

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

International Financial Reporting Standards
Consolidated Financial Statements for THREE
MONTHS ended 31 March 2016
(not audited)

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JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016
(in thousands of Russian Roubles)

	Notes	31 March 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	131 377 042	132 033 165
Investment property		178 029	181 232
Intangible assets		686 075	700 553
Investments in associates and joint ventures	7	423 415	395 544
Deferred income tax assets		526 864	438 839
Other non-current assets	8	1 233 053	1 273 073
Total non-current assets		134 424 478	135 022 406
Current assets			
Cash and cash equivalents	9	3 303 048	1 701 151
Short-term investments	10	30 073	42 073
Trade and other receivables	12	18 109 567	15 025 863
Current income tax prepayments		45 450	250 446
Inventories	13	2 691 098	2 636 994
Non-current assets held for sale	11	85 983	215 846
Total current assets		24 265 219	19 872 373
TOTAL ASSETS		158 689 697	154 894 779
EQUITY AND LIABILITIES			
Equity			
Share capital	14	38 543 414	38 543 414
Share premium	14	22 913 678	22 913 678
Merger reserve	14	(6 086 949)	(6 086 949)
Other reserves		(1 209 011)	(1 209 011)
Effect of remeasurements of post-employment benefits obligations		(11 672)	(11 672)
Retained earnings		47 425 591	43 014 555
Equity attributable to the Company's owners		101 575 051	97 164 015
Non-controlling interest		8 340 658	8 365 373
TOTAL EQUITY		109 915 709	105 529 388
LIABILITIES			
Non-current liabilities			
Long-term borrowings	15	13 353 388	16 807 500
Deferred income tax liabilities		10 441 097	10 825 246
Post-employment benefits obligations		958 732	958 732
Other non-current liabilities	16	158 364	185 623
Total non-current liabilities		24 911 581	28 777 101
Current liabilities			
Short-term borrowings	17	14 102 343	13 030 655
Trade and other payables	18	6 176 539	6 438 527
Current income tax payable		1 323 487	32 835
Other taxes payable	19	2 260 038	1 086 273
Total current liabilities		23 862 407	20 588 290
TOTAL LIABILITIES		48 773 988	49 365 391
TOTAL EQUITY AND LIABILITIES		158 689 697	154 894 779

Approved for issue and signed on 12 May 2016.

General Director
Chief Accountant

A. V. Barvinok
R. V. Stanishevskaya

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THREE MONTHS
ENDED 31 MARCH 2016
(in thousands of Russian Roubles)

	Notes	Three months ended 31 March 2016	Three months ended 31 March 2015
Revenue			
Sales of electricity		12 268 107	11 017 311
Sales of heat		12 760 632	10 878 020
Other sales	20	209 497	140 016
Total revenue		25 238 236	22 035 347
Operating expenses	21	(19 506 974)	(17 548 886)
Other operating income	22	197 311	90 565
Total operating expenses		(19 309 663)	(17 458 321)
Operating profit		5 928 573	4 577 026
Finance income	23	76 112	101 906
Finance costs	23	(607 461)	(634 066)
Finance costs, net		(531 349)	(532 160)
Profit before income tax		5 397 224	4 044 866
Income tax expense		(1 010 903)	(749 745)
Profit for the period		4 386 321	3 295 121
Other comprehensive income		-	-
Other comprehensive income including tax		-	-
Total comprehensive income for the period		4 386 321	3 295 121
Profit is attributable to:			
Owners of the TGC-1		4 411 036	3 244 445
Non-controlling interests		(24 715)	50 676
Profit for the period		4 386 321	3 295 121
Total comprehensive income is attributable to:			
Owners of the TGC-1		4 411 036	3 244 445
Non-controlling interests		(24 715)	50 676
Total comprehensive income for the period		4 386 321	3 295 121

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THREE MONTHS ENDED 31 MARCH 2016
(in thousands of Russian Rubles)

	Attributable to owners of the Company						Total equity		
	Share capital	Effect of remeasurements of post-employment benefits obligations	Share premium	Merger reserve	Other reserves	Retained earnings		Total	Non-controlling interest
Balance at 1 January 2015	38 543 414	22 913 678	(6 086 949)	(1 209 011)	128 851	37 821 995	92 111 978	8 605 089	100 717 067
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	6 061 340	6 061 340	(235 118)	5 826 222
Other comprehensive income									
Remeasurements of post-employment benefits obligations	-	-	-	-	(170 052)	-	(170 052)	(5 533)	(175 585)
Income tax on other comprehensive income	-	-	-	-	29 529	-	29 529	935	30 464
Total other comprehensive income	-	-	-	-	(140 523)	-	(140 523)	(4 598)	(145 121)
Total comprehensive income for the year	-	-	-	-	(140 523)	6 061 340	5 920 817	(239 716)	5 681 101
Transactions with owners									
Dividends	-	-	-	-	-	(868 780)	(868 780)	-	(868 780)
Total transactions with owners	-	-	-	-	-	(868 780)	(868 780)	-	(868 780)
Balance at 31 December 2015	38 543 414	22 913 678	(6 086 949)	(1 209 011)	(11 672)	43 014 555	97 164 015	8 365 373	105 529 388
Comprehensive income for the period									
Profit for the period	-	-	-	-	-	4 411 036	4 411 036	(24 715)	4 386 321
Other comprehensive income									
Remeasurements of post-employment benefits obligations	-	-	-	-	-	-	-	-	-
Income tax on other comprehensive income	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	4 411 036	4 411 036	(24 715)	4 386 321
Transactions with owners									
Dividends	-	-	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-	-	-	-
Balance at 31 March 2016	-	-	-	-	-	47 425 591	101 575 051	8 340 658	109 915 709

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

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
 CONSOLIDATED STATEMENT OF CASH FLOWS FOR THREE MONTHS ENDED 31 MARCH 2016
 (in thousands of Russian Roubles)

	Notes	Three months ended 31 March 2016	Three months ended 31 March 2015
Cash flows from operating activities			
Profit before income tax		5 397 224	4 044 866
Adjustments to non-cash items		2 722 866	2 263 091
Operating cash flows before working capital changes		8 120 090	6 307 957
Capital changes		(1 549 396)	(1 824 699)
Cash generated from operations		6 570 694	4 483 258
Income taxes paid and interest paid		(1 102 227)	(1 004 059)
Net cash from operating activities		5 468 467	3 479 199
Net cash used in investing activities		(1 525 287)	(1 775 228)
Net cash from financing activities		(2 341 283)	(1 153 998)
Net increase in cash and cash equivalents		1 601 897	549 973
Cash and cash equivalents at the beginning of the year		1 701 151	2 265 399
Cash and cash equivalents at the end of the year		3 303 048	2 815 372

Note 1. The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 March 2016 for Joint-Stock Company (JSC) Territorial Generating Company № 1 (here in after "TGC-1", or the "Company") and its subsidiaries (the "Group").

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

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

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

Subsidiary	% of ownership as at 31 March		Immediate parent
	2016	2015	
PJSC Murmanskaya TPP	91.3138	90.3423	JSC TGC-1
OJSC St Petersburg Heating Grid	74.9997	74.9997	JSC TGC-1

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

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

Note 2. Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2015 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2015:

- the CBRF exchange rate fluctuated between RR 49.1777 and RR 72.8827 per USD;
- the RTS stock exchange index ranged between 724.73 and 1 082.21;
- access to international financial markets to raise funding was limited for certain entities; and
- capital outflows increased.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2015:

- the CBRF exchange rate fluctuated between RR 72.9299 per USD and RR 83.5913 per USD;
- In March 2016 Moody's has decided to withdraw national scale ratings of Russia because of legislation changes. Fitch also declared it could withdraw national scale ratings of local companies in order to avoid the contradiction between the Russian and international legislation. Standard & Poor's has not made a decision about its business in Russia. These events may have negative effect for Russian economy.
- the RTS stock exchange index ranged between 628.41 and 839.23;
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates.

Note 2. Operating environment of the Group (continued)

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

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

Government relations and current regulation

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

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

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

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

Going concern

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

As at 31 March 2016, the Group's current assets exceeded its current liabilities by RUB 402 812 thousand (as at 31 December 2015 current liabilities exceeded its current assets - by RUB 715 917 thousand).

Management believes that the Group will have a sufficient liquidity to continue its operations in the foreseeable future. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

Note 3. Summary of Significant Accounting Policies

Basis of preparation

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

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

Consolidated financial statements

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

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

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

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

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

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

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

Note 3. Summary of Significant Accounting Policies (continued)

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

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

Presentation currency

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

Foreign currency translation

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

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period.

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

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

At 31 March 2016, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar (USD) was USD 1 = RUB 67.6076 (31 December 2015: USD 1 = RUB 72.8827), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 76.5386 (31 December 2015: EUR 1 = RUB 79.6972).

Associates

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

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

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

Note 3. Summary of Significant Accounting Policies (continued)

Disposals of subsidiaries, associates or joint ventures

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

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

Financial instruments - key measurement terms

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

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

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

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

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

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

Note 3. Summary of Significant Accounting Policies (continued)

Classification of financial assets

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

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

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

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

Classification of financial liabilities

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

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

Initial recognition of financial instruments

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

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

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

Derecognition of financial assets

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

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

Note 3. Summary of Significant Accounting Policies (continued)

Property, plant and equipment

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

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

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

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

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

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

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

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

Type of facility	Useful lives, years
Production buildings	40-50
Hydrotechnical buildings	50-60
Generating equipment	20-30
Heating networks	25-35
Other	10-25

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

Investment property

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

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

Note 3. Summary of Significant Accounting Policies (continued)

Land held under operating leases is classified and accounted for by the Group as investment property when the rest of the definition of investment property is met.

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

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

Operating lease

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

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

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

Finance lease liabilities

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Intangible assets

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them into use. Amortisation is included in operating expenses (Note 22).

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

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

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

Income taxes

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

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

The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities.

Note 3. Summary of Significant Accounting Policies (continued)

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

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

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

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

Inventories

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

Trade and other receivables

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

Impairment of financial assets carried at amortised cost

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

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

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

Note 3. Summary of Significant Accounting Policies (continued)

Prepayments

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

Cash and cash equivalents

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

Non-current assets classified as held for sale

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

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

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

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

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

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

Share capital

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

Note 3. Summary of Significant Accounting Policies (continued)

Merger reserve

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

Other reserves

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

Dividends

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

Value added tax

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

Government grants

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

Trade and other payables

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

Borrowings

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

Borrowing costs

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

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

Note 3. Summary of Significant Accounting Policies (continued)

Borrowing costs (continued)

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

Provisions for liabilities and charges

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

Revenue recognition

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

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

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

Mutual cancellations

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

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

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

Pension and post-employment benefits

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

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

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

Note 3. Summary of Significant Accounting Policies (continued)

Defined benefit plans determine the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the reporting date. All defined benefit plans are considered to be fully unfunded. The defined benefit obligations are calculated using the projected unit credit method.

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

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

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

Employee benefits

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

Environmental liabilities

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

Earnings per share

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

Offsetting

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

Segment reporting

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

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

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

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities and carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts, recognised in the consolidated financial statements, and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year, include:

Provision for impairment of property, plant and equipment

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

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

Useful lives of property, plant and equipment

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

Recoverability of accounts receivable

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

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable.

Note 5. Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Group for the annual periods beginning on or after 1 January 2016 or later. The following standards were adopted in Russia:

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

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

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

This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendments on its financial statements.

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

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

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

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group is currently assessing the impact of the amendments on its separate financial statements.

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

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

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

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

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

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

The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its financial statements.

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

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

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017).

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement.
- Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

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

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018) (continued)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition.
- In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

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

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THREE MONTHS ENDED 31 MARCH 2016
(in thousands of Russian Roubles)

Note 6. Property, Plant and Equipment

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

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Electricity transmission equipment	Other	Construction in progress	Total
Balance as at 31 December 2015	26 219 763	15 811 362	51 967 059	46 704 320	16 963 634	32 036 783	17 985 696	207 688 617
Additions	598	-	-	73 252	464	6 292	1 091 894	1 172 500
Transfers	28 415	-	179 307	1 039 749	166 396	524 752	(1 938 619)	-
Disposals	(63 452)	-	(51 483)	(794 357)	(23 250)	(85 402)	(93 263)	(1 111 207)
Reclassification to non-current assets held for sale	-	-	-	-	-	-	-	-
Balance as at 31 March 2016	26 185 324	15 811 362	52 094 883	47 022 964	17 107 244	32 482 425	17 045 708	207 749 910
Accumulated depreciation (including impairment)								
Balance as at 31 December 2015	(8 968 562)	(8 036 173)	(19 449 075)	(22 163 393)	(3 996 146)	(12 857 892)	(184 211)	(75 655 452)
Charge	(153 331)	(63 305)	(454 666)	(355 135)	(161 965)	(537 392)	-	(1 725 794)
Disposals	63 013	-	51 349	794 356	13 247	85 265	1 148	1 008 378
Reclassification to non-current assets held for sale	-	-	-	-	-	-	-	-
Balance as at 31 March 2016	(9 058 880)	(8 099 478)	(19 852 392)	(21 724 172)	(4 144 864)	(13 310 019)	(183 063)	(76 372 868)
Net book value as at 31 December 2015	17 251 201	7 775 189	32 517 984	24 540 927	12 967 488	19 178 891	17 801 485	132 033 165
Net book value as at 31 March 2016	17 126 444	7 711 884	32 242 491	25 298 792	12 962 380	19 172 406	16 862 645	131 377 042

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THREE MONTHS ENDED 31 MARCH 2016
 (in thousands of Russian Rubles)

Note 6. Property, Plant and Equipment (continued)

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Electricity transmission equipment	Other	Construction in progress	Total
Balance as at 31 December 2014	25 782 995	15 555 897	51 100 007	46 252 383	16 183 089	30 433 363	13 126 656	198 434 390
Effect of reclassifications	(1 809)	95 148	22 871	(161 054)	90 756	(45 912)	-	-
Balance as at 31 December 2014	25 781 186	15 651 045	51 122 878	46 091 329	16 273 845	30 387 451	13 126 656	198 434 390
Additions	-	-	-	25 305	-	437	1 354 999	1 380 741
Transfers	177 675	(47)	275 555	12 595	147 799	154 215	(767 792)	-
Disposals	-	-	-	-	-	-	-	-
Reclassification to non-current assets held for sale	(9 555)	-	(1 978)	(815)	(626)	(26 083)	(3 649)	(42 706)
Balance as at 31 March 2015	25 949 306	15 650 998	51 396 455	46 128 414	16 421 018	30 516 020	13 710 214	199 772 425
Accumulated depreciation (including impairment)								
Balance as at 31 December 2014	(9 481 650)	(8 332 407)	(17 594 271)	(19 368 645)	(3 596 620)	(11 401 171)	(183 063)	(69 957 827)
Effect of reclassifications	10 645	(55 612)	(3 601)	100 041	(32 431)	(19 042)	-	-
Balance as at 31 December 2014	(9 471 005)	(8 388 019)	(17 597 872)	(19 268 604)	(3 629 051)	(11 420 213)	(183 063)	(69 957 827)
Charge	(145 894)	(58 397)	(548 507)	(369 466)	(151 818)	(485 251)	-	(1 759 333)
Disposals	4 477	-	1 978	405	268	22 623	-	29 751
Reclassification to non-current assets held for sale	-	-	-	-	-	-	-	-
Balance as at 31 March 2015	(9 612 422)	(8 446 416)	(18 144 401)	(19 637 665)	(3 780 601)	(11 882 841)	(183 063)	(71 687 409)
Net book value as at 31 December 2014 (including effect of reclassification)	16 310 181	7 263 026	33 525 006	26 822 725	12 644 794	18 967 238	12 943 593	128 476 563
Net book value as at 31 March 2015	16 336 884	7 204 582	33 252 054	26 490 749	12 640 417	18 633 179	13 527 151	128 085 016

Note 6. Property, Plant and Equipment (continued)

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

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

As at 31 March 2016 the advances given to contractors, which amounted to RUB 229 110 thousand, net of VAT (as at 31 December 2015: RUB 371 419 thousand), are recognised within the construction in progress balance. The respective input VAT is recognized within accounts receivable and prepayments (Note 12).

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

The total amount of capitalised interests that were calculated using 10.47% capitalization rate for three months ended 31 March 2016 is RUB 188 791 thousand (9.5% capitalization rate for three months ended 31 March 2015: RUB 112 030 thousand). The payment of capitalised interests is recorded in Consolidated Statement of Cash Flow in respect of operating activities.

Other property, plant and equipment include assets held under finance leases with a carrying value of RUB 40 173 thousand (as at 31 December 2015: RUB 44 134 thousand).

Note 7. Investments in Associates

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

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

	31 March 2016	31 December 2015
Investments in LLC TGC Service	20 957	20 812
Investments in JSC HHC	402 458	374 732
Total investments	423 415	395 544

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

Note 8. Other Non-Current Assets

	31 March 2016	31 December 2015
Long-term receivables (non-interest bearing)	414 036	454 274
Loan issued	819 017	818 799
Total other non-current assets	1 233 053	1 273 073

Note 9. Cash and Cash Equivalents

	31 March 2016	31 December 2015
Cash in bank and in hand in RUB	2 605 749	1 184 089
Foreign currency accounts in EUR	697 299	477 062
Deposit in RUB	-	40 000
Total cash and cash equivalents	3 303 048	1 701 151

Note 10. Short-term Investments

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

Note 11. Non-current Assets Held for Sale

As at 31 March 2016 the property, plant and equipment with a total net book value amounting to RUB 85 983 thousand were classified as assets held for sale (31 December 2015: RUB 215 846 thousand). Movements of non-current assets held for sale for current and prior periods were as follows:

31 March 2016	Sale	Classification as assets held for sale	31 December 2015
85 983	129 863	-	215 846

31 March 2015	Sale	Classification as assets held for sale	31 December 2014
86 651	-	-	86 651

Note 12. Trade and other receivables

	31 March 2016	31 December 2015
Trade receivables, net of provision for impairment of RUB 5 278 906 (31 December 2015: RUB 5 311 201 thousand)	16 687 510	14 110 257
Other receivables, net of provision for impairment of RUB 73 709 (31 December 2015: RUB 73 940 thousand)	525 323	431 305
Total financial receivables	17 212 833	14 541 562
Value-added tax receivables	128 094	140 006
Advances to suppliers	765 838	337 838
Other taxes receivable	2 802	6 457
Total trade and other receivables	18 109 567	15 025 863

Note 13. Inventories

	31 March 2016	31 December 2015
Fuel	1 901 635	1 974 000
Spare parts	224 489	161 458
Raw materials and other supplies	564 974	501 536
Total inventories	2 691 098	2 636 994

Note 14. Share capital

Share capital

The Group's share capital as at 31 March 2016 and as at 31 December 2015 was RUB 38 543 414 thousand comprising 3 854 341 416 571 ordinary shares with a par value of RUB 0.01. All shares authorised are issued and fully paid.

Share premium

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

Merger reserve

As at 31 March 2016 and as at 31 December 2015 the merger reserve amounted to RUB 6 086 949 thousand.

Dividends

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

Note 15. Long-term Borrowings

				31 March 2016	31 December 2015
Bank borrowings and bonds issued				13 353 388	16 807 500
Total long-term borrowings				13 353 388	16 807 500
	Currency	Contractual interest rate	Maturity	31 March 2016	31 December 2015
Long-term bonds (03)	RUB	12.9%	2021	2 070 700	2 006 360
Long-term bonds (04)	RUB	14.4%	2022	2 029 980	2 091 180
Gazprom	RUB	8%	2016	10 000 000	10 000 000
Bank Rossiya		12.5-13.25%	2017	3 000 000	5 800 000
Sberbank RF	RUB	11.4%	2015-2016	100 125	310 636
NORDIC Investment Bank	RUB	EURIBOR + 3%	2019	1 433 092	1 480 980
ROSBANK		13.4%	2017	1 000 805	1 000 821
ROSBANK	RUB	MosPrime 1M +1,7%	2017	505 909	503 685
VTB	RUB	11.95-14.45%	2016-2018	5 038 160	3 036 725
VBRR	RUB	12.5-15%	2017	700 000	900 000
Bank FK Otkrytie	EUR	12.4-12.55%	2017	-	1 292 979
				25 878 771	28 423 366
Less: current portion					
Long-term bonds (03)	RUB	12.9%	2021	(70 700)	(6 360)
Long-term bonds (04)	RUB	14.4%	2022	(29 980)	(91 180)
Gazprom	RUB	8%	2016	(10 000 000)	(10 000 000)
Sberbank RF	RUB	11.4%	2016	(100 125)	(310 636)
ROSBANK	RUB	13.4%	2017	(358 305)	(59 821)
ROSBANK	RUB	MosPrime 1M +1,7%	2017	(281 909)	(685)
VTB	RUB	11.95-14.45%	2016-2018	(211 037)	(209 602)
NORDIC Investment Bank	EUR	EURIBOR + 3%	2019	(373 327)	(377 480)
Bank FK Otkrytie	EUR	12.4-12.55%	2017	-	(560 102)
Bank Rossiya	RUB	12.5-13.25%	2017	(1 100 000)	-
Total long-term bank borrowings and bonds issued				13 353 388	16 807 500

Compliance with covenants

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

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

If any of these covenants are breached, the repayment can be altered by the respective lender, up to immediate repayment.

Note 16. Other Non-Current Liabilities

	31 March 2016	31 December 2015
Long-term accounts payable	158 364	185 623
Total other non-current liabilities	158 364	185 623

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

Note 17. Short-Term Borrowings

	31 March 2016	31 December 2015
Bank borrowings and bonds issued	14 102 343	13 030 655
Total short-term borrowings	14 102 343	13 030 655

Name of lender	Currency	Contractual interest rate	31 March 2016	31 December 2015
Gazprombank	RUB	13.0-13.1%	967 279	1 133 899
VTB	RUB	14.6%	609 681	280 890
Current portion of long-term borrowings:				
Long-term bonds (03)	RUB	12.9%	70 700	6 360
Long-term bonds (04)	RUB	14.4%	29 980	91 180
Gazprom	RUB	8%	10 000 000	10 000 000
Sberbank RF	RUB	11.4%	100 125	310 636
ROSBANK	RUB	13.4%	358 305	59 821
ROSBANK	RUB	MosPrime 1M +1,7%	281 909	685
NORDIC Investment Bank	EUR	EURIBOR + 3%	373 327	377 480
VTB	RUB	11.95-14.45%	211 037	209 602
Bank FK Otkrytie	EUR	12.4-12.55%	-	560 102
Bank Rossiya	RUB	12,5-13,25%	1 100 000	-
Total bank borrowings and bonds issued			14 102 343	13 030 655

Note 18. Trade and other payables

	31 March 2016	31 December 2015
Trade accounts payable	2 760 677	2 562 375
Accounts payable for capital construction	1 307 519	2 178 181
Accrued liabilities and other payables	594 016	222 384
Total financial payables	4 622 212	4 962 940
Advances from customers	954 159	1 010 445
Current employee benefits	560 168	465 142
Total trade and other payables	6 176 539	6 438 527

Note 19. Other Taxes Payable

	31 March 2016	31 December 2015
VAT payable	1 619 066	615 557
Property tax	351 515	220 549
Employee taxes	227 205	186 698
Personal Income Tax	55 960	57 511
Water usage tax	2	2
Other taxes	6 290	5 956
Total taxes payable	2 260 038	1 086 273

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

Note 20. Other Sales

	Three months ended 31 March 2016	Three months ended 31 March 2015
Connection of customers to heating network	118 940	50 753
Maintenance of electrical facilities	28 046	17 498
Water usage	5 888	5 888
Revenue from transit of rail cars	5 463	17 266
Handling of heating oil	4 119	8 848
Installation of heating meters	2 843	1 125
Other	44 198	38 638
Total other sales	209 497	140 016

Note 21. Operating Expenses

	Three months ended 31 March 2016	Three months ended 31 March 2015
Fuel	10 461 089	9 416 465
Employee benefits	1 820 664	1 790 090
Electricity, capacity and heat purchases	1 802 378	1 864 440
Depreciation of property, plant and equipment	1 725 794	1 759 333
Heat distribution	757 597	494 861
Water usage expenses	648 074	584 831
Repairs and maintenance	587 901	500 026
Taxes other than income tax	360 431	295 071
Fees of electricity market operators	207 042	214 055
Other materials	124 010	112 280
Security expenses	121 406	118 114
Operating lease expenses	88 051	80 182
Acceptance of payments	78 187	71 741
Insurance cost	74 530	71 543
Provision/(release) for impairment of accounts receivable	73 728	(296 963)
IT services	71 376	73 601
Loss/(gain) on disposal of property, plant and equipment	68 074	(15 540)
Telecommunication expenses	53 410	54 483
Amortisation of intangible assets	24 455	26 581
Consulting, legal and audit expenses	11 863	11 485
Amortisation of investment property	3 642	1 507
Other operating expenses	343 272	320 700
Total operating expenses	19 506 974	17 548 886

Note 22. Other Operating Income

	Three months ended 31 March 2016	Three months ended 31 March 2015
Fines and penalties	43 313	93 118
Operating lease income	56 132	38 941
Insurance	55 892	4 199
Other operating income	41 974	(45 693)
Total other operating income	197 311	90 565

Note 23. Finance Income and Finance Costs

	Three months ended 31 March 2016	Three months ended 31 March 2015
Interest income	65 677	56 931
Exchange differences (net)	8 463	14 037
Effect of discounting of financial instruments	1 972	30 938
Finance income	76 112	101 906
Interest expense	(600 022)	(629 942)
Effect of discounting of financial instruments	(7 439)	(4 124)
Finance costs	(607 461)	(634 066)

Note 24. Events after the Reporting Period

Borrowings

During the period between reporting date and signing date, the Group received short-term borrowings of RUB 504 000 thousand.

During the period between reporting date and signing date, the Group repaid borrowings of RUB 1 080 045 thousand.

Government grants

In April-May 2016 PJSC Murmanskaya TPP received a grant for the compensation of income in relation to providing heating services per tariffs that don't cover expenses from Murmansk Region budget for a total amount of RUB 125 760 thousand.