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 2021
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) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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 2021, 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 the provision for expected credit losses

We paid special attention to the issue of determining the provision for expected credit losses because the appraisal process is complex and requires management to make significant judgments (Notes 2.4.2, 9 and 25.1 to the consolidated financial statements).

Our audit procedures for management estimates in respect of the provision for expected credit losses have included:

- review of application of the "expected credit losses" model in relation to the Group's financial assets;
- 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;
- review of the completeness and correctness of the disclosure of information in the notes to the consolidated financial statements.

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, as well as review of the sufficiency of disclosures regarding the impairment of fixed assets in the notes to the consolidated financial statements. During our audit, we engaged an expert to help us evaluate the assumptions and methodology used by the Group to conduct the test.

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 report of 2021, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report and Issuer's report 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 report 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,
principal registration number of the entry in
the State Register
of Auditors and Audit Organisations
22006037171,
acting on behalf of the audit organisation
under the Power of Attorney
No. 76-01/2021-Ю dated 29 September 2021

Andrey Borisovich Baliakin

Audit organisation:
Unicon Joint Stock Company
Suite 50, Office I, 3rd Floor, Section 11, Block 1, Bldg. 125, Warshavskoye Shosse, Moscow, 117587, Russia
Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: 12006020340

9 March 2022

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Notes to Consolidated Financial Statements

(in millions of Russian Roubles)

	Notes	31 December 2021	31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	6	154 637	151 135
Investment property		113	139
Intangible assets	7	4 063	3 859
Investments in associates	8	460	436
Accounts receivable and prepayments	9	1 267	1 391
Deferred income tax assets	10	841	140
Total non-current assets		**161 381**	**157 100**
Current assets			
Inventories	12	3 980	3 728
Accounts receivable and prepayments	9	15 832	14 057
Current income tax prepayments		115	49
Cash and cash equivalents	13	2 653	1 036
Financial assets	11	10 852	14 817
Total current assets		**33 432**	**33 687**
Total assets		**194 813**	**190 787**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	38 543	38 543
Share premium	14	22 914	22 914
Retained earnings and other reserves		70 576	66 803
Equity attributable to the shareholders of PJSC TGC-1		**132 033**	**128 260**
Non-controlling interest		13 150	10 698
Total equity and reserves		**145 183**	**138 958**
Non-current liabilities			
Borrowings	15	12 347	9 500
Post-employment benefits obligations	16	930	1 166
Accounts payable and other liabilities	17	432	444
Lease liabilities		4 655	5 245
Provisions	18	300	-
Deferred tax liabilities	10	10 472	10 228
Total non-current liabilities		**29 136**	**26 583**
Current liabilities			
Borrowings	15	4 906	7 747
Accounts payable and other liabilities	17	13 228	12 897
Current income tax payable		55	747
Other taxes payable	19	1 089	1 557
Lease liabilities		1 216	2 298
Total current liabilities		**20 494**	**25 246**
Total liabilities		**49 630**	**51 829**
Total equity and liabilities		**194 813**	**190 787**

Публичное акционерное общество "Территориальная генерирующая компания №1" г.Санкт-Петербург ТГК-1

V. E. Vederchik
Managing Director

R. V. Stanishevskaya
Chief Accountant

«09» March 2022

PJSC TERRITORIAL GENERATING COMPANY №1
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021
(in millions of Russian Roubles)

	Notes	Year ended 31 December 2021	Year ended 31 December 2020
Revenue	20	102 280	88 889
Operating expenses	21	(93 023)	(76 913)
Impairment gain/(loss) on financial assets	25	256	(1 152)
Operating profit		**9 513**	**10 824**
Finance income	22	613	570
Finance costs	22	(1 261)	(1 174)
Share of profit of associates	8	24	15
Profit before income tax		**8 889**	**10 235**
Income tax expense	10	(1 775)	(1 982)
Profit for the period		**7 114**	**8 253**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits obligations		238	27
Other comprehensive income for the period		**238**	**27**
Total comprehensive income for the period		**7 352**	**8 280**
Profit for the period is attributable to:		**7 114**	**8 253**
Shareholders of PJSC TGC-1		6 606	8 062
Non–controlling interests		508	191
Total comprehensive income for the period is attributable to:		**7 352**	**8 280**
Shareholders of PJSC TGC-1		6 837	8 086
Non–controlling interests		515	194
Earnings per ordinary share for profit attributable to shareholders of PJSC TGC-1, basic (in Russian Roubles)	23	**0.0017**	**0.0021**

V. E. Vederchik
Managing Director

Публичное акционерное общество
"Территориальная генерирующая компания №1"
г.Санкт-Петербург
ТГК-1

R. V. Stanishevskaya
Chief Accountant

«09» March 2022

(in millions of Russian Roubles)

	Notes	Year ended 31 December 2021	Year ended 31 December 2020
Cash flows from operating activities			
Profit before income tax		**8 889**	**10 235**
Adjustments for:			
Depreciation and amortisation	21	11 658	11 111
Impairment (gain) / loss on financial assets	25	(256)	1 152
Impairment loss on non-financial assets	21	1 711	1 295
Share of profit of associates	8	(24)	(15)
Loss / (gain) on disposals of property, plant and equipment and other assets	21	438	(6)
Non-state pension provision		63	41
Finance income	22	(613)	(570)
Finance expense	22	1 261	1 174
Change in provisions	18	300	-
Other non-cash items		(225)	64
Operating cash flows before working capital changes		**23 202**	**24 481**
Changes in working capital:			
Change in trade receivables and prepayments	9	(1 037)	(1 214)
Change in inventories	12	(457)	(264)
Change in trade and other payables	17	902	14
Change in other taxes payable	19	(468)	572
Change in employee benefit liabilities	16	(11)	(1)
Changes in working capital		**(1 071)**	**(893)**
Income taxes paid		(3 040)	(1 123)
Interest paid		(1 219)	(1 172)
Net cash from operating activities		**17 872**	**21 293**
Cash flows used in investing activities			
Purchase of property, plant and equipment, intangible assets and other non-current assets		(17 067)	(13 922)
Proceeds from sale of property, plant and equipment and other assets		39	50
Borrowings issued		-	(4 733)
Repayment of borrowings		4 010	-
Interest paid and capitalised		(54)	(106)
Interest received		469	242
Net cash used in investing activities		**(12 603)**	**(18 469)**
Cash flows used in financing activities			
Proceeds from borrowings		13 594	13 445
Repayments of borrowings		(13 602)	(13 445)
Repayments of lease liabilities		(2 026)	(1 676)
Proceeds from subsidiary share issue		2 500	3 000
Dividends paid to the Company's shareholders		(4 126)	(3 995)
Net cash used in financing activities		**(3 660)**	**(2 671)**
Effect of exchange rate changes on cash and cash equivalents		8	2
Net increase in cash and cash equivalents		**1 617**	**155**
Cash and cash equivalents at the beginning of the year	13	1 036	881
Cash and cash equivalents at the end of the year	13	**2 653**	**1 036**

V. E. Vederchik
Managing Director

R. V. Stanishevskaya
Chief Accountant

«09» March 2022

Публичное акционерное общество «Территориальная генерирующая компания №1» Санкт-Петербург ТГК-1

The accompanying notes on the pages 11-55 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021
(in millions of Russian Roubles)

	Equity attributable to the shareholders of PJSC TGC-1					
	Share capital	**Share premium**	**Retained earnings and other reserves**	**Total**	**Non-controlling interest**	**Total equity**
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 owners recognised directly in equity						
Dividends declared	-	-	(3 995)	(3 995)	-	(3 995)
Change in non-controlling interest of subsidiaries	-	-	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**
Profit for the period	-	-	6 606	6 606	508	7 114
Other comprehensive income:						
Remeasurement of post-employment benefits obligations	-	-	231	231	7	238
Comprehensive income for the period	-	-	**6 837**	**6 837**	**515**	**7 352**
Transactions with owners recognised directly in equity						
Dividends declared	-	-	(4 126)	(4 126)	-	(4 126)
Change in non-controlling interest of subsidiaries	-	-	1 062	1 062	1 937	2 999
Balance at 31 December 2021	**38 543**	**22 914**	**70 576**	**132 033**	**13 150**	**145 183**

V. E. Vederchik
Managing Director

Публичное акционерное общество «Территориальная генерирующая компания №1» г.Санкт-Петербург ТГК-1

R. V. Stanishevskaya
Chief Accountant

«09» March 2022

The accompanying notes on the pages 11-55 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 and its subsidiaries' principal business activity is production and sale of electric energy, heat energy and capacity, transmission and distribution of heat energy. 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 2021	% of ownership 31 December 2020
JSC Murmanskaya TPP	production of electric energy and capacity, heat energy, heat capacity	98.88	98.85
JSC St Petersburg Heating Grid	transfer and distribution of heat	60.52	65.58
LLC TSTP SEVERO-ZAPAD	transfer and distribution of heat	60.52	65.58

In 2021 JSC St Petersburg Heating Grid received the budget funding of Saint-Petersburg under reconstruction heat grids in the amount of RUB 2 500 million and property in the amount of RUB 499 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 60.52%.

In 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 65.58%.

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 attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
As at and for the year ended 31 December 2021				
JSC Murmanskaya TPP	1,13%	(32)	-	(5)
JSC St Petersburg Heating Grid	39,48%	538	7	13 151
Total		**506**	**7**	**13 146**
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**

(in millions of Russian Roubles)

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Total comprehensive income/(expense)
As at and for the year ended 31 December 2021							
JSC Murmanskaya TPP	3 288	1 107	2 289	2 584	5 949	(2 848)	(2 833)
JSC St Petersburg Heating Grid	3 451	36 752	3 296	5 384	9 716	1 421	1 444
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

1.2 Government relations and influence on the Group's activities

At the date of consolidated financial statements PJSC Gazprom owns 100% of LLC Gazprom energoholding (immediate parent company). LLC Gazprom energoholding holds 51,79% of PJSC "TGC-1" as at 31 December 2021 (as at 31 December 2020: 51.79%). Thus PJSC Gazprom 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 government as Federal Agency of State Property Management regulates operations of generating assets of the Group.

As disclosed in the Note 24 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 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. Some restrictive measures were subsequently relaxed, but as at 31 December 2021, the level of the spread of coronavirus infection remains high and there is a risk of additional restrictions in subsequent periods, also in connection with the emergence of new varieties of the virus. In 2021 the economy of the Russian Federation demonstrated a positive trend in recovery from the pandemic. This was also facilitated by the recovery of the global economy and higher prices on world commodity markets. 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. 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 2021, 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 74.2926 (31 December 2020: USD 1 = RUB 73.8757), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 84.0695 (31 December 2020: EUR 1 = RUB 90.6824).

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.

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 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 of predecessor entity, 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.

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 and capital under construction 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 estimated 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

2.5.5. Reclassification to investment property

When the designation of a property changes from owner-occupied to investment property, the property is reclassified to investment property.

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.

2.9 Equity

2.9.1 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.

2.9.2 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.

2.9.3 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.

2.10 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. 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"). In calculating 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 impact of changes in the value of money over time and risks specific to the assets.

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.

2.11 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.

2.12 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.

2.13 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.

2.14 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».

2.15 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. If the effect of the time value of money is material 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.

The Group has environmental remediation liabilities related to the restoration of the ash disposal area that is not suitable for further use after it is completely filled, including the dismantling of the ash disposal facilities.

Environmental remediation liabilities are recognised when a legal or contingent obligation exists at the reporting date as a result of an event that has already occurred, payment is probable, and the amount of the liability can be determined.

Changes in the estimate of the existing remediation liability arise from changes in the estimated timing or amount of costs, or from changes in discount rates and inflation. These changes result in an adjustment to the value of the related asset in the current period. If the decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.

2.16 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.

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.

2.17 Employee benefit liabilities

2.17.1 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.

2.17.2 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.

2.18 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.

2.19 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.

2.20 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.

2.21 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.

2.22. 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 2021 and 31 December 2020.

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 or later:

- Amendments *to IFRS 16* (issued in May 2020 and effective for annual periods on or after 1 June 2020), permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications. The amendment is not related to lessors. This amendment was expected to apply until 30 June 2021, but due to the continued impact of the Covid-19 pandemic, on 31 March 2021 the IASB decided to extend the application of the practical expedient until 30 June 2022. New amendment is effective for annual periods beginning on or after 1 April 2021.
- The amendments to *IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures* , and *IFRS 16 Leases - Reform of an interest rate benchmark – Phase 2* (issued in August 2020 and effective for annual periods beginning on or after 1 January 2021). The amendments provide temporary exemptions that are applied to address the financial reporting affect when Interbank Offered Rate (IBOR) replaced with alternative risk-free interest rates.

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 2022. 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 3* (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.
- Amendments to *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* (issued in February 2021 and effective for annual periods beginning on or after 1 January 2023). Amendments clarify how to distinguish between accounting estimates and accounting policies.
- Amendments to *IAS 12 Income Taxes* (issued in May 2021 and effective for annual reporting periods beginning on or after 1 January 2023). Amendments clarify that initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

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.

3.1 Critical judgements for lease agreements accounting

When measuring the present value of lease payments, the Group applies professional judgement to determine the incremental borrowing rate if the discount rate is not implicit in the lease. When determining the incremental borrowing rate, the Group management analyses borrowings over a similar term in a similar period. If there are no borrowings with similar characteristics the discount rate is determined on the basis of the risk-free rate, adjusted for the credit risk of the Group determined on the basis of its bank borrowings.

Assessment of the non-cancellable period is subject to management judgement, which takes into account all relevant facts and circumstances that create an economic incentive for the Group to exercise or not to exercise an option to extend the lease. These facts and circumstances include the need to extend the lease to continue operations, the period of construction and exploitation of assets on leased lands, useful lives of leased assets, potential dismantling and relocation costs.

3.2 Critical judgements for provisions

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.

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 25.

3.3 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.

These estimates may result in carrying values of property, plant and equipment and depreciation expense for the period.

The effect of significant accounting estimates is presented in Note 6. The useful lives of property, plant and equipment are presented in Note 2.

3.4 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 16.

3.5 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 26.

Note 4. Segment information

The Board of Directors and Managing Director is the Chief operating decision-maker (here in after "Management"). The decision-maker receives and 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, St. Petersburg 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.

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 2021 and 31 December 2020 is as follows:

Year ended 31 December 2021	TPP of Nevsky branch	HPS of Nevsky branch	St Petersburg Heating Grid	Kolsky branch	Karelsky branch	Murmans-kaya TPP	Unallocated segments	Total segments	Elimina-tions	Adjust-ments	Total
Revenue:	66 127	7 438	9 763	14 952	9 088	6 017	68	**113 453**	(11 695)	522	**102 280**
including export	-	2 231	-	2 205	-	-	-	**4 436**	-	-	**4 436**
Depreciation of property, plant, equipment	5 377	624	2 773	816	585	121	21	**10 317**	-	874	**11 191**
Reportable segment profit/(loss)	1 798	3 894	321	5 146	947	(1 601)	3	**10 508**	-	(995)	**9 513**
Other material non-cash items											
Impairment loss recognised	-	-	-	-	-	(1 724)	-	(1 724)	-	-	(1 724)

Year ended 31 December 2020	TPP of Nevsky branch	HPS of Nevsky branch	St Petersburg Heating Grid	Kolsky branch	Karelsky branch	Murmans-kaya TPP	Unallocated segments	Total segments	Eliminati ons	Adjust ments	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**
Other material non-cash items											
Impairment loss recognised	-	-	(1 266)	-	-	-	-	(1 266)	-	-	(1 266)

(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 2021 and 31 December 2020 is provided as follows:

	Year ended 31 December 2021	**Year ended 31 December 2020**
Revenue reclassification adjustments	522	399
Depreciation adjustment	(874)	(699)
Impairment gain / (loss) on financial assets	256	(1 152)
Lease adjustments	2 664	2 291
Impairment loss on non-financial assets recognised	(1 724)	(1 267)
Other adjustments	(1 839)	(1 001)
	(1 517)	**(1 828)**
Total adjustments to operating profit	**(995)**	**(1 429)**

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 2021 and amounting to RUB 13 003 million (for the year ended 31 December 2020 the total revenue of two customers exceeded 10% of the Group`s revenue amounted to RUB 11 563 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.

(a) Gazprom Group and its associates

As at and for the year, ended 31 December 2021 and 31 December 2020 the Group's significant transactions and outstanding balances with Gazprom Group and its associates are detailed below:

Revenue

	Year ended 31 December 2021	**Year ended 31 December 2020**
Electricity and capacity	628	703
Heating	490	348
Other sales	41	26
Total revenue	**1 159**	**1 077**

(in millions of Russian Roubles)

Operating expenses

	Year ended 31 December 2021	Year ended 31 December 2020
Fuel	33 103	26 921
Repairs, maintenance and service	1 725	606
Electricity and capacity purchases	154	55
Security and fire safety	26	26
Other operating expenses	2 087	1 296
Total operating expenses	**37 095**	**28 904**

Finance Income and Finance Costs

	Year ended 31 December 2021	Year ended 31 December 2020
Finance income		
Interest income on loans issued	500	305
Effect of discounting of financial instruments	23	91
Other financial income	65	2
Total finance income	**588**	**398**
Finance costs		
Interest expense on lease	(320)	(443)
Interest expense on loans and borrowings	(69)	(51)
Effect of discounting of financial instruments	(8)	-
Total finance costs	**(397)**	**(494)**

Balances

	31 December 2021	31 December 2020
Short-term financial assets	10 851	14 814
Short-term accounts receivable and prepayments	1 026	593
Long-term accounts receivable and prepayments	944	955
Cash and cash equivalents	120	43
Total assets	**12 941**	**16 405**
Short-term accounts payable and other liabilities	6 620	6 185
Long-term lease liabilities	3 350	3 722
Short-term borrowings and loans	1 248	1 247
Short-term lease liabilities	1 151	2 248
Long-term accounts payable and other liabilities	364	350
Total liabilities	**12 733**	**13 752**

For the year ended 31 December 2021 the dividends declared and paid to the direct parent Company (LLC Gazprom energoholding) amounted to RUB 2 137 million (for the year ended 31 December 2020 - RUB 2 069 million).

Purchase of non-current and current assets

	Year ended 31 December 2021	Year ended 31 December 2020
Purchases of property, plant and equipment	(13 686)	(8 138)
Purchases of materials and other assets	(928)	(1 068)
Total purshases of non-current and current assets	**(14 614)**	**(9 206)**

The advances given to contractors of Gazprom group net of VAT, recognised within the construction in progress balance, amounted to RUB 654 million as at 30 December 2021 (as at 31 December 2020: RUB 2 819 million).

(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 2021 and 31 December 2020:

Revenue

	Year ended 31 December 2021	Year ended 31 December 2020
Heating	20 349	19 103
Electricity and capacity	12 220	10 689
Other sales	210	120
Total revenue	**32 779**	**29 912**

Operating expenses

	Year ended 31 December 2021	Year ended 31 December 2020
Water usage	2 975	3 108
Purchased electricity and capacity	1 511	874
Fees of electricity market operators	969	894
Security and fire safety	927	759
Heat transfer	905	310
Repairs, maintenance and service	124	104
Purchased heat energy	50	47
Other operating expenses	692	563
Total operating expenses	**8 153**	**6 659**

Finance Income and Finance Costs

	Year ended 31 December 2021	Year ended 31 December 2020
Finance income		
Effect of discounting of financial instruments	-	154
Total finance income	**-**	**154**
Finance costs		
Interest expense on loans and borrowings	(318)	(145)
Interest expense on lease	(126)	(134)
Effect of discounting of financial instruments	(13)	(10)
Total finance costs	**(457)**	**(289)**

(in millions of Russian Roubles)

Balances

	31 December 2021	31 December 2020
Short-term accounts receivable and prepayments	10 334	8 441
Cash and cash equivalents	2 514	972
Long-term accounts receivable and prepayments	288	857
Provision for expected credit losses on long-term receivables and prepayments	(163)	(498)
Provision for expected credit losses on short-term receivables and prepayments	(4 627)	(4 172)
Total assets	**8 346**	**5 600**
Long-term borrowings	8 389	7 500
Short-term accounts payable and other liabilities	1 780	1 244
Short-term borrowings	1 611	4 463
Long-term lease liabilities	1 124	1 213
Long-term accounts payable and other liabilities	68	93
Short-term lease liabilities	28	32
Total liabilities	**13 000**	**14 545**

Purchase of non-current and current assets

	Year ended 31 December 2021	Year ended 31 December 2020
Purchases of materials and other assets	(5 790)	(2 504)
Purchases of property, plant and equipment	(344)	(75)
including capitalized borrowing costs from related parties	*(54)*	*(23)*
Total purshases of non-current and current assets	**(6 134)**	**(2 579)**

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 the Group's counterparties.

The Group had the following significant transactions with CFS, presented below:

Revenue and operating expenses

	Year ended 31 December 2021	Year ended 31 December 2020
Sales of electricity and capacity	32 292	24 744
Purchases of electricity and capacity	(6 373)	(4 379)
Total	**25 919**	**20 365**

Balances

	31 December 2021	31 December 2020
Short-term accounts receivable and prepayments	1 421	1 175
Provision for expected credit losses on receivables	23	(3)
Total assets	**1 444**	**1 172**
Short-term accounts payable and other liabilities	308	237
Total liabilities	**308**	**237**

(in millions of Russian Roubles)

(c) Transactions with other related parties

Other related parties include the Company's shareholder with a significant influence (Fortum Power and Heat OY) and the Group's associates - LLC TGC Service (until 30 August 2021) and JSC Hibinskaya Heating Company.

Revenue

	Year ended 31 December 2021	Year ended 31 December 2020
Electricity and capacity	2 231	327
Heating	81	73
Other sales	2	3
Total revenue	**2 314**	**403**

Operating expenses

	Year ended 31 December 2021	Year ended 31 December 2020
Repairs, maintenance and service	780	1 216
Heat transfer	568	555
Other operating expenses	18	20
Total operating expenses	**1 366**	**1 791**

Balances

	31 December 2021	31 December 2020
Short-term accounts receivable and prepayments	40	138
Total assets	**40**	**138**
Short-term accounts payable and other liabilities	70	706
Total liabilities	**70**	**706**

For the year ended 31 December 2021 the dividends declared and paid to Fortum Power and Heat OY amounted to RUB 1 237 million (for the year ended 31 December 2020 - RUB 1 177 million)

Purchase of non-current and current assets

	Year ended 31 December 2021	Year ended 31 December 2020
Purchases of property, plant and equipment	(260)	(712)
Purchases of materials and other assets	-	(7)
Total purshases of non-current and current assets	**(260)**	**(719)**

(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 and amounted to RUB 65 million for the year ended 31 December 2021 (for the year ended 31 December 2020: RUB 56 million).

(in millions of Russian Roubles)

As at 31 December 2021 and 31 December 2020 the payables to key management amounted to RUB 1 million and RUB 1 million respectively.

Remuneration to managing organisation LLC Gazprom energoholding for the year ended 31 December 2021 and 31 December 2020 was in the amount of RUB 97 million and RUB 101 million respectively.

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

	31 December 2021	31 December 2020
Gazprom group and its associates	18 017	11 103
Other state-controlled entities	172	96
Other related parties	-	864
Total	**18 189**	**12 063**

(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
Initial cost							
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 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**
Additions	68	697	11	2	591	15 370	16 739
Disposals	(295)	(262)	(403)	(100)	(852)	(637)	(2 549)
Effect of lease agreements modifications	765	-	-	-	-	-	765
Transfers	-	3 949	846	2 500	4 100	(11 395)	-
Transfer from other accounts	-	-	25	-	14	-	39
Balance as at 31 December 2021	**11 617**	**63 634**	**48 119**	**80 395**	**55 773**	**27 356**	**286 894**
Accumulated depreciation and impairment							
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)**
Charge for the period	(1 323)	(1 636)	(899)	(3 119)	(4 214)	-	(11 191)
Disposals	87	225	377	89	672	-	1 450
Transfer from other accounts	-	-	(3)	-	(24)	-	(27)
Impairment loss recognised	(33)	(127)	(92)	(432)	(360)	(680)	(1 724)
Impairment loss transferred from construction in progress in property, plant and equipment	-	(216)	(2)	(2)	(9)	229	-
Balance as at 31 December 2021	**(4 178)**	**(34 176)**	**(21 536)**	**(39 940)**	**(31 379)**	**(1 048)**	**(132 257)**
Net book value							
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**
Balance as at 31 December 2021	**7 439**	**29 458**	**26 583**	**40 455**	**24 394**	**26 308**	**154 637**

(in millions of Russian Roubles)

For the year ended 31 December 2021 the Group capitalised borrowing costs attributable to acquisition and construction of assets in the amount of RUB 54 million (for the year ended 31 December 2020: RUB 106 million) with an average capitalisation rate of 6.62% (for the year ended 31 December 2020: 5.89%).

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 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**
Additions as a result of new leases	32	-	36	68
Effect of leases modification and estimates changes	586	59	121	765
Early derecognition lease agreements	(220)	-	(75)	(295)
Reclassifications	6	2	(9)	-
Balance as at 31 December 2021	**1 917**	**8 484**	**1 216**	**11 617**
Accumulated depreciation and impairment				
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)**
Charge for the year	(241)	(1 033)	(49)	(1 323)
Impairment loss recognised	(17)	-	(16)	(33)
Early derecognition lease agreements	72	-	15	87
Reclassifications	20	-	(20)	-
Balance as at 31 December 2021	**(687)**	**(3 289)**	**(202)**	**(4 178)**
Net book value				
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**
Balance as at 31 December 2021	**1 230**	**5 195**	**1 014**	**7 439**

Total cash outflow for leases for the year ended 31 December 2021 was RUB 2 507 million, including interest paid on lease liabilities RUB 481 million and RUB 2 026 million for repayment of lease liability (the year ended 31 December 2020: RUB 613 million and RUB 1 676 million respectively).

(in millions of Russian Roubles)

Impairment

As at 31 December 2021 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 Murmanskaya TPP in the amount of RUB 1 724 million. The main reasons for the impairment loss recognised relate to an increase in the heating oil prices, the cost of which will be compensated in subsequent years.

For the year ended 31 December 2020 as a result of the impairment test impairment loss was recognised for St Petersburg Heating Grid in the amount of RUB 1 266 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 2021 the pre-tax discount rate amounted 12% for Murmanskaya TPP and other cash-generating units, and 13% for St Petersburg Heating Grid (as at 31 December 2020 the pre-tax discount rate amounted 11% for Murmanskaya TPP and other cash-generating units, and 12% for St Petersburg Heating Grid).

Note 7 Intangible assets

	Software	Other intangible assets	Total
Cost			
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**
Reclassifications	177	(177)	-
As at 1 January 2021 including reclassifications	**4 518**	**303**	**4 821**
Additions	587	70	657
Disposals	(29)	-	(29)
As at 31 December 2021	**5 076**	**373**	**5 449**
Accumulated depreciation and impairment			
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)**
Reclassifications	(56)	56	-
As at 1 January 2021 including reclassifications	**(882)**	**(80)**	**(962)**
Charge	(420)	(33)	(453)
Disposals	29	-	29
As at 31 December 2021	**(1 273)**	**(113)**	**(1 386)**
Net book value			
As at 1 January 2020	**2 785**	**323**	**3 108**
As at 31 December 2020	**3 515**	**344**	**3 859**
As at 1 January 2021 including reclassifications	**3 636**	**223**	**3 859**
As at 31 December 2021	**3 803**	**260**	**4 063**

(in millions of Russian Roubles)

Note 8 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	2021	2020	2021	2020
JSC HHC	Associate	production, transportation and sales of heat energy	460	436	50%	50%
Total			**460**	**436**		

As at 31 December 2021 and 31 December 2020 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:

Year ended 31 December 2021	
Balance as at 1 January	436
Share of profit of associates	24
Balance as at 31 December	**460**
Year ended 31 December 2020	
Balance as at 1 January	421
Share of profit of associates	15
Balance as at 31 December	**436**

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 2021	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Profit	% interest held
JSC HHC	818	248	-	145	624	48	50%
Total	**818**	**248**	**-**	**145**	**624**	**48**	

31 December 2020	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Profit	% interest held
JSC HHC	1 079	189	75	320	602	25	50%
Total	**1 079**	**189**	**75**	**320**	**602**	**25**	

(in millions of Russian Roubles)

Note 9 Accounts receivable and prepayments

	31 December 2021	31 December 2020
Long-term receivables		
Trade receivables	583	678
Other receivables	24	19
Total financial receivables	**607**	**697**
Advances to suppliers and prepaid expenses	660	694
Total non-financial receivables	**660**	**694**
Total long-term receivables and prepayments	**1 267**	**1 391**
Short-term receivables		
Trade receivables	14 034	12 331
Other receivables	140	137
Total financial receivables	**14 174**	**12 468**
Advances to suppliers and prepaid expenses	889	1 320
VAT recoverable	662	138
Tax prepayments other than income tax	107	131
Total non-financial receivables	**1 658**	**1 589**
Total short-term receivables and prepayments	**15 832**	**14 057**

Trade receivables is presented net of allowance for expected credit losses in the amount of RUB 8 534 million and 9 295 million as at 31 December 2021 and 31 December 2020 respectively.

Other receivables are presented net of allowance for expected credit losses in the amount of RUB 126 million and 133 million as at 31 December 2021 and 31 December 2020 respectively.

These allowances are primarily related to short-term receivables and prepayments except the allowance for trade receivables in the amount of RUB 174 million that was recognised for long-term receivables as at 31 December 2021 (as at 31 December 2020: RUB 657 million).

The Group's exposure to credit and foreign exchange risks in relation to trade and other receivables is disclosed in Note 25.

Note 10 Income tax

The Group’s companies applied the following tax rates in 2021: PJSC “TGC-1” - 17.47%, JSC “Murmanskaya TPP” - 20%, JSC “St Petersburg Heating Grid” - 15.68% (2020: PJSC “TGC-1” – 17.38%, JSC “Murmanskaya TPP” - 20%, JSC “St Petersburg Heating Grid” - 17.59%).

Income tax expense comprises the following:

	Year ended 31 December 2021	Year ended 31 December 2020
Current income tax expense		
Current income tax charge	(2 382)	(1 932)
Charge of income tax for prior periods	99	19
Deffered income tax expense		
Temporary differences recognised and reversed	489	(6)
Effect of change in income tax rate	19	(63)
Total income tax expense	**(1 775)**	**(1 982)**

(in millions of Russian Roubles)

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

	Year ended 31 December 2021	Year ended 31 December 2020
Profit before tax	**8 889**	**10 235**
Theoretical tax charge calculated at applicable tax rate of 20%	(1 778)	(2 047)
Non-deductable / non-taxable differences	(460)	(224)
Effect of change in income tax rate	19	(63)
Charge of income tax for prior periods	99	19
Effect of tax benefit	345	333
Total income tax expense	**(1 775)**	**(1 982)**

Tax effect of items in other comprehensive income

	Year ended 31 December 2021			Year ended 31 December 2020		
	Before tax	**Tax**	**After tax**	**Before tax**	**Tax**	**After tax**
Remeasurement of post-employment benefit obligation (Note 16)	288	(50)	238	33	(6)	27
Total	**288**	**(50)**	**238**	**33**	**(6)**	**27**

Deferred income tax

Recognised deferred income tax assets and liabilities:

Change in deferred income tax for the year ended 31 December 2021:

	Assets		Liabilities		Net	
	31 December 2021	**31 December 2020**	**31 December 2021**	**31 December 2020**	**31 December 2021**	**31 December 2020**
Property, plant and equipment	-	-	(11 797)	(12 283)	(11 797)	(12 283)
Intangible assets	8	14	-	-	8	14
Accounts receivable and prepayments	515	636	-	-	515	636
Accounts payable and other liabilities	56	53	-	-	56	53
Lease liabilities	991	1 292	-	-	991	1 292
Employee benefit liabilities	163	203	-	-	163	203
Provisions	52	-	-	-	52	-
Tax losses carried forward	375	-	-	-	375	-
Other	6	-	-	(3)	6	(3)
Total	**2 166**	**2 198**	**(11 797)**	**(12 286)**	**(9 631)**	**(10 088)**

(in millions of Russian Roubles)

Tax effects of taxable and deductible temporary differences for the year ended 31 December 2021 and the year ended 31 December 2020 are as follows:

	1 January	Recognised in profit or losses	Recognised in other comprehensive income	31 December
Year ended 31 December 2021				
Property, plant and equipment	(12 283)	486	-	(11 797)
Intangible assets	14	(6)	-	8
Accounts receivable and prepayments	636	(121)	-	515
Accounts payable and other liabilities	53	3	-	56
Employee benefit liabilities	203	10	(50)	163
Lease liabilities	1 292	(301)	-	991
Provisions	-	52	-	52
Tax losses carried forward	-	375	-	375
Other	(3)	9	-	6
Total	**(10 088)**	**507**	**(50)**	**(9 631)**
Year ended 31 December 2020				
Property, plant and equipment	(12 577)	294	-	(12 283)
Intangible assets	12	2	-	14
Accounts receivable and prepayments	768	(132)	-	636
Accounts payable and other liabilities	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)**

Deferred income tax assets and liabilities were measured at the following tax rates as at 31 December 2021: PJSC «TGC-1» - 17.47%, JSC «Murmanskaya TPP» - 20%, JSC «St Petersburg Heating Grid» - 15.68% (as at 31 December 2020: PJSC «TGC-1» - 17.38%, 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.

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

	31 December 2021	31 December 2020
Deferred income tax assets	841	140
Deferred income tax liabilities	(10 472)	(10 228)
Deferred income tax liabilities, net	**(9 631)**	**(10 088)**

Note 11 Financial assets

	31 December 2021	31 December 2020
Loans issued	10 852	14 817
Total short-term financial assets	**10 852**	**14 817**

The provision for impairment of financial assets was RUB 0 million as at 31 December 2021 (as at 31 December 2020: RUB 30 million).

The Group's exposure to credit risk and interest rate risk in relation to financial assets is disclosed in Note 25.

(in millions of Russian Roubles)

Note 12 Inventories

	31 December 2021	31 December 2020
Fuel	2 727	2 644
Raw materials and other supplies	907	761
Spare parts	346	319
Other inventories	-	4
Total	**3 980**	**3 728**

As at 31 December 2021 the write down of the inventory to net realisible value was RUB 16 million (as at 31 December 2020: RUB 29 million).

The Group's inventories are not pledged as at 31 December 2021 and as at 31 December 2020.

Note 13 Cash and cash equivalents

	31 December 2021	31 December 2020
Cash in bank and in hand	2 653	1 036
Total	**2 653**	**1 036**

As at 31 December 2021 cash and cash equivalents comprise restricted cash in the amount of RUB 2 508 million, provided for JSC St Petersburg Heating Grid as a budget funding of investment program (as at 31 December 2020: RUB 966 million).

Note 14 Equity

Share capital and share premium

As at 31 December 2021 and as at 31 December 2020 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 18 June 2021 the Annual General Shareholders' Meeting of the PJSC TGC-1 made the decision to pay dividends for the results of Group's activity for 2020. The amount of declared dividends on the issuer shares was RUB 0.001070552 per share, total amount of dividends is RUB 4 126 million.

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.

Note 15 Borrowings

	31 December 2021	31 December 2020
Long-term borrowings		
Bank borrowings	12 347	7 500
Bonds	-	2 000
Total long-term borrowings	**12 347**	**9 500**
Short-term borrowings and current portion of long-term borrowings		
Bank borrowings	2 858	5 710
Current portion of long-term bonds	2 048	2 037
Total short-term borrowings and current portion of long-term borrowings	**4 906**	**7 747**

(in millions of Russian Roubles)

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

	Currency	Contractual interest rate	Maturity	31 December 2021	31 December 2020
Bank borrowings					
PJSC Sberbank RF	RUB	CR CB RF+1.15%	2023	8 389	8 863
Bank Rossiya	RUB	CR CB RF+1.20%	2023	3 098	-
PJSC Sberbank RF	RUB	CR CB RF+1.22%	2022	1 610	-
Bank Rossiya	RUB	CR CB RF+1.20%	2023	860	-
Gazprombank JSC	RUB	10.75-11%	2022	724	1 246
Gazprombank JSC	RUB	CR CB RF+2.50%	2022	327	-
Gazprombank JSC	RUB	CR CB RF+2.25%	2022	197	-
PJSC Sberbank RF	RUB	CR CB RF+1.15%	2021	-	3 100
Bonds					
Bonds 04	RUB	CPI+1.5%	2022	2 048	2 034
Bonds 03	RUB	CPI+1.5%	2021	-	2 004
Total				**17 253**	**17 247**

As at 31 December 2021 and 31 December 2020 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 25.

Note 16 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.

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.

	31 December 2021	31 December 2020
Post employment benefits	837	1 034
Other long-term benefits	93	132
Total	**930**	**1 166**

(in millions of Russian Roubles)

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 2021	**1 034**	**132**	**1 166**
Current service cost	38	10	48
Interest expense	64	8	72
Remeasurements:			
Past service cost	57	(15)	42
Actuarial losses - changes in financial assumptions	(223)	(20)	(243)
Experience gains	(65)	(7)	(72)
Benefits paid	(68)	(15)	(83)
At 31 December 2021	**837**	**93**	**930**

	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**

b) Expenses recognised in profit or loss

	Year ended 31 December 2021	Year ended 31 December 2020
Current service cost	48	47
Past service cost	43	-
Interest expense	72	71
Remeasurements on present value of other long-term employee benefit obligation	(27)	(6)
Total	**136**	**112**

(in millions of Russian Roubles)

c) Expenses recognised in other comprehensive income

	Year ended 31 December 2021	Year ended 31 December 2020
Loss from change in demographic assumptions	-	26
Gain from change in financial assumptions	(223)	(12)
Experience gains	(65)	(47)
Total	**(288)**	**(33)**

d) The actuarial assumptions

The key actuarial assumptions for valuation dates:

	Year ended 31 December 2021	Year ended 31 December 2020
Discount rate	8.4%	6.6%
Future financial support benefits increases	3.7%	4.0%
Social fund contribution rate	30.6%	30.1%
Personnel rotation	Curve in depend on service	Curve in depend on service

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 12 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 2021	Impact on defined benefit liability 31 December 2020
Discount rate	Increase/decrease by 1%	Decrease/increase by 9,6%	Decrease/increase by 12,7%
Future financial support benefits increases	Increase/decrease by 1%	Increase/decrease by 10%	Increase/decrease by 13%
Personnel rotation	Increase/decrease by 10%	Decrease/increase by 0,6%	Decrease/increase by 0,8%
Mortality	Increase/decrease by 10%	Decrease/increase by 1,9%	Decrease/increase by 2,4%

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 17 Accounts payable and other liabilities

	31 December 2021	31 December 2020
Long-term payables		
Trade payables	432	444
Total long-term payables and other liabilities	**432**	**444**
Total long-term payables and other liabilities	**432**	**444**
Short-term payables		
Short-term payables for purchase of property, plant and equipment	4 757	5 258
Trade payables	5 783	5 161
Other payables	236	232
Total financial payables	**10 776**	**10 651**
Contractual liablities	1 773	1 591
Other payables	679	655
Total non-financial payables	**2 452**	**2 246**
Total short-term payables and other liabilities	**13 228**	**12 897**

Information about the Group's exposure to foreign exchange and liquidity risk in terms of trade and other financial payables is disclosed in Note 25.

Note 18 Provisions

Long-term provisions

Long-term provisions are represented by the environmental remediation liability related to the restoration of the ash in the amount of RUB 300 million (as at 31 December 2020: RUB 0 million).

Note 19 Other taxes payable

	31 December 2021	31 December 2020
VAT payable	391	899
Employee taxes	309	282
Property tax	301	292
Other taxes	88	84
Total	**1 089**	**1 557**

Note 20 Revenue

	Year ended 31 December 2021	Year ended 31 December 2020
Electricity and capacity	55 474	48 220
Heating	45 520	39 001
Other sales	1 286	1 668
Total	**102 280**	**88 889**

For the year ended 31 December 2021 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 3 824 million (for the year ended 31 December 2020 – RUB 2 636 million).

(in millions of Russian Roubles)

Note 21 Operating Expenses

	Year ended 31 December 2021	Year ended 31 December 2020
Fuel	40 400	31 877
Depreciation and amortization	11 658	11 111
Employee benefits	10 186	9 930
Purchased electricity and capacity	8 406	5 500
Repairs, maintenance and service	5 644	4 229
Water usage	3 169	3 109
Heat transfer	2 238	2 121
Taxes other than income tax	1 785	1 714
Impairment loss on non-financial assets	1 711	1 295
Security and fire safety	1 321	1 087
Purchased heat energy	1 200	1 027
Fees of electricity market operators	1 018	899
Other materials	620	583
Loss/(gain) on disposal of property, plant and equipment and other assets	438	(6)
Change in provisions	300	-
Other operating expenses	2 929	2 437
Total	**93 023**	**76 913**

Impairment loss on non-financial assets includes the following:

	Year ended 31 December 2021	Year ended 31 December 2020
Impairment loss on property, plant and equipment and other assets non-financial receivables	1 724	1 266
Impairment (gain) / loss on inventories	(13)	29
Total	**1 711**	**1 295**

Employee benefits expenses comprise the following:

	Year ended 31 December 2021	Year ended 31 December 2020
Employee benefits	7 762	7 579
Social contributions	2 260	2 204
Voluntary medical insurance	141	128
Non-state pension benefits	23	19
Total	**10 186**	**9 930**

Note 22 Finance Income and Finance Costs

	Year ended 31 December 2021	Year ended 31 December 2020
Finance income		
Interest income on loans issued	500	305
Effect of discounting of financial instruments	18	249
Interest income on bank deposits and current bank accounts balances	13	12
Exchange differences income	20	4
Other financial income	62	-
Total finance income	**613**	**570**

(in millions of Russian Roubles)

Finance costs		
Interest expense on borrowings	(734)	(583)
Exchange differences expenses	(12)	(2)
Interest expense on lease	(481)	(613)
Процентные расходы по пенсионным обязательствам	(72)	(71)
Effect of discounting of financial instruments	(16)	(11)
Total finance costs	**(1 315)**	**(1 280)**
Net of capitalized borrowing costs related to qualified assets	54	106
Total finance costs net of capitalised borrowing costs	**(1 261)**	**(1 174)**

Note 23 Basic earnings per share, attributable to the shareholders of PJSC «TGC-1»

Earnings per share attributable to the shareholders of PJSC TGC-1 have been calculated by dividing the profit for the period, attributable to the shareholders of PJSC TGC-1 by the weighted average number of shares placed (Note 14). The calculation of earnings per share is presented in the table below.

	Year ended 31 December 2021	Year ended 31 December 2020
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 the shareholders of PJSC "TGC-1" (in RUB mln)	6 606	8 062
Earnings per ordinary share attributable to the shareholders of PJSC "TGC-1"– basic – in Russian Roubles	**0.0017**	**0.0021**

There are no dilutive financial instruments outstanding in the Group as at 31 December 2021 and 31 December 2020.

Note 24 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 2021 the Group has unrecognised contractual capital commitments (including VAT) in the amount of RUB 25 053 million (as at 31 December 2020: RUB 13 997 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. As such, the Group periodically evaluates its obligations under Russian Federation environmental regulations and accrues the respective provision (Note 18).

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.

Note 25 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.

25.1. 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.

(in millions of Russian Roubles)

(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 2021	31 December 2020
Accounts receivable (Note 9)	14 781	13 165
Cash and cash equivalents (Note 13)	2 653	1 036
Loans issued (Note 11)	10 852	14 817
Total maximum exposure of credit risk	**28 286**	**29 018**

(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.

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

	31 December 2021	31 December 2020
Heating	15 450	14 831
Electricity and capacity	6 465	6 576
Other sales	1 236	897
Total	**23 151**	**22 304**

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	
	2021	2020	2021	2020	2021	2020
Not past due	21 660	24 107	(359)	(506)	21 301	23 601
Past due 0-180 days	3 278	3 383	(406)	(265)	2 872	3 118
Past due 181-365 days	1 589	1 687	(129)	(424)	1 460	1 263
More than one year	7 766	8 262	(7 766)	(8 262)	-	-
Total	**34 293**	**37 439**	**(8 660)**	**(9 457)**	**25 633**	**27 982**

(in millions of Russian Roubles)

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

	31 December 2021	31 December 2020
Balance at 1 January	**9 457**	**9 968**
Impairment loss recognised	1 161	1 942
Impairment loss reversed	(1 417)	(790)
Consumed	(541)	(1 663)
Balance at 31 December	**8 660**	**9 457**

The credit quality of loans issued as at 31 December 2021 and 31 December 2020 is high.

(c) Cash and bank

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

25.2 Market risk

25.2.1. Currency risk

	31 December 2021	31 December 2020
	EUR	**EUR**
Accounts receivable and prepayments	166	154
Total in consolidated statement of financial position	**166**	**154**

Sensitivity analysis

An increase in the exchange rate of Russian Ruble against Euro by 20% for the year ended 31 December 2021 and 31 December 2020 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 2021	31 December 2020
EUR	33	31

The weakening of the currencies considered above by 20% relative to the functional currency as of 31 December 2021 would have the same effect, but with the opposite sign, on the basis that all other variables remain constant.

25.2.2 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's significant interest-bearing assets and liabilities are disclosed in Notes 9, 11, 15, 16.

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:

(in millions of Russian Roubles)

	Carrying amount	
	31 December 2021	**31 December 2020**
Fixed rate instruments		
Financial liabilities	(724)	(1 247)
Total	**(724)**	**(1 247)**
Variable rate instruments		
Financial assets	10 852	14 817
Financial liabilities	(16 530)	(16 000)
Total	**(5 678)**	**(1 183)**

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 2021 by approximately RUB 11 million (for the year ended 31 December 2020: by RUB 21 million). This analysis was carried out on the assumption that all other variables, in particular foreign exchange rates, remain unchanged.

25.3 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.

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 2021 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 15)	17 253	19 536	3 474	2 816	13 246	-	-
Lease liabilities	5 871	8 159	798	619	1 200	3 358	2 184
Accounts payable (Note 17)	11 208	11 308	7 812	2 962	111	274	149
Total	**34 332**	**39 003**	**12 084**	**6 397**	**14 557**	**3 632**	**2 333**

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 15)	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
Accounts payable (Note 17)	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**

(in millions of Russian Roubles)

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

25.4 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 2021 and the year ended 31 December 2020 is presented below:

	Borrowings	Dividends payable	Lease liabilities	Other	Total
As at 31 December 2020	**17 247**	**-**	**7 543**	**-**	**24 790**
Cash flows from financing activities					
Proceeds from borrowings	13 594	-	-	-	13 594
Repayments of borrowings	(13 602)	-	-	-	(13 602)
Shareholders' contributions	-	-	-	2 500	2 500
Dividends paid	-	(4 126)	-	-	(4 126)
Repayments of lease liabilities	-	-	(2 026)	-	(2 026)
Total cash flows from financing activities	**(8)**	**(4 126)**	**(2 026)**	**2 500**	**(3 660)**
Interest paid	(666)	-	(481)	(72)	(1 219)
Interest paid and capitalised	(54)	-	-	-	(54)
Total cash flows from other activities	**(720)**	**-**	**(481)**	**(72)**	**(1 273)**
Interest accrued	734	-	481	72	1 287
Dividends	-	4 126	-	-	4 126
Shareholders' contributions	-	-	-	(2 500)	(2 500)
Other changes	-	-	354	-	354
Total other changes	**734**	**4 126**	**835**	**(2 428)**	**3 267**
As at 31 December 2021	**17 253**	**-**	**5 871**	**-**	**23 124**

	Borrowings	Dividends to pay	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**

(in millions of Russian Roubles)

25.5. 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 2021 and 31 December 2020, 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 2021 and 31 December 2020 is presented in the table below.

	31 December 2021	**31 December 2020**
Total debt	17 253	17 247
Less: cash and cash equivalents	(2 653)	(1 036)
Net debt (cash)	14 600	16 211
EBITDA	22 882	23 229
Net debt /EBITDA	63.81%	69.79%

Note 26 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 2021 (31 December 2020: there was no change). There were no transfers between levels (31 December 2020: there were no transfers).

As at 31 December 2021 and 31 December 2020 the estimated fair value of financial assets and liabilities, that are not recognised at fair value in consolidated statement of financial position, is close to their present value.

Note 27 Events after the Reporting Period

Borrowings

During the period between reporting date and signing date, the Group received short-term borrowings for a total amount of RUB 1 498 million.

During the period between reporting date and signing date, the Group repaid borrowings and loans for a total amount of RUB 3 596 million.

Increase of share capital of subsidiary

In accordance to Protocol № 1-2022 from 03 February 2022 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 2 560 000 000 (two billion five hundred sixty million) pieces with a par value of RUB 1 (one), for a total amount of RUB 2 560 000 000 (two billion five hundred sixty million).

Government grants

During the period between reporting date and signing date the Group received grants from Saint-Petersburg and Murmansk regional budgets for a total amount of RUB 1 094 million.

Impact of events happened in February-March 2022

In February 2022 the United States of America, the European Uninon and some other countries imposed additional sanctions against Russia.

These circumstances led to the devaluation of the Russian ruble, increased volatility in financial markets, and also significantly increased the level of economic uncertainty in the conditions of business in Russia. At the moment, the Group's Management is analyzing the current economic conditions and their possible impact on the Group's activities. At the time of signing of these financial statements, according to the estimates of the Group's Management, the described circumstances do not question the ability of the Group to continue as a going concern. The management of the Group considers these events as non-adjusting events after the reporting date.

V. E. Vederchik
Managing Director

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R. V. Stanishevskaya
Chief Accountant

«09» March 2022