amount expected to be paid to the tax authorities (recovered from the tax authorities) in respect of taxable profit or loss for the current period, after adjusting the amount of the prior income tax liability.

Deferred income tax is accrued on a balance sheet basis in respect of temporary differences arising between the tax bases assets and liabilities and their carrying amounts in the financial statements.

In accordance with the exemptions for initial recognition, deferred taxes are not recognized for temporary differences arising on initial recognition of an asset or a liability in a transaction other than a business combination, if it does not affect accounting or taxable profit. In addition, deferred tax is not recognized for a taxable temporary differences arising on the initial recognition of goodwill and investments in subsidiaries, associates and joint ventures when it is highly probable that these temporary differences will not be recovered in the foreseeable future.

The carrying amount of deferred tax is calculated using tax rates that are enacted or substantively enacted at the end of reporting period and which are expected to apply to the period when temporary differences reserve or tax losses are carried forward.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

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 profit will be available against which the deductions can be utilized.

2.20 Uncertain tax positions

The Group's uncertain tax positions are reassessed by the Management of the Group at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by the Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any know court or other ruling on such issues. Liabilities for penalties, fines and taxes, except for income tax, are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

2.21 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of debt instrument.

2.22. Earnings per share

The Group presents basic and diluted earnings (loss) per share (EPS) data for its ordinary shares Basic EPS is calculated by dividing the profit (loss) attributable to ordinary shareholders of PJSC TGC-1, by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting profit (loss) attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees. The Group has no potential ordinary shares as at 31 December 2020 and 31 December 2019.

2.23 Application of interpretations and amendments to IFRS's

The following clarifications and amendments to the current IFRSs became effective on 1 January 2020:

- In March 2018 IASB issued new revision of *Conceptual Framework for Financial Reporting*. In particular, it introduces new definitions of assets and liabilities, refines definitions of income and expenses, and clarifies some important concepts.
- In October 2018 IASB issued Amendments to *IFRS 3 Business Combinations*. The changes clarify the definition of a business and simplify the assessment of whether the acquired combination of activities and assets is an asset group or a business after 1 January 2020; early adopting is allowed.
- In October 2018 IASB issued Amendments to *IAS 1 Presentation of Financial Statements* and *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments clarify and bring into line the definition of the term "materiality".
- In September 2019 IASB issued Amendments to *IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures*. The changes affect the interest rate benchmark reform.
- In May 2020 IASB issued Amendments to *IFRS 16 Leases/*. The Amendment is applicable for the year periods beginning 1 June 2020 or after. The amendment determines lease concessions related to COVID-19.

The Group has reviewed these interpretations and amendments to standards while preparing the consolidated financial statements. The clarifications and amendments to standards did not have a significant impact on the Group's consolidated financial statements.

2.24 Changes to existing Standards that are not yet effective and have not been early adopted by the Group

A number of amendments to the standards are effective for the annual periods beginning on or after 1 January 2021. In particular, the Group has not early apply the following changes to the standards:

- Amendments to *IAS 1 Presentation of Financial Statements* (issued in January 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments specify the requirements for classifying liabilities as current or non-current.
- Amendments to *IFRS 9 Financial Instruments* (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of original financial liability.
- Amendments to *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendments clarify what costs are included in the estimate of the costs of fulfilling contract obligations in order to identify it as onerous.
- Amendments to *IAS 16 Property, Plant and Equipment* (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment prohibits entities deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced during the period when the asset was prepared for its intended use. Instead, such sales and related costs are recognised in profit or loss.
- Amendments to *IFRS 1 First-time Adoption of International Financial Reporting Standards* (issued in the framework of annual improvements in IFRSs for 2018-2020 and effective for annual periods beginning on or after 1 January 2022) simplify the adoption of IFRS 1 for subsidiary after parent company, regarding determination of accumulated exchange differences.
- Amendments to *IFRS 3 Business Combinations* (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022) update a reference to the *Conceptual Framework for Financial Reporting* issued in 2018 to define what constitutes an asset or liability in business combination, and add a new exemption for liabilities and contingent liabilities.

The Group is currently assessing how these changes will affect its financial position and results of operations.

Note 3. Critical Judgements and Estimates

In the preparation of consolidated financial statements the management uses a number of estimates and assumptions that may affect the measurement of assets and liabilities, as well as the information in the notes to these consolidated financial statements. Management also make certain judgments in applying accounting policies. Such estimates and judgments are constantly reviewed, based on historical data and other information, including forecasts and expectations regarding future events, which appear to be reasonable under the given circumstances. Actual results may differ from these estimates and management may revise their estimates in the future, either positively or negatively, depending on the effect they have, taking into account the facts surrounding each estimate.

The following are assumptions that could have the most significant effect on the amounts reported in the consolidated financial statements, as well as estimates that could lead to significant changes in the carrying amounts of assets and liabilities within the next financial year.

Impairment of property, plant and equipment. At each reporting date the Group's management assesses whether there is any indication of impairment of property, plant and equipment.

Forecasting cash flows when testing for possible impairment requires the use of a number of significant assumptions and estimates in relation to indicators such as sales of electricity and capacity, prices for electricity and heat energy and capacity, capital expenditures, as well as macroeconomic indicators such as inflation and the discount rate. In addition, assumptions are applied in identifying the cash generating units that are tested for impairment.

The effects of these assumptions are presented in Note 6.

Useful lives of property, plant and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of professional judgement by management based on experience with similar assets. In determining the useful lives of assets, management takes into account the following factors: the nature of expected use, assessment of technological obsolescence, physical wear and tear and the operating environmental of the assets. Changes to each of these conditions an estimates may result in an adjustment to future depreciation rates.

The useful lives of items of property, plant and equipment are presented in Note 2.

Allowance for expected credit losses on financial assets. The allowance for expected credit losses on financial assets is based on management's estimates of expected credit losses based on the entire life of the receivables and other financial assets. If there is a significant decrease in the solvency of a large consumer on the scale of actual non-payment exceeds the forecast, then actual results may differ from the estimates.

The effects of these assumptions are presented in Note 24.

Employee benefit liabilities. The Group uses an actuarial valuation technique to measure the present value of post-employment benefit obligations and the associated current service cost of employees. This measurement uses demographic assumptions about the future characteristics of current service and former employees eligible for benefits, as well as financial assumptions. The effect of significant accounting estimates used is presented in Note 17.

Measurement of the fair value of assets and liabilities.

A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. It determining the fair value of assets and liabilities, the Group makes maximum use of observable inputs. Fair value results are allocated to levels of the fair value hierarchy depending on the inputs used in the measurement.

The classification of financial instruments to a particular fair value level is described in Note 2.4.

Note 4. Segment information

The Board of Directors and Managing Director is the Chief operating decision-maker (here in after "Management"). The decision-maker reviews the Group's internal management report in order to assess performance of the Group and allocate resources.

The technology of electricity and heat production does not allow segregation of electricity and heat segments. The Company's branches and subsidiares are managed separately due to significant decentralization and separate location, as a result the Group discloses six primary reportable segments: TPP of Nevsky branch, HPS of Nevsky branch, Heating Grid, Kolsky branch, Karelsky branch, Murmanskaya TPP.

All reportable segments are located within the Russian Federation.

In the process of evaluation of segments, results and allocation of economic resources of the Group the Management uses financial information provided below prepared in accordance with RAR. The differences between the above-mentioned financial indicators analysed by the Management and IFRS financial information are caused by different approaches applied in IFRS and RAR. The main differences relate to the respective carrying values of property, plant and equipment. The Group does not have inter-segment revenue.

Considering that the management responsible for decision-making does not review assets and liabilities by each reportable segment not least because of the lack of technical capabilities to present such information, the Group does not disclose assets and liabilities by segments.

(in millions of Russian Roubles)

4.1 Financial results of segments

The segment information for the year ended 31 December 2020 and 31 December 2019 is as follows:

Year ended 31 December 2020	**TPP of Nevsky branch**	**HPS of Nevsky branch**	**Heating Grid**	**Kolsky branch**	**Karelsky branch**	**Murman-skaya TPP**	**Unallocated segments**	**Total segments**	**Eliminations**	**Adjustments**	**Total**
Revenue:	60 879	4 580	9 814	10 822	7 824	5 693	52	**99 664**	(11 174)	399	**88 889**
including export	-	327	-	401	-	-	-	**728**	-	-	**728**
Depreciation of property, plant, equipment	5 435	549	2 591	788	540	109	29	**10 041**	-	699	**10 740**
Reportable segment profit	3 427	2 563	1 100	2 932	1 041	1 183	7	**12 253**	-	(1 429)	**10 824**

Year ended 31 December 2019	**TPP of Nevsky branch**	**HPS of Nevsky branch**	**Heating Grid**	**Kolsky branch**	**Karelsky branch**	**Murman-skaya TPP**	**Unallocated segments**	**Total segments**	**Eliminations**	**Adjustments**	**Total**
Revenue:	66 168	4 969	9 864	11 681	7 917	7 918	101	**108 618**	(11 275)	(87)	**97 256**
including export	-	889	-	855	-	-	-	**1 744**	-	-	**1 744**
Depreciation of property, plant, equipment	5 945	488	2 501	727	550	96	21	**10 328**	-	(296)	**10 032**
Reportable segment profit	4 772	2 623	1 404	3 384	1 052	1 673	19	**14 927**	2	(2 780)	**12 149**

(in millions of Russian Roubles)

Reconciliation of the segment result to operating profit in the consolidated statement of comprehensive income for the year ended 31 December 2020 and 31 December 2019 is provided as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Revenue reclassification adjustments	399	(87)
Depreciation adjustment	(699)	(296)
Impairment loss on financial assets (recognised)/reversed	(1 152)	492
Discounting effect	2 291	2 695
Impairment loss on non-financial assets recognised	(1 267)	(5 169)
Other adjustments	(1 001)	(415)
	(1 828)	**(2 693)**
Total adjustments to operating profit	**(1 429)**	**(2 780)**

4.2 Key customers

The revenue presented in segment revenue includes revenue, received from two customers with the revenue exceeding 10% of the Group`s revenue for the year ended 31 December 2020 and amounting to RUB 11 563 million (for the year ended 31 December 2019 the total revenue of two customers exceeded 10% of the Group`s revenue amounted to RUB 10 910 million and RUB).

Note 5. Related Parties

In the consolidated financial statements, a related party is a person or entity that has control or significant influence over the other party in financial and operational decisions as determined in IAS 24 "Related parties".

Transactions with related parties have been made mostly on the same terms and conditions as similar operations with the parties external to the Group. Prices for natural gas and capacity are based on tariffs set by FAS and also based on competitive take-off on the wholesale electricity (capacity) market rates. Loans and borrowings are received at market rates. Bank deposits are invested at market rates.

PJSC Gazprom is the ultimate parent company of the Group. The Russian Federation is the ultimate controlling party of the Group.

(a) Gazprom Group and its associates

As at and for the year, ended 31 December 2020 and 31 December 2019 the Group's significant transactions and outstanding balances with Gazprom Group and its associates are detailed below:

Revenue

	Year ended 31 December 2020	Year ended 31 December 2019
Electricity and capacity	703	856
Heating	348	380
Other sales	26	26
Total	**1 077**	**1 262**

(in millions of Russian Roubles)

Operating expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Fuel	26 921	30 210
Repairs, maintenance and service	606	293
Electricity and capacity purchases	55	90
Security and fire safety	26	123
Other operating expenses	1 296	1 455
Total	**28 904**	**32 171**

Finance Income and Finance Costs

	Year ended 31 December 2020	Year ended 31 December 2019
Finance income		
Interest income on loans issued	305	12
Interest income on bank deposits and current bank accounts balances	2	18
Total finance income	**307**	**30**
Finance costs		
Interest expense on lease	(443)	(488)
Interest expense on loans and borrowings	(51)	(189)
Total finance costs	**(494)**	**(677)**

Balances

	31 December 2020	31 December 2019
Short-term financial assets	14 814	10 006
Long-term trade and other receivables and prepayments	955	843
Short-term trade and other receivables and prepayments	593	215
Cash and cash equivalents	43	240
Total assets	**16 405**	**11 304**
Short-term trade and other payables	6 185	3 766
Long-term lease liabilities	3 722	5 834
Short-term lease liabilities	2 248	2 176
Short-term borrowings and loans	1 247	1 248
Long-term trade and other payables	350	165
Total liabilities	**13 752**	**13 189**

In 2020 the dividends declared and paid to the parent Company amounted to RUB 2 069 million (In 2019 - RUB 1 287 million).

Purchase of non-current and current assets

	Year ended 31 December 2020	Year ended 31 December 2019
Purchases of property, plant and equipment	(10 957)	(10 238)
Purchases of materials and other assets	(1 068)	(186)
Итого	**(12 025)**	**(10 424)**

(in millions of Russian Roubles)

(b) Transactions with other State-controlled entities

Information below excludes transactions and outstanding balances with Gazprom Group and its associates as disclosed in Note 5 (a).

The Group had the following significant transactions with state-controlled entities as at and for the year ended 31 December 2020 and 31 December 2019:

Revenue

	Year ended 31 December 2020	Year ended 31 December 2019
Heating	19 103	21 809
Electricity and capacity	10 689	10 812
Other sales	120	30
Total	**29 912**	**32 651**

Operating expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Water usage	3 108	3 153
Fees of electricity market operators	894	858
Purchased electricity and capacity	874	343
Security and fire safety	759	506
Heat transfer	310	615
Purchased heat energy	47	-
Other operating expenses	667	140
Total	**6 659**	**5 615**

Finance Income and Finance Costs

	Year ended 31 December 2020	Year ended 31 December 2019
Finance income		
Interest income on cash deposit and cash in bank	1	9
Total finance income	**1**	**9**
Finance costs		
Interest expense on loans and borrowings	(145)	(199)
Interest expense on lease	(134)	(136)
Total finance costs	**(279)**	**(335)**

(in millions of Russian Roubles)

Balances

	31 December 2020	31 December 2019
Short-term trade and other receivables and prepayments	8 441	9 927
Cash and cash equivalents	972	589
Long-term trade and other receivables and prepayments	857	1 386
Provision for expected credit losses on long-term receivables	(498)	(757)
Provision for expected credit losses on short-term receivables	(4 172)	(4 496)
Total assets	**5 600**	**6 649**
Long-term borrowings	7 500	-
Short-term borrowings	4 463	8 865
Short-term trade and other payables	1 244	1 239
Long-term lease liabilities	1 213	1 126
Long-term trade and other payables	93	115
Short-term lease liabilities	32	71
Total liabilities	**14 545**	**11 416**

Purchase of non-current and current assets

	Year ended 31 December 2020	Year ended 31 December 2019
Purchases of materials and other assets	2 504	3 865
Purchases of property, plant and equipment	165	127
including capitalized borrowing costs from related parties	*23*	*22*
Total	**2 669**	**3 992**

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, presented below:

Revenue and operating expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Sales of electricity and capacity	24 744	28 981
Purchases of electricity and capacity	(4 379)	(5 472)
Total	**20 365**	**23 509**

Balances

	31 December 2020	31 December 2019
Trade and other receivables and advances	1 175	1 036
Provision for expected credit losses on receivables	(3)	(10)
Total assets	**1 172**	**1 026**
Trade and other payables	237	270
Total liabilities	**237**	**270**

(in millions of Russian Roubles)

(c) 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 the Group's associates (LLC TGC Service and JSC Hibinskaya Heating Company).

Revenue

	Year ended 31 December 2020	Year ended 31 December 2019
Electricity and capacity	327	889
Heating	73	85
Other sales	3	6
Total	**403**	**980**

Operating expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Repairs, maintenance and service	1 216	1 617
Heat transfer	555	665
Other operating expenses	20	18
Total	**1 791**	**2 300**

Balances

	31 December 2020	31 December 2019
Short-term trade and other receivables and prepayments	138	28
Total assets	**138**	**28**
Short-term trade and other payables	706	887
Total liabilities	**706**	**887**

In 2020 the dividends declared and paid to other related parties amounted to RUB 1 177 million (In 2019 - RUB 732 million)

Purchase of non-current and current assets

	Year ended 31 December 2020	Year ended 31 December 2019
Purchases of property, plant and equipment	(717)	(722)
Purchases of materials and other assets	(7)	(18)
Total	**(724)**	**(740)**

(d) Transactions with the key management personnel

Short-term compensation for services of key management personnel includes compensation to the members of the Board of Directors for their services at the management positions and participation in the meetings of the Board of Directors and comprised of a monthly salary, bonuses, taxes charge and other obligatory payments to relevant budgets, medical insurance costs.

(in millions of Russian Roubles)

	Year ended 31 December 2020	Year ended 31 December 2019
Salaries and bonuses	81	146
Benefits to the Board of Directors	28	17
Social taxes and contributions	21	30
Termination benefits	-	15
Total	**130**	**208**

As at 31 December 2020 and 31 December 2019 the payables to key management amounted to RUB 1 million and RUB 2 million respecrtively.

Remuneration to managing organisation LLC Gazprom energoholding for the year ended 31 December 2020 and 31December 2019 was in the amount of RUB 101 million and RUB 0 million respectively.

(e) Amount of outstanding contractual commitments for the construction of property, plant and equipment

	31 December 2020	31 December 2019
Gazprom group and its associates	11 103	11 039
Other related parties	864	838
Other state-controlled entities	96	84
Total	**12 063**	**11 961**

(in millions of Russian Roubles)

Note 6. Property, Plant and Equipment

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

	Right-of-use assets	Heating networks	Buildings and constructions	Machinery and equipment	Vehicles and other assets	Construction in progress	Total
Cost							
Balance as at 1 January 2019	**-**	**56 193**	**45 659**	**74 314**	**43 537**	**15 225**	**234 928**
Initial recognition as at 1 January 2019	11 165	-	-	-	-	-	11 165
Additions	624	266	-	-	205	14 098	15 193
Disposals	-	(2 931)	(21)	(62)	(110)	(127)	(3 251)
Effect of lease agreements modifications	(417)	-	-	-	-	-	(417)
Transfers	-	2 158	640	1 456	4 592	(8 846)	-
Transfer from (to) other accounts	-	-	-	-	37	-	37
Balance as at 31 December 2019	**11 372**	**55 686**	**46 278**	**75 708**	**48 261**	**20 350**	**257 655**
Balance as at 1 January 2020	**11 372**	**55 686**	**46 278**	**75 708**	**48 261**	**20 350**	**257 655**
Additions	161	175	-	-	247	14 417	15 000
Disposals	(41)	(303)	(5)	(56)	(186)	(55)	(646)
Effect of lease agreements modifications	(413)	-	-	-	-	-	(413)
Transfers	-	3 692	1 221	2 184	3 597	(10 694)	-
Transfer from (to) other accounts	-	-	146	157	1	-	304
Balance as at 31 December 2020	**11 079**	**59 250**	**47 640**	**77 993**	**51 920**	**24 018**	**271 900**
Accumulated depreciation and impairment							
Balance as at 1 January 2019	**-**	**(26 790)**	**(19 027)**	**(30 557)**	**(20 203)**	**(7)**	**(96 584)**
Charge for the period	(1 409)	(1 719)	(746)	(2 791)	(3 367)	-	(10 032)
Disposals	-	2 586	8	29	68	-	2 691
Transfer from (to) other accounts	-	-	-	-	(2)	-	(2)
Impairment loss recognised	(76)	(4 024)	(138)	(91)	(125)	(667)	(5 121)
Balance as at 31 December 2019	**(1 485)**	**(29 947)**	**(19 903)**	**(33 410)**	**(23 629)**	**(674)**	**(109 048)**
Balance as at 1 January 2020	**(1 485)**	**(29 947)**	**(19 903)**	**(33 410)**	**(23 629)**	**(674)**	**(109 048)**
Charge for the period	(1 420)	(1 529)	(819)	(2 979)	(3 993)	-	(10 740)
Disposals	11	251	3	55	172	6	498
Transfer from (to) other accounts	-	-	(146)	(122)	45	-	(223)
Impairment loss recognised	(15)	(942)	(33)	(19)	(32)	(211)	(1 252)
Impairment loss transferred from construction in progress in property, plant and equipment	-	(255)	(19)	(1)	(7)	282	-
Balance as at 31 December 2020	**(2 909)**	**(32 422)**	**(20 917)**	**(36 476)**	**(27 444)**	**(597)**	**(120 765)**

(in millions of Russian Roubles)

Net book value							
Balance as at 1 January 2019	11 165	29 403	26 632	43 757	23 334	15 218	149 509
Balance as at 31 December 2019	9 887	25 739	26 375	42 298	24 632	19 676	148 607
Balance as at 1 January 2020	9 887	25 739	26 375	42 298	24 632	19 676	148 607
Balance as at 31 December 2020	8 170	26 828	26 723	41 517	24 476	23 421	151 135

(in millions of Russian Roubles)

For the year ended 31 December 2020 the Group capitalised borrowing costs attributable to acquisition and construction of assets in the amount of RUB 106 million (for the year ended 31 December 2019: RUB 151 million) with an average capitalisation rate of 5.89% (for the year ended 31 December 2019: 7.25%).

The "Vehicles and other" group includes land plots, motor vehicles, computer equipment, office fixtures and other equipment.

There were no property, plant and equipment pledged as collateral according to loan agreements.

Right-of-use assets

	Buildings and constructions	Machinery and equipment	Vehicles and other assets	Total
Cost				
Balance as at 1 January 2019	-	-	-	-
Initial recognition as at 1 January 2019	1 064	8 993	1 108	11 165
Additions as a result of new leases	398	19	207	624
Effect of leases modification and estimates changes	(30)	(11)	(64)	(105)
Early derecognition lease agreements	(105)	-	(207)	(312)
Balance as at 31 December 2019	**1 327**	**9 001**	**1 044**	**11 372**
Balance as at 1 January 2020	**1 327**	**9 001**	**1 044**	**11 372**
Additions as a result of new leases	159	-	2	161
Effect of leases modification and estimates changes	63	(578)	102	(413)
Early derecognition lease agreements	(36)	-	(5)	(41)
Balance as at 31 December 2020	**1 513**	**8 423**	**1 143**	**11 079**
Accumulated depreciation and impairment				
Balance as at 1 January 2019	-	-	-	-
Charge for the year	(226)	(1 130)	(53)	(1 409)
Impairment loss recognised	(51)	-	(25)	(76)
Balance as at 31 December 2019	**(277)**	**(1 130)**	**(78)**	**(1 485)**
Balance as at 1 January 2020	**(277)**	**(1 130)**	**(78)**	**(1 485)**
Charge for the year	(245)	(1 126)	(49)	(1 420)
Impairment loss recognised	(10)	-	(5)	(15)
Early derecognition lease agreements	11	-	-	11
Balance as at 31 December 2020	**(521)**	**(2 256)**	**(132)**	**(2 909)**
Net book value	-	-	-	-
Balance as at 1 January 2019	-	-	-	-
Balance as at 31 December 2019	**1 050**	**7 871**	**966**	**9 887**
Balance as at 1 January 2020	**1 050**	**7 871**	**966**	**9 887**
Balance as at 31 December 2020	**992**	**6 167**	**1 011**	**8 170**

Total cash outflow for leases for the year ended 31 December 2020 was RUB 2 289 million, including interest paid on lease liabilities RUB 613 million and RUB 1 676 million for repayment of lease liability (the year ended 31 December 2019: RUB 724 million and RUB 1 843 million respectively).

(in millions of Russian Roubles)

Impairment

As at 31 December 2020 the Group conducted the impairment test at the level of cash-generating units. The cash-generating units correspond with reportable segments to which the assets belong to: 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 Murmanskaya TPP (Note 4).

As a result of the impairment test impairment loss was recognised for St Petersburg Heating Grid in the amount of RUB 1 266 million (for the year ended 31 December 2019: in the amount of RUB 5 169 million).

The recoverable amount of the groups, generating cash flows, was determined as value in use. The value in use was determined using discounted cash-flows method.

As at 31 December 2020 the pre-tax discount rate amounted 12% for St Petersburg Heating Grid and 11% for other cash-generating units.

Note 7 Intangible assets

	Software	Other intangible assets	Total
Cost			
As at 1 January 2019	**2 407**	**267**	**2 674**
Additions	1 046	160	1 206
Disposals	(182)	-	(182)
As at 31 December 2019	**3 271**	**427**	**3 698**
As at 1 January 2020	**3 271**	**427**	**3 698**
Additions	1 126	57	1 183
Disposals	(56)	(4)	(60)
As at 31 December 2020	**4 341**	**480**	**4 821**
Accumulated depreciation and impairment			
As at 1 January 2019	(358)	(58)	(416)
Charge	(280)	(23)	(303)
Disposals	177	-	177
Impairment loss recognised	(25)	(23)	(48)
As at 31 December 2019	**(486)**	**(104)**	**(590)**
As at 1 January 2020	**(486)**	**(104)**	**(590)**
Charge	(331)	(27)	(358)
Impairment loss recognised	(9)	(5)	(14)
As at 31 December 2020	**(826)**	**(136)**	**(962)**
Net book value			
As at 1 January 2019	**2 049**	**209**	**2 258**
As at 31 December 2019	**2 785**	**323**	**3 108**
As at 1 January 2020	**2 785**	**323**	**3 108**
As at 31 December 2020	**3 515**	**344**	**3 859**

(in millions of Russian Roubles)

Note 8 Trade and other receivables

	31 December 2020	31 December 2019
Short-term receivables		
Trade receivables	12 331	12 570
Other receivables	137	261
Total financial receivables	**12 468**	**12 831**
Advances to suppliers and prepaid expenses	1 320	709
VAT recoverable	138	94
Tax prepayments other than income tax	131	81
Total non-financial receivables	**1 589**	**884**
Total short-term receivables and prepayments	**14 057**	**13 715**
Long-term receivables		
Trade receivables	678	825
Other receivables	19	17
Total financial receivables	**697**	**842**
Advances to suppliers and prepaid expenses	694	603
Total non-financial receivables	**694**	**603**
Total long-term receivables and prepayments	**1 391**	**1 445**

As at 31 December 2020 short-term trade receivables is presented net of allowance for expected credit losses in the amount of RUB 8 638 million, long-term trade receivables is presented net of allowance for expected credit losses in the amount of RUB 657 million (as at 31 December 2019: RUB 9 066 million and RUB 764 million respectively).

As at 31 December 2020 other receivables is presented net of allowance for expected credit losses in the amount of RUB 133 million (as at 31 December 2019: RUB 108 million).

The Group's exposure to credit and foreign exchange risks in relation to trade and other receivables is disclosed in Note 24.

Note 9 Financial assets

	31 December 2020	31 December 2019
Loans issued (including %)	14 817	10 010
Total short-term financial assets	**14 817**	**10 010**

As at 31 December 2020 loans issued thousand are mainly presented by the loan issued PJSC Gazprom in the amount of RUB 14 814 million with the interest rate from 4.36 to 4.90%. (as at 31 December 2019: RUB 10 006 million with the interest rate from 6.52 to 6.58%).

The provision for impairment of financial assets was RUB 30 million as at 31 December 2020 and as at 31 December 2019.

The Group's exposure to credit risk and interest rate risk in relation to financial assets is disclosed in Note 24.

(in millions of Russian Roubles)

Note 10 Investments in Associates

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

			Investment as at 31 December		Ownership interest as at 31 December	
		Type of activity	2020	2019	2020	2019
LLC TGC Service	Associate	repairing, maintenance and diagnostics of the capital and service equipment of the power enterprises	-	-	26%	26%
JSC HHC	Associate	production, transportation and sales of heat energy	436	421	50%	50%
Total			**436**	**421**	-	-

As at 31 December 2020 and 31 December 2019 the ownership interest in JSC HHC was 50%. Management of the Group supposes 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.

Change in value of an investment in an associate is presented below:

	LLC TGC Service	JSC HHC	Total
Year ended 31 December 2020			
Balance as at 1 January	-	421	**421**
Share of profit of associates	-	15	**15**
Balance as at 31 December	-	**436**	**436**

	LLC TGC Service	JSC HHC	Total
Year ended 31 December 2019			
Balance as at 1 January	10	400	**410**
Share of profit of associates	-	21	**21**
Impairment of investment in associate	(10)	-	**(10)**
Balance as at 31 December	-	**421**	**421**

(in millions of Russian Roubles)

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:

31 December 2020

	Country of incorporation	**Assets**	**Liabilities**	**Revenue**	**Profit**	**% interest held**
LLC TGC Service	Russian Federation	1 683	2 037	2 741	45	26%
JSC HHC	Russian Federation	1 268	395	602	25	50%
Total		**2 951**	**2 432**	**3 343**	**70**	**-**

31 December 2019

	Country of incorporation	**Assets**	**Liabilities**	**Revenue**	**Profit/(loss)**	**% interest held**
LLC TGC Service	Russian Federation	2 048	2 492	3 110	(502)	26%
JSC HHC	Russian Federation	1 640	798	709	74	50%
Total		**3 688**	**3 290**	**3 819**	**(428)**	**-**

Note 11 Inventories

	31 December 2020	**31 December 2019**
Fuel	2 644	2 879
Raw materials and other supplies	761	561
Spare parts	319	169
Other inventories	4	4
Total inventories	**3 728**	**3 613**

The Group's inventories are not pledged as at 31 December 2020 and as at 31 December 2019.

As at 31 December 2020 the provision for impairment of the inventories was RUB 29 million (as at 31 December 2019: RUB 0 million).

Note 12 Cash and cash equivalents

	31 December 2020	**31 December 2019**
Cash in bank and in hand	1 036	881
Total cash and cash equivalents	**1 036**	**881**

As at 31 December 2020 cash and cash equivalents comprise restricted cash in the amount of RUB 966 million, provided for JSC St Petersburg Heating Grid as a budget funding of investment program (as at 31 December 2019: RUB 587 million).

(in millions of Russian Roubles)

Note 13 Equity

Share capital and share premium

As at 31 December 2020 and as at 31 December 2019 total number of issued ordinary registered shares is 3 854 341 416 571 shares with nominal value of one share of RUB 0.01. All issued ordinary shares are fully paid.

Share premium in the amount of RUB 22 914 million represents the excess of cash received from the issue of share capital over its par value.

Dividends

On 22 June 2020 the Annual General Shareholders' Meeting of the PJSC TGC-1 made the decision to pay dividends for the results of Group's activity for 2019. The amount of declared dividends on the issuer shares was RUB 0.001036523 per share, total amount of dividends is RUB 3 995 million.

On 11 June 2019 the Annual General Shareholders' Meeting of the PJSC TGC-1 made the decision to pay dividends for the results of Group's activity for 2018. The amount of declared dividends on the issuer shares was RUB 0.000644605 per share, total amount of dividends is RUB 2 485 million

Note 14 Borrowings

	31 December 2020	31 December 2019
Long-term borrowings		
Bank borrowings	7 500	-
Bonds	2 000	4 000
Total long-term borrowings	**9 500**	**4 000**
Short-term borrowings		
Current portion of long-term bank borrowings	-	3 098
Bank borrowings	5 710	10 113
Current portion of long-term bonds	2 037	47
Total short-term borrowings	**7 747**	**13 258**

The terms and conditions of outstanding liabilities at the reporting date are as follows:

	Currency	Contractual interest rate	Maturity	31 December 2020	31 December 2019
Bank borrowings					
PJSC Sberbank RF	RUB	5.3-5.47%	2021-2022	8 863	8 865
Bank Rossiya	RUB	6.25%	2020	-	3 098
Gazprombank JSC	RUB	6.80%	2021	1 246	1 248
PJSC Sberbank RF	RUB	5.40%	2021	3 100	-
Bonds					
Bonds 04	RUB	CPI+1.5%	2020-2022	2 034	2 043
Bonds 03	RUB	CPI+1.5%	2020-2021	2 004	2 004
Total				**17 247**	**17 258**

As at 31 December 2020 and 31 December 2019 the Group is required to comply with certain covenants related to borrowings.

The Group's exposure to liquidity risk related to borrowings is disclosed in Note 24.

(in millions of Russian Roubles)

Note 15 Trade and other payables

	31 December 2020	31 December 2019
Short-term payables		
Short-term payables for purchase of property, plant and equipment	5 258	3 602
Trade payables	5 161	4 912
Other payables	232	256
Total financial payables	**10 651**	**8 770**
Contractual liablities	1 591	1 924
Other payables	655	554
Total non-financial payables	**2 246**	**2 478**
Total short-term payables and other liabilities	**12 897**	**11 248**
Long-term payables		
Trade payables	444	290
Total financial payables	**444**	**290**
Total long-term payables and other liabilities	**444**	**290**

Information about the Group's exposure to foreign exchange and liquidity risk in terms of trade and other financial payables is disclosed in Note 24.

Note 16 Other taxes payable

	31 December 2020	31 December 2019
VAT payable	899	315
Property tax	292	329
Employee taxes	282	248
Other taxes	84	94
Total	**1 557**	**986**

Note 17 Employee benefit liabilities

The Group applies a post-employment and other benefit system, which is accounted for in the consolidated financial statements as a defined benefit plan in accordance with IAS 19 Employee Benefits. Pension benefits are provided to most of the Group's employees. The corporate pension plan provides for old age and disability pensions. Pension benefits include payments made to non-state pension funds and payments made by the Group in connection with the retirement of employees when they reach retirement age.

Additionally the Company provides financial support payments of a defined benefit nature to its former employees, who have reached the retirement age, provides benefits in case of death, retirement of employees and jubilee benefits. Such benefits are paid either to those who qualify for the occupational pension plan and those who do not.

In addition, the Group provides financial support in the form of defined payments to former employees, both eligible and not eligible for an old-age or disability pension from the company.

Due to the post-employment program the Company pays contributions to non-state pension funds (NPF), which are accumulated on pension accounts, which were opened under NPF contracts. In accordance with the terms of the treaty there is a possibility to abrogate a contract and receive the redemption amount of the depositor. In that way NPF funds do not meet the plan assets criteria. So they are recognised as a separate asset of the Group.

(in millions of Russian Roubles)

	31 December 2020	31 December 2019
Post employment benefits	1 034	1 025
Other long-term benefits	132	134
Total	**1 166**	**1 159**

a) Changes in net present value of employee benefit liabilities

	Change in net present value of defined benefit liabilities	Change in net present value of other long-term employee benefit liabilities	Change in net present value of employee benefit liabilities
At 1 January 2020	**1 025**	**134**	**1 159**
Current service cost	36	10	46
Interest expense	63	8	71
Remeasurements:			
Actuarial losses - changes in demographic assumptions	26	1	27
Actuarial losses - changes in financial assumptions	(12)	-	(12)
Experience gains	(47)	(7)	(54)
Benefits paid	(57)	(14)	(71)
At 31 December 2020	**1 034**	**132**	**1 166**

	Change in net present value of defined benefit liabilities	Change in net present value of other long-term employee benefit liabilities	Change in net present value of employee benefit liabilities
At 1 January 2019	**785**	**110**	**895**
Current service cost	23	8	31
Interest expense	64	9	73
Remeasurements:			
Actuarial losses - changes in financial assumptions	233	21	254
Experience gains	(22)	(3)	(25)
Benefits paid	(58)	(11)	(69)
At 31 December 2019	**1 025**	**134**	**1 159**

b) Expenses recognised in profit or loss

	Year ended 31 December 2020	Year ended 31 December 2019
Service cost	47	31
Interest expense	71	73
Remeasurements on present value of other long-term employee benefit obligation	(6)	18
Total	**112**	**122**

(in millions of Russian Roubles)

c) Expenses recognised in other comprehensive income

	Year ended 31 December 2020	Year ended 31 December 2019
Loss from change in demographic assumptions	26	-
(Gain)/loss from change in financial assumptions	(12)	233
Experience gains	(47)	(22)
Total	**(33)**	**211**

d) The actuarial assumptions

The key actuarial assumptions for valuation dates:

	Year ended 31 December 2020	Year ended 31 December 2019
Discount rate	6,6%	6,5%
Future financial support benefits increases	4,0%	4,0%
Social fund contribution rate	30.1%	28.7%
Personnel rotation	Curve in depend on service	Curve in depend on service
Mortality	North-west region mortality table 2019 adjustment coeff.=0.5	North-west region mortality table 2016 adjustment coeff.=0.5

Financial actuarial assumptions are based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The average period over which the Group obligations are to be settled is 14 years.

The sensitivity of the defined benefit obligation to changes in the key actuarial assumptions is:

	Change in assumption	Impact on defined benefit liability 31 December 2020	Impact on defined benefit liability 31 December 2019
Discount rate	Increase/decrease by 1%	Decrease/increase by 12,7%	Decrease/increase by 12,7%
Future financial support benefits increases	Increase/decrease by 1%	Increase/decrease by 13%	Increase/decrease by 13%
Personnel rotation	Increase/decrease by 10,00%	Decrease/increase by 0,8%	Decrease/increase by 0,8%
Mortality	Increase/decrease by 10,00%	Decrease/increase by 2,4%	Decrease/increase by 2,5%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

(in millions of Russian Roubles)

Note 18 Income tax

The Group's companies applied the following tax rates in 2020: PJSC "TGC-1" - 17.38%, JSC "Murmanskaya TPP" - 20%, JSC "St Petersburg Heating Grid" - 17.59% (2019: PJSC "TGC-1" – 17.25%, JSC "Murmanskaya TPP" - 20%, JSC "St Petersburg Heating Grid" - 17.59%).

Income tax expense comprises the following:

	Year ended 31 December 2020	Year ended 31 December 2019
Current income tax expense		
Current income tax charge	(1 932)	(2 598)
Charge of income tax for prior periods	19	22
Deffered income tax expense	-	-
Temporary differences recognised and reversed	(6)	352
Effect of change in income tax rate	(63)	(125)
Income tax expense	**(1 982)**	**(2 349)**

Profit before tax recognised in the consolidated financial statements is related to income tax as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Profit before tax	**10 235**	**10 339**
Theoretical tax charge calculated at applicable tax rate of 20%	(2 047)	(2 068)
Non-deductable / non-taxable differences	(224)	(478)
Effect of change in income tax rate	(63)	(125)
Charge of income tax for prior periods	19	22
Effect of tax benefit	333	300
Income tax expense	**(1 982)**	**(2 349)**

Tax effect of items in other comprehensive income

	Year ended 31 December 2020			Year ended 31 December 2019		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Remeasurement of post-employment benefit obligation (Note 17)	33	(6)	27	(211)	36	(175)
Total	**33**	**(6)**	**27**	**(211)**	**36**	**(175)**

(in millions of Russian Roubles)

Deferred income tax

Recognised deferred income tax assets and liabilities:

Change in deferred income tax for the year ended 31 December 2020:

	Assets		**Liabilities**		**Net**	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**
Property, plant and equipment	(75)	(72)	(12 208)	(12 505)	(12 283)	(12 577)
Intangible assets	-	-	14	12	14	12
Trade and other receivables	188	359	448	409	636	768
Trade and other payables	8	8	45	41	53	49
Lease liabilities	4	6	1 288	1 522	1 292	1 528
Employee benefit liabilities	15	15	188	187	203	202
Other	-	-	(3)	6	(3)	6
Total	**140**	**316**	**(10 228)**	**(10 328)**	**(10 088)**	**(10 012)**

Tax effects of taxable and deductible temporary differences for the year ended 31 December 2020 and the year ended 31 December 2019 are as follows:

	1 January	**Recognised in profit or losses**	**Recognised in other comprehensive income**	**Effect of initial applying**	**31 December**
Year ended 31 December 2020					
Property, plant and equipment	(12 577)	294	-	-	(12 283)
Investment property	-	-	-	-	-
Intangible assets	12	2	-	-	14
Trade and other receivables	768	(132)	-	-	636
Trade and other payables	49	4	-	-	53
Employee benefit liabilities	202	7	(6)	-	203
Lease liabilities	1 528	(236)	-	-	1 292
Other	6	(9)	-	-	(3)
Total	**(10 012)**	**(70)**	**(6)**	-	**(10 088)**
Year ended 31 December 2019					
Property, plant and equipment	(11 294)	645	-	(1 928)	(12 577)
Intangible assets	-	12	-	-	12
Trade and other receivables	762	6	-	-	768
Trade and other payables	57	(8)	-	-	49
Employee benefit liabilities	155	10	37	-	202
Lease liabilities	-	(400)	-	1 928	1 528
Other	42	(36)	-	-	6
Total	**(10 278)**	**229**	**37**	-	**(10 012)**

Deferred income tax assets and liabilities were measured at the following tax rates as at 31 December 2020: PJSC «TGC-1» - 17.38%, JSC «Murmanskaya TPP» - 20%, JSC «St Petersburg Heating Grid» - 17.59% (as at 31 December 2019: PJSC «TGC-1» - 17.25%, JSC «Murmanskaya TPP» - 20%, JSC «St Petersburg Heating Grid» - 17.59%). Management considers the rates to be applied to the period when the assets are realised and liabilities are settled.

(in millions of Russian Roubles)

Amounts of deferred tax reflected in the consolidated statement of financial position are as follows:

	31 December 2020	31 December 2019
Deferred income tax assets	140	316
Deferred income tax liabilities	(10 228)	(10 328)
Deferred income tax liabilities, net	**(10 088)**	**(10 012)**

Note 19 Revenue

	Year ended 31 December 2020	Year ended 31 December 2019
Electricity and capacity	48 220	53 808
Heating	39 001	41 864
Other sales	1 668	1 584
Total	**88 889**	**97 256**

For the year ended 31 December 2020 the revenue includes the grants, received by the Group from St. Petersburg budget, Leningrad and Murmansk regional budgets for the income compensation for companies providing heating services (sales to heat consumers) per tariffs that don't cover expenses for a total amount of RUB 2 636 million (for the year ended 31 December 2019 – RUB 4 187 million).

Other revenues include income from assets' leases for the year ended 31 December 2020 in the amount of RUB 150 million (for the year ended 31 December 2019: RUB 165 million).

Note 20 Operating Expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Fuel	31 877	36 437
Depreciation and amortization	11 111	10 351
Employee benefits	9 930	9 234
Purchased electricity and capacity	5 500	6 912
Repairs, maintenance and service	3 919	4 224
Water usage	3 109	3 153
Heat transfer	2 121	2 283
Taxes other than income tax	1 714	1 584
Security and fire safety	1 087	848
Purchased heat energy	1 027	1 014
Fees of electricity market operators	899	863
Other materials	894	867
Impairment loss on non-financial assets	1 295	5 169
(Gain)/loss on disposal of property, plant and equipment and other non-current assets	(6)	401
Other operating expenses	2 436	2 259
Total operating expenses	**76 913**	**85 599**

Impairment loss on non-financial assets includes the following:

	Year ended 31 December 2020	Year ended 31 December 2019
Impairment loss on property, plant and equipment and other assets non-financial receivables	1 266	5 169
Impairment loss on inventories	29	-
Total	**1 295**	**5 169**

(in millions of Russian Roubles)

Employee benefits expenses comprise the following:

	Year ended 31 December 2020	Year ended 31 December 2019
Employee benefits	7 579	6 976
Social contributions	2 204	2 073
Voluntary medical insurance	128	164
Non-state pension benefits	19	21
Total	**9 930**	**9 234**

Note 21 Finance Income and Finance Costs

	Year ended 31 December 2020	Year ended 31 December 2019
Finance income		
Interest income on loans issued	305	12
Effect of discounting of financial instruments	249	44
Interest income on bank deposits and current bank accounts balances	12	238
Exchange differences	4	243
Other financial income	-	2
Total finance income	**570**	**539**
Finance costs		
Interest expense on borrowings	(583)	(889)
Exchange differences	(2)	(526)
Interest expense on lease	(613)	(724)
Interest expense on pension liabilities	(71)	(73)
Effect of discounting of financial instruments	(11)	(299)
Total finance costs	**(1 280)**	**(2 511)**
Net of capitalised borrowing costs related to qualified assets	106	151
Total finance costs net of capitalised borrowing costs	**(1 174)**	**(2 360)**

Note 22 Basic earnings per share, attributable to the owners of PJSC «TGC-1»

Earnings per share attributable to owners of PJSC TGC-1 have been calculated by dividing the profit for the period, attributable to the owners of PJSC TGC-1 by the weighted average number of shares placed (Note 13). The calculation of earnings per share is presented in the table below.

	Year ended 31 December 2020	Year ended 31 December 2019
Issued shares (thousand of pieces)	3 854 341	3 854 341
Weighted average number of ordinary shares (thousand of pieces)	**3 854 341**	**3 854 341**
Profit for the period attributable to owners of PJSC "TGC-1" (in RUB mln)	8 062	8 928
Earnings per ordinary share attributable to the owners of PJSC "TGC-1" after tax – basic – in Russian Roubles	**0.0021**	**0.0023**

There are no dilutive financial instruments outstanding in the Group as at 31 December 2020 and 31 December 2019

Note 23 Contingencies and Commitments

Political environment. The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russian Federation.

Legal proceedings. The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the position of the Group.

Tax contingency. The taxation system in the Russian Federation is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear and contradictory, which is subject to varying interpretation by various tax authorities. Checks and investigations into the correctness of tax calculations are carried out by several regulatory bodies that have the power to impose fines and charge interest. The correctness of the calculation of taxes in the reporting period can be verified within three subsequent calendar years, however, under certain circumstances, this period may increase. Recently, the practice in the Russian Federation is such that the tax authorities have become increasingly tough in interpreting the requirements for compliance with tax legislation, seeking to identify cases of obtaining unjustified tax benefits.

These circumstances lead to the fact that tax risks in the Russian Federation are much higher than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretation of these provisions by the relevant authorities may be different and, if they can prove the correctness of their position, this could have a significant impact on the consolidated financial statements.

Insurance. The insurance market in the Russian Federation is in its infancy, and many forms of insurance used in other countries of the world are not yet available. Management believes that the Group has adequate insurance coverage for its main production assets. The Group does not have full coverage for business interruptions and third party liability. Until the Group obtains adequate insurance coverage, there is a risk that business interruptions and liabilities to third parties could have a material adverse effect on the Group's operations and financial position.

Capital commitments. As at 31 December 2020 the Group has unrecognised contractual capital commitments (including VAT) in the amount of RUB 13 997 million (as at 31 December 2019: RUB 13 276 million).

Environmental matters. The Group's entities have been operating in the electricity sector in the Russian Federation for many years. The legislation on environmental protection in the Russian Federation is at the stage of development, and the relevant measures of state bodies are constantly being reviewed. The Group periodically evaluates its environmental obligations.

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. Estimated liability under lands reclamation was not recognised.

The Group’s management also considers that estimated liability of the land reclamation has not significant effect on the Group’s Statements of Financial Position, Comprehensive Income and Cash Flows as the most power plants work on gas fuel.

Potential liabilities might arise as a result of changes in legislation and regulation or 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 for environmental remediation in excess of those amounts for which the provision has been already recognised by the Group.

(in millions of Russian Roubles)

Note 24 Financial risk factors

The Group is exposed to variety of risks, including market risk related to foreign exchange and interest rate risks, credit risks and liquidity risk.

The Group's overall approach to financial risk management takes into account the low level of predictability of financial markets and is aimed both at reducing the probability of risk occurrence and minimizing potential negative consequences for Group's financial position.

Risk management is carried out centrally at the Group level, as well as at the level of subsidiaries in accordance with the adopted local regulations of LLC Gazprom energoholding and its subsidiaries.

24.1. Credit risk

Credit risk is the risk that Group will incur financial loss as a result of default be a buyer or counterparty to a financial instrument of its contractual obligations.

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, and open credit position with the Group's counterparties, including outstanding receivables and commitments.

The Group's main financial instrument exposed to a credit risk is accounts receivable. The Group's management periodically assesses the credit risk of receivables taking into account the financial position of customers, their credit history and other factors.

(a) Exposure to credit risk

The carrying amount of financial assets reflects the maximum exposure to the Group's credit risk. The maximum level of credit risk as of the reporting date was:

	31 December 2020	31 December 2019
Accounts receivables (Note 8)	13 165	13 673
Cash and cash equivalents (Note 12)	1 036	881
Loans issued (Note 9)	14 817	10 010
Total maximum exposure of credit risk	**29 018**	**24 564**

(b) Receivables and loans issued

The Group's exposure to credit risk mainly depends on the individual characteristics of each customer. The Group assesses in the creditworthiness of customers based on internal and external information on financial condition, reputation, past settlement experience.

The existing accounts receivable are constantly monitored in terms of turnover indicators, maturity dates, and measures are taken on a regular basis to collect it in a timely manner.

The Group's Management believes that the Group's operations are independent of any particular customer.

For customers of electricity under regulated contracts, in the «day-ahead» market and in the balancing market, there are standard contract terms. Special contract terms are stipulated by Russian electricity legislation for organizations that cannot be restricted or denied in the supply of electricity and heat, as this can lead to accidents and other negative consequences (hospitals, schools, etc.).

Debtors within the two main classes of receivables – electricity and heat – are generally homogeneous in terms of their credit quality and concertation of credit risk.

Management believes that the amount of allowance for expected credit losses on trade and other receivables reported in the consolidated statements is sufficient to cover the Group's credit risk in relation to this type of financial assets.

The Group is working to minimize the number of contracts concluded with advance payments terms; if it is necessary to make advance payments, it requests bank guarantees from counterparties for the return of advances.

(in millions of Russian Roubles)

The maximum exposure to credit risk for receivables by type of revenue at the reporting date was as follows:

	31 December 2020	31 December 2019
Electricity and capacity	6 576	6 217
Heating	14 831	16 463
Other sales	897	544
Total	**22 304**	**23 224**

Allowance for expected credit losses on receivables is calculated by groups of counterparties based on the maturity of payments. As at the reporting date the age distribution of receivables is as follows:

	Gross book value		Allowance for expected credit losses		Net book value	
	31 December		31 December		31 December	
	2020	2019	2020	2019	2020	2019
Not past due	24 107	19 013	(506)	(374)	23 601	18 639
Past due 0-180 days	3 383	4 055	(265)	(362)	3 118	3 693
Past due 181-365 days	1 687	1 627	(424)	(277)	1 263	1 350
More than one year	8 262	8 955	(8 262)	(8 955)	-	-
Total	**37 439**	**33 650**	**(9 457)**	**(9 968)**	**27 982**	**23 682**

During the year movements in the allowance for expected credit losses on trade and other receivables are as follows:

	31 December 2020	31 December 2019
Balance at 1 January	**9 968**	**10 996**
Impairment loss recognised	1 942	1 713
Impairment loss reversed	(790)	(2 242)
Consumed	(1 663)	(499)
Balance at 31 December	**9 457**	**9 968**

(c) Cash and bank deposits

All banks balances and deposits are not past due or impaired. Cash and cash equivalents are deposited with banks that have minimal risk of default.

24.2 Market risk

24.2.1. Currency risk

	31 December 2020	31 December 2019
	EUR	**EUR**
Trade and other receivables	154	41
Total in consolidated statement of financial position	**154**	**41**

(in millions of Russian Roubles)

Sensitivity analysis

An increase in the exchange rate of Russian Ruble against Euro by 20% for the year ended 31 December 2020 and 31 December 2019 would result in increase (decrease) in Group's profit at amounts presented in the table below. This analysis is based on changes in the foreign exchange rate that the Group applies at the end of the reporting period.

	31 December 2020	**31 December 2019**
Euro	31	8

The weakening of the currencies considered above by 20% relative to the functional currency as of 31 December 2020 would have the same effect, but with the opposite sign, on the basis that all other variables remain constant.

24.2.2 Interest rate risk

Fluctuations in market interest rates have an impact on the Group's financial position and cash flows. The Group is primarily exposed to the risk of changes in interest rates on a long-term loans and borrowings. Loans and borrowings at variable interest rates expose the Group to the risk that changes in interest rates will affect its cash flows. Loans and borrowings with a fixed interest rate expose the Group to the risk of the impact of changes in interest rates on fair value.

The Group analyses current interest rates, and based on the results of such analysis, when raising a new loan, the Group's management decides which loans – at fixed or floating interest rates – are more beneficial for the period of their raising.

At the reporting date, the structure of the Group's interest-bearing financial instruments grouped by type of interest rate was as follows:

	Carrying amount	
	31 December 2020	**31 December 2019**
Fixed rate instruments		
Financial assets	14 817	10 010
Financial liabilities	(13 209)	(13 211)
Total	**1 608**	**(3 201)**
Variable rate instruments		
Financial liabilities	(4 037)	(4 047)
Total	**(4 037)**	**(4 047)**

Sensitivity analysis of the fair value of financial instruments with a fixed interest rate

The Group does not account for financial assets and liabilities with fixed rate interest in the manner prescribed for instruments measured at a fair value through profit or loss for the period.

Therefore, no changes in interest rates at the reporting date would have affected the profit or loss for the period.

Sensitivity analysis of cash flows for financial instruments with a variable interest rate

An increase/(decrease) in interest rate by 100 basis points would result in a (decrease)/increase in the Group's profit for the year ended 31 December 2020 by approximately RUB 400 million (for the year ended 31 December 2019: by RUB 400 million). This analysis was carried out on the assumption that all other variables, in particular foreign exchange rates, remain unchanged.

24.3 Liquidity risk

Liquidity risk is the risk that Group' will not be able to meet its financial obligations when they fall due. Liquidity risk management includes maintaining a certain level of cash adequacy and lending opportunities. Due to the dynamic nature of the Group activities, the management maintains a flexible strategy in attracting financial resources, while maintaining the ability to access allocated credit lines.

(in millions of Russian Roubles)

Risk management is carried out at three levels. The long-term risk management strategy is integrated into overall financial model of the Group. In the medium term, monitoring is carried out within the framework of quarterly and monthly planning of the Group's budgets. Actions in the short term include planning daily receipts and payments of PJSC TGC-1 and monitoring their implementation. In addition, the liquidity management system also involves the preparations of monthly, quarterly and annual cash budgets and the comparison of actual amounts with the planned ones, including the necessary explanation of any detected deviations.

The contractual maturity of financial liabilities , including the estimated interest payments, as at 31 December 2020 is presented below:

	Carrying amount	Contractual amount	0 - 6 m	6 - 12 m	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Borrowings (Note 14)	17 247	18 572	493	8 163	9 916	-	-
Lease liabilities	7 543	10 512	1 344	1 335	1 434	3 014	3 385
Trade and other payables (Note 15)	11 095	11 213	8 335	2 315	111	266	186
Total	**35 885**	**40 297**	**10 172**	**11 813**	**11 461**	**3 280**	**3 571**

The contractual maturity of financial liabilities , including the estimated interest payments, as at 31 December 2019 is presented below:

	Carrying amount	Contractual amount	0 - 6 m	6 - 12 m	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Borrowings (Note 14)	17 258	18 258	1 809	12 224	2 180	2 045	-
Lease liabilities	9 530	12 857	1 373	1 363	2 697	3 448	3 976
Trade and other payables (Note 15)	9 060	9 118	5 677	3 093	79	269	-
Total	**35 848**	**40 233**	**8 859**	**16 680**	**4 956**	**5 762**	**3 976**

The Group's financial liabilities shown in the table are carried at amortised cost.

(in millions of Russian Roubles)

24.4 Reconciliation of liabilities arising from financing activities

A reconciliation of changes in liabilities arising from financial activities of the Group for the year ended 31 December 2020 and the year ended 31 December 2019 is presented below:

	Borrowings	Dividends payable	Lease liabilities	Other	Total
As at 31 December 2019	**17 258**	**-**	**9 530**	**-**	**26 788**
Cash flows from financing activities	-	-	-	-	-
Proceeds from borrowings	13 445	-	-	-	13 445
Repayments of borrowings	(13 445)	-	-	-	(13 445)
Shareholders' contributions	-	-	-	3 000	3 000
Dividends paid	-	(3 995)	-	-	(3 995)
Repayments of lease liabilities	-	-	(1 676)	-	(1 676)
Total cash flows from financing activities	**-**	**(3 995)**	**(1 676)**	**3 000**	**(2 671)**
Interest paid	(488)	-	(613)	(71)	(1 172)
Interest paid and capitalised	(106)	-	-	-	(106)
Total cash flows from other activities	**(594)**	**-**	**(613)**	**(71)**	**(1 278)**
Interest accrued	583	-	613	71	1 267
Dividends	-	3 995	-	-	3 995
Shareholders' contributions	-	-	-	(3 000)	(3 000)
Other changes	-	-	(311)	-	(311)
Total other changes	**583**	**3 995**	**302**	**(2 929)**	**1 951**
As at 31 December 2020	**17 247**	**-**	**7 543**	**-**	**24 790**

	Borrowings	Dividends to pay	Lease liabilities	Other	Total
As at 31 December 2018	**19 060**	**-**	**-**	**-**	**19 060**
New IFRSs effect	-	-	11 165	-	11 165
As at 1 January 2019 (changed)	**19 060**	**-**	**11 165**	**-**	**30 225**
Cash flows from financing activities					
Proceeds from borrowings	10 691	-	-	-	10 691
Repayments of borrowings	(12 466)	-	-	-	(12 466)
Shareholders' contributions	-	-	-	1 500	1 500
Dividends paid	-	(2 485)	-	-	(2 485)
Repayments of lease liabilities	-	-	(1 843)	-	(1 843)
Total cash flows from financing activities	**(1 775)**	**(2 485)**	**(1 843)**	**1 500**	**(4 603)**
Interest paid	(730)	-	(724)	(73)	(1 527)
Interest paid and capitalised	(151)	-	-	-	(151)
Total cash flows from other activities	**(881)**	**-**	**(724)**	**(73)**	**(1 678)**
Interest accrued	889	-	724	73	1 686
Effect of exchange rate changes	(35)	-	-	-	(35)
Dividends	-	2 485	-	-	2 485
Shareholders' contributions	-	-	-	(1 500)	(1 500)
Other changes	-	-	208	-	208
Total other changes	**854**	**2 485**	**932**	**(1 427)**	**2 844**
As at 31 December 2019	**17 258**	**-**	**9 530**	**-**	**26 788**

(in millions of Russian Roubles)

24.5. Capital risk management

The following capital requirements have been established for joint stock companies by the legislation of Russian Federation:

- Share capital cannot be lower than RUB 100 thousand;
- If the share capital of the entity is greater than statutory net assets of the entity, such entity must make a decision on the decrease of its share capital to the value not exceeding its net assets or liquidation value;
- If the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2020 and 31 December 2019, the Group has been in compliance with the above share capital requirements.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure, making adjustments in the light of changes in economic conditions. To maintain and regulate the capital structure, the Group can raise new and repay existing loans and borrowings, sell non-core assets.

During the year the Group did not change its approach to capital management.

The Group monitors capital based on the ratio of net debt to EBITDA. The amount of net debt is calculated as the total amount of borrowings (short-term borrowings, long-term borrowings) less cash and cash equivalents, short-term deposits with the possibility of early withdrawal and long-term deposits with the possibility of early withdrawal.

EBITDA is calculated as the sum of operating profit, amortisation and depreciation, and impairment losses on non-financial assets less gains on reversal of impairment losses on non-financial assets.

Net debt to EBITDA as at 31 December 2020 and 31 December 2019 is presented in the table below.

	31 December 2020	**31 December 2019**
Total debt	17 247	17 258
Less: cash and cash equivalents	(1 036)	(881)
Net debt (cash)	16 211	16 377
EBITDA	23 229	27 668
Net debt /EBITDA	69.79%	59.19%

Note 25 Fair value of financial instruments

There was no change in the fair value measurement methods attributed to Level 1, 2 and 3 for the year ended 31 December 2020 (31 December 2019: there was no change). There were no transfers between levels (31 December 2019: there were no transfers).

As at 31 December 2020 and 31 December 2019 the estimated fair value of financial assets and liabilities, that are not recognised at fair value in consolidated statement of financial position, is slightly different from their present value.

(in millions of Russian Roubles)

Note 26 Events after the Reporting Period

Borrowings

During the period between reporting date and signing date, the Group received short-term borrowings of RUB 781 million.

During the period between reporting date and signing date, the Group repaid borrowings a total of RUB 8 337 million.

Increase of share capital of subsidiary

In accordance to Protocol from 22 January 2021 № 1-2021 the extraordinary General Shareholders' Meeting of the JSC "St Petersburg Heating Grid" made the decision to increase the share capital of the JSC "St Petersburg Heating Grid" by issue additional ordinary shares in the amount of RUB 3 000 000 000 (three billion) pieces with a par value of RUB 1 (one), for a total amount of RUB 3 000 000 000 (three billion).

V. E. Vederchik Managing Director «09» March 2021	Публичное акционерное общество "Территориальная генерирующая компания №1" Санкт-Петербург ТГК-1	R. V. Stanishevskaya Chief Accountant «09» March 2021