ФБК

PJSC MIPC

Consolidated Financial Statements for the Year Ended 31 December 2016 Prepared in Accordance with International Financial Reporting Standards

Moscow | 2017

ФБК

FBK, LLC
44/1 Myasnitskaya st., Moscow, Russia 101990
T +7 (495) 737 5353 | F +7 (495) 737 5347
fbk@fbk.ru | www.fbk.ru

Independent Auditor's Report

To the Shareholders of PJSC MIPC

Opinion

We have audited the accompanying annual consolidated financial statements of PJSC MIPC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year ended December 31, 2016, and Notes to the annual consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying annual consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for 2016 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 annual consolidated financial statements* section of our report. We are independent of the Group in accordance with Independence Rules for Auditors and Audit Firms and Code of Professional Ethics of Auditors, that correspond to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, 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.

Other information

Management is responsible for the other information. The other information comprises the Annual report of PJSC MIPC and the Quarterly report of the issuer for the first quarter of 2017, which are expected to be made available to us after the date of issue of this Auditor's report.

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

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

When we read the Annual report of PJSC MIPC and the Quarterly report of the issuer for the first quarter of 2017, if we conclude that there is a material misstatement therein, we are required to report that facts to management.

Responsibilities of Management for the consolidated financial statements

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

In preparing the annual consolidated financial statements, management is responsible for the Group's ability to continue as a going concern, disclosure, 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.

Auditor's Responsibilities for the Audit of the annual consolidated financial statements

Our objective are to obtain reasonable assurance about whether the annual 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 basic of these annual consolidated financial statements.

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

a) Identify and assess the risks of material misstatement of the annual 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;

b) 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 audited entity's internal control.

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management of the audited entity.

d) 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 audited entity'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 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 audited entity to cease to continue as a going concern.

e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent underlying transactions and events in a manner that achieves fair presentation.

f) 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.

President of FBK, LLC	S.M. Shapiguzov (on the ground of the Charter, audit qualification certificate No. 01-001230, registration number 21606043397)
Audit manager	K.S. Shirikova (audit qualification certificate No. 01-000712 dated July 9, 2012, registration number 20501042062)

ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ ФИНАНСОВЫЕ И БУХГАЛТЕРСКИЕ КОНСУЛЬТАНТЫ ФБК Г.Р. № 484583 г. МОСКВА

The date of the Auditor's Report
«10» March 2017

Audited entity

Company name:

Public Joint Stock Company Moscow Integrated Power Company (PJSC MIPC).

Address:

119048, Moscow, Efremova St., 10.

ФБК

State registration certificate:

Registered by the Moscow Inter-District Inspectorate of the Ministry of Taxes and Duties of the Russian Federation No. 46 on December 16, 2004, certificate: series 77 No. 006387601. Entered in the Uniform State Register of Legal Entities on December 16, 2004 under the main state number 10477969740952.

Auditor

Company name:

Limited Liability Company "Accountants and business advisors" (FBK, LLC).

Address:

101990, Moscow, Myasnitskaya St., 44/1, bld. 2AB.

State registration certificate:

Registered by the Moscow Registration Chamber on November 15, 1993, the certificate: series YZ 3 No. 484.583 RP. Entered in the Uniform State Register of Legal Entities on July 24, 2002 under the main state number 1027700058286.

Membership in Self-Regulatory Organization of Auditors:

Nonprofit Partnership "Auditor Association Sodruzhestvo".

Number in the register of Self-Regulatory Organization of Auditors:

Certificate of membership in Nonprofit Partnership "Auditor Association Sodruzhestvo" No. 7198, number in the register – 11506030481.

PJSC MIPC

Consolidated Statement of Financial Position as at 31 December 2016

(in millions of Russian Roubles)

	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	7	151,755	142,636
Advances for capital construction		1,336	915
Intangible assets	9	3,310	4,134
Available-for-sale financial assets	11	796	-
Trade and other receivables	12	513	792
Finance lease receivables	26	61	1,206
Deferred tax assets	23	1,668	624
Other non-current assets		16	71
Total non-current assets		**159,455**	**150,378**
Current assets			
Inventories	10	1,186	1,688
Available-for-sale financial assets	11	-	2,031
Trade and other receivables	12	43,479	33,215
Finance lease receivables	26	3	31
Subsidies receivable	13	1,698	1,766
Income tax prepayments		55	18
Cash and cash equivalents	14	4,226	6,826
Loans issued		849	1,596
Other current assets		23	83
Total current assets		**51,519**	**47,254**
Assets classified as held for sale	8	**385**	**291**
Total assets		**211,359**	**197,923**
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	15	24,414	24,414
Share premium		138,596	138,596
Treasury shares	15	(16,669)	(16,669)
Reserve for revaluation of financial assets	15	-	(115)
Other reserves	15	(159)	441
Accumulated loss		(27,388)	(32,341)
Total equity attributable to the Group's owners		**118,794**	**114,326**
Non-controlling interest		671	846
Total equity and reserves		**119,465**	**115,172**
Non-current liabilities			
Loans and borrowings	16	6,580	-
Employee benefits	17	241	182
Deferred income		-	375
Deferred tax liabilities	23	5,193	2,087
Advances received	18	2,855	1,871
Accounts payable	18	2,618	2,980
Total non-current liabilities		**17,487**	**7,495**
Current liabilities			
Loans and borrowings	16	14,599	21,078
Trade payables	18	41,669	43,822
Deferred income		1,559	-
Advances received	18	13,517	7,901
Income tax payable		-	3
Advances received on subsidies		83	173
Other payables and accruals	18	2,950	2,279
Total current liabilities		**74,407**	**75,256**
Total liabilities		**91,894**	**82,751**
Total equity and liabilities		**211,359**	**197,923**

Deputy Managing Director - Director for Economy and Finance N.V. Bondal

Chief Accountant A.N. Bukina

ПАО «МОЭК» Публичное акционерное общество «Московская объединенная энергетическая компания» ПАО «МОЭК» ОГРН 1047796974092 *МОСКВА*

10 March 2017

PJSC MIPC

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

(in millions of Russian Roubles)

	Notes	For the year ended 31 December 2016	For the year ended 31 December 2015
Revenue	19	135,503	108,733
Operating expenses	20	(127,906)	(102,677)
Results from operating activities		**7,597**	**6,056**
Finance income	22	1,555	1,576
Finance costs	22	(1,749)	(991)
Net finance (costs)/income	22	**(194)**	**585**
Profit before tax		**7,403**	**6,641**
Income tax expense	23	(2,426)	(1,276)
Profit for the period		**4,977**	**5,365**
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss:			
Change in other reserves, net of tax		(600)	441
Change in fair value of available-for-sale financial assets, net of tax	11	115	(663)
Total items that may be reclassified subsequently to profit or loss		**(485)**	**(222)**
Other comprehensive loss for the period, net of tax		**(485)**	**(222)**
Total comprehensive income for the period		**4,492**	**5,143**
Profit attributable to:			
Owners of PJSC MIPC		4,953	5,365
Non-controlling interest		24	-
Profit for the period		**4,977**	**5,365**
Total comprehensive income attributable to:			
Owners of PJSC MIPC		4,468	5,143
Non-controlling interest		24	-
Total comprehensive income for the period		**4,492**	**5,143**
Basic and diluted earnings per share attributable to the owners of PJSC MIPC (in Russian Roubles)	24	**22**	**24**

Deputy Managing Director - Director for Economy and Finance N.V. Bondal

Chief Accountant A.N. Bukina

10 March 2017

Публичное акционерное общество «Московская объединенная энергетическая компания» ПАО «МОЭК» ПАО «МОЭК» ОГРН 1047796974092 *МОСКВА*

PJSC MIPC
Consolidated Statement of Cash Flows for the year ended 31 December 2016
(in millions of Russian Roubles)

	Notes	For the year ended 31 December 2016	For the year ended 31 December 2015
Cash flows from operating activities			
Profit before tax		**7,403**	**6,641**
Adjustments for:			
Amortization and depreciation	20	13,082	11,944
Gain on disposal of subsidiaries	20	(61)	(943)
Change in impairment loss on accounts receivable	20	4,002	734
(Reversal)/charge of impairment loss on property, plant and equipment	20	(201)	1
Change in impairment allowance for inventories and non-functional capital investments	20	1,110	-
Change in provision for litigation claims	20	(393)	411
Impairment loss for available-for-sale financial assets	20	137	-
Gain on disposal of property, plant and equipment	20	(5,573)	(4,165)
Net finance costs/(income)	22	194	(585)
Other non-cash transactions		(189)	72
Operating cash flows before changes in working capital and provisions		**19,511**	**14,110**
Change in inventories		475	260
Change in trade and other receivables		(9,605)	5,347
Change in employee benefit payables		59	(10)
Change in trade and other payables		9,151	1,805
Change in subsidies		(22)	428
Change in deferred income		1,184	198
Operating cash flows before income tax and interest paid		**20,753**	**22,138**
Interest paid		(2,106)	(2,350)
Income tax paid		(92)	(100)
Net cash flows from operating activities		**18,555**	**19,688**
Cash flows used in investing activities			
Purchase of property, plant and equipment		(23,768)	(16,760)
Proceeds from disposal of property, plant and equipment		2,027	2,233
Acquisition of intangible assets		(536)	(370)
Proceeds from disposal of subsidiaries, net of cash disposed		-	990
Acquisition of subsidiaries, including cash acquired		-	127
Proceeds from disposal of available-for-sale financial assets		1,387	-
Repayments of loans received		277	-
Loans issued		(1,003)	(320)
Dividends and interest received		370	217
Net cash flows used in investing activities		**(21,246)**	**(13,883)**
Cash flows from financing activities			
Proceeds from loans and borrowings		36,470	-
Repayment of loans and borrowings		(36,378)	(6,000)
Finance lease payments		(1)	(52)
Net cash flows from/(used in) financing activities		**91**	**(6,052)**
Net decrease in cash and cash equivalents		**(2,600)**	**(247)**
Cash and cash equivalents at the beginning of the period	14	6,826	7,073
Cash and cash equivalents at the end of the period	14	**4,226**	**6,826**

Deputy Managing Director - Director for Economy and Finance N.V. Bondal

Chief Accountant A.N. Bukina

10 March 2017

Публичное акционерное общество «Московская объединенная энергетическая компания» ПАО «МОЭК» ОГРН 1047796974092 *МОСКВА*

PJSC MIPC
Consolidated statement of changes in equity for the year ended 31 December 2016
(in million of Russian Roubles)

	Notes	Attributable to owners of PJSC MIPC							Non-controlling interest	Total equity
		Share capital	Share premium	Treasury shares	Financial assets revaluation reserve	Other reserves	Retained earnings	Total		
Balance at 1 January 2015		**24,414**	**138,596**	**(16,669)**	**548**	**-**	**(37,706)**	**109,183**	**-**	**109,183**
Profit for the period		-	-	-	-	-	5,365	5,365	-	5,365
Other comprehensive (loss)/income:										
Change in fair value of available-for-sale financial assets	11	-	-	-	(829)	-	-	(829)	-	(829)
Change in other reserves	15	-	-	-	-	551	-	551	-	551
Income tax on other comprehensive (loss)/income	23	-	-	-	166	(110)	-	56	-	56
Total other comprehensive (loss)/income for the period		-	-	-	**(663)**	**441**	-	**(222)**		**(222)**
Total comprehensive (loss)/income for the period		-	-	-	**(663)**	**441**	**5,365**	**5,143**	-	**5,143**
Recognition of non-controlling interest on subsidiary acquisition		-	-	-	-	-	-	-	846	846
Balance at 31 December 2015		**24,414**	**138,596**	**(16,669)**	**(115)**	**441**	**(32,341)**	**114,326**	**846**	**115,172**
Balance at 1 January 2016		**24,414**	**138,596**	**(16,669)**	**(115)**	**441**	**(32,341)**	**114,326**	**846**	**115,172**
Profit for the period		-	-	-	-	-	4,953	4,953	24	4,977
Other comprehensive income/(loss):										
Change in fair value of available-for-sale financial assets	11	-	-	-	144	-	-	144	-	144
Change in other reserves	15	-	-	-	-	(750)	-	(750)	-	(750)
Income tax on other comprehensive (loss)/income	23	-	-	-	(29)	150	-	121	-	121
Total other comprehensive income/(loss) for the period		-	-	-	**115**	**(600)**	-	**(485)**	-	**(485)**
Total comprehensive income/(loss) for the period		-	-	-	**115**	**(600)**	**4,953**	**4,468**	**24**	**4,492**
Recognition of non-controlling interest on subsidiary acquisition		-	-	-	-	-	-	-	(199)	(199)
Balance at 31 December 2016		**24,414**	**138,596**	**(16,669)**	**-**	**(159)**	**(27,388)**	**118,794**	**671**	**119,465**

Deputy Managing Director - Director for Economy and Finance N.V. Bondal

Chief Accountant A.N. Bukina

10 March 2017г.

ПАО «МОЭК» Публичное акционерное общество «Московская объединенная энергетическая компания» ОГРН 1047796974092 МОСКВА

(in millions of Russian Roubles)

Notes to the consolidated financial statements:

1	**The Group and its operations**	11
2	**Basis of preparation**	12
3	**Significant accounting policies**	13
4	**Critical judgments, estimates and assumptions**	21
5	**Capital and financial risk management**	23
6	**Related party transactions**	25
7	**Property, plant and equipment**	28
8	**Assets classified as held for sale**	30
9	**Intangible assets**	30
10	**Inventories**	31
11	**Available-for-sale financial assets**	31
12	**Trade and other receivables**	31
13	**Subsidies receivable/advances received on subsidies**	32
14	**Cash and cash equivalents**	32
15	**Equity and reserves**	32
16	**Loans and borrowings**	33
17	**Employee benefits**	33
18	**Trade and other payables**	33
19	**Revenue**	34
20	**Operating expenses**	35
21	**Staff costs**	35
22	**Finance income and costs**	36
23	**Income tax**	36
24	**Earnings per share**	38
25	**Financial instruments**	38
26	**Leases**	42
27	**Capital commitments**	43
28	**Acquisition of subsidiaries**	43
29	**Commitments and contingencies**	45
30	**Subsequent events**	46

1 The Group and its operations

1.1 Organisation structure and operations

Public Joint Stock Company Moscow Integrated Power Company (the "Company" or PJSC MIPC) and its subsidiaries (the "Group" or the "MIPC Group") are primarily involved in generation, purchase and distribution of heat energy in the form of heating and hot water to commercial organisations and for domestic needs of residents in Moscow and the Moscow region.

PJSC MIPC was established on 1 November 2004 under the agreement "On cooperation in restructuring the electric power complex of Moscow", which was concluded between OJSC RAO UES of Russia, the Moscow Government, PJSC Mosenergo and the Regional Energy Commission of Moscow.

On 7 August 2015 Open Joint Stock Company Moscow Integrated Power Company changed its official name to Public Joint Stock Company Moscow Integrated Power Company due to changes in legislation.

The Group maintains 98 generating assets: 12 RTS, 11 KTS and 75 small boiler and autonomous heating units with total heat capacity of approximately 4,261.26 Gkal/h.

PJSC MIPC is an operator of the most long-distance heating system in the world: the Company is operating more than 15.4 thousand kilometers of heating networks, including about 7.9 thousand kilometers of magistral heating networks and 7.5 thousand kilometers of distributing heating networks.

The Company continuously supplies heat to 12 million of Moscow residents.

The Group's production assets are located in Moscow. The Company's registered address is: 119048, the Russian Federation, Moscow, Efremova Street, 10.

1.2 Group formation

On 1 January 2013 the major shareholder of PJSC MIPC was the Moscow Government through the Moscow City Property Department which owned 89.98% of shares.

On 19 September 2013 LLC Gazprom energoholding acquired 89.98% shares of PJSC MIPC from the Moscow City Property Department. Due to consolidation of assets of LLC MIPC-Finance that owned 8.91% of PJSC MIPC, the actual percentage of ownership of LLC Gazprom energoholding amounted to 98.77% as a result of this transaction.

In January 2014 LLC Gazprom energoholding acuired 0.07% of the Company's shares from minority shareholders (under offer), increasing its ownership interest up to 90.05%. Due to consolidation of assets of LLC MIPC-Finance the actual ownership interest of LLC Gazprom energoholding amounted to 98.86% as a result of this transaction.

As at 31 December 2016 LLC Gazprom energoholding was the immediate parent company of the Group (the "Parent company"). The Group's immediate parent company does not issue financial statements for public use.

1.3 Business environment

The Group operates in the Russian Federation. The economy of the Russian Federation displays certain characteristics of an emerging market. It is particularly sensitive to oil and gas prices changes. Tax, currency and customs legislation of the Russian Federation continues to develop and is a subject to frequent changes and varying interpretations (Note 29). The Russian economy was negatively impacted by a decline in oil prices, political tension in the region and international sanctions against certain Russian companies and individuals.

As a result during 2016:

- the Central Bank of the Russian Federation ("CBRF") exchange rate fluctuated between the Russian Ruble ("RUB") 60.2730 per US Dollar ("USD") and RUB 83.5913 per USD;
- the CBRF key refinancing interest rate decreased from 11.0% p.a. to 10.0% p.a.;
- access to international financial markets to raise funding was limited for certain entities;

The financial markets continue to demonstrate volatility, frequent significant price movements and increasing trading spreads. Subsequent to 31 December 2016:

- the CBRF exchange rate fluctuated between RUB 56.7719 per USD and RUB 60.3196 per USD;
- Russia's credit rating was confirmed by Fitch Ratings at BBB- and Moody's Investors Service maintained credit rating at level Ba1. Currently Russia's credit rating per Fitch Ratings and Moody's is still in line with the investment level;
- the CBRF key refinancing interest rate remained at 10.0% p.a.

(in millions of Russian Roubles)

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.

These consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group.

1.4 Relationship with the Government and current legislation

At the end of the reporting period the Russian Federation owned (both directly and indirectly) over 50% in PJSC Gazprom which is the 100% parent company of LLC Gazprom energoholding. Thus, PJSC Gazprom is the Group's ultimate parent company and the Russian Federation (the "Government") is the Group's ultimate controlling party.

The Government of the Russian Federation directly affects the Group's operations through regulations of wholesale and retail sales of electricity and heat, effected by the Federal Antymonopoly Service, the Department of Economic Policy and the Development of Moscow, the Committee on prices and tariffs of the Moscow region. The Government's economic, social and other policies could substantially affect the Group's operations.

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

Moreover heat and hot water are sold to housing companies at preferential rates established for population of Moscow by the Moscow Government at the level below economically justified. As a result, PJSC MIPC has lost revenue from the sale of heat and hot water to housing organizations, which represents the difference between the income that could be obtained in the application of cost-based rates, and the income actually accrued for the population at the preferential rates. To compensate this lost revenue the Moscow Government provides government subsidies, which are recorded in the Group's revenue (Note 19). Detailed information on transactions with related parties is presented in Note 6.

1.5 Scope of consolidation

The Group's consolidated financial statements reflect the results of PJSC MIPC and its subsidiaries.

Subsidiary	Nature of business	Interest held	
		31 December 2016	31 December 2015
OJSC Mosgorenergo	Energy distribution services	100.00%	100.00%
LLC MIPC-Finance	Operations on securities market	100.00%	100.00%
OJSC MIPC-Generation	Purchase/sale of heat and electricity	100.00%	100.00%
LLC Razvitiye teplosetevogo kompleksa	Heating network and associated equipment development	100.00%	100.00%
LLC Center for MIPC technological connections	Connection to networks of engineering and technical support	100.00%	100.00%
LLC HSC MIPC	Production, transmission and distribution of steam and hot water (heat energy)	100.00%	100.00%
LLC Property Management Center	Intermediary services in buying, selling and renting real estate	100.00%	0.00%
LLC HSC Mosenergo	Production, transmission and distribution of steam and hot water (heat energy)	77.49%	74.39%
LLC HSC Novaya Moskva	Production, transmission and distribution of steam and hot water (heat energy)	77.49%	0.00%
LLC HSC Metrologiya	Installation, repair and maintenance of devices and tools for measuring, control, testing and other purposes	0.00%	73.65%

As at 31 December 2016 there are no significant restrictions in getting access to the subsidiary's assets or using them for settling the subsidiary's obligations.

The Group holds no preference shares.

2 Basis of preparation

2.1 Statement of compliance with IFRS

These consolidated financial statements have been prepared in accordance with and in compliance with, the International Financial Reporting Standards ("IFRS").

2.2 Basis of measurement

The consolidated financial statements have been prepared based on historical cost except for financial investments classified as available-for-sale financial assets, and property, plant and equipment received as payment for shares issued, which were measured at fair value at initial recognition.

2.3 Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

3 Significant accounting policies

The accounting policies described below have been applied consistently to all reporting periods presented in these consolidated financial statements and have been applied consistently by the Group's entities.

3.1 Basis of consolidation

(i) Subsidiaries

Subsidiaries are those investees, that the Group controls because the Group:

- has the power to control significant operations which has a considerable impact on the investee's revenues;
- is exposed, or has rights, to variable returns from its involvement with the investee; or
- has the ability to affect those returns through its power over the investee.

The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee.

Subsidiaries are consolidated from the date on which control is obtained by the Group (acquisition date) and are deconsolidated from the date on which control ceases. The accounting policies of subsidiaries have been changed when it was necessary to align them with the accounting policies adopted by the Group.

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

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

The losses attributable to the non-controlling interest in a subsidiary are fully charged to the non-controlling interest account, even if this results in a debit balance (deficit) on this account.

(ii) Loss of control

Upon the loss of control over a subsidiary, the Group derecognizes the assets and liabilities, and the related non-controlling interests and other components of equity. Any positive or negative difference resulting from the loss of control is recognised in profit or loss for the period. In addition, the amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date of loss of control. Subsequently, the interest is accounted for as an investment in an associate (using the equity method) or as available-for-sale financial assets, depending on the extent to which the Group continues to affect that entity.

(iii) Investments in associates (equity accounted investees)

Associates are those entities over which financial and operating policy the Group has significant influence but does not control them. An investment in an associate are accounted for using the equity method. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align their accounting policies with those of the Group. When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

Intercompany transactions and balances as well as any unrealized gains or losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with investees which are accounted for using the equity method, are eliminated in proportion to the Group's share in such objects. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment of the underlying asset.

3.2 Business combinations of entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

For transactions between the Group and entities under common control of a single owner, the application of IFRS 3 Business Combinations is not required.

The Group recognises such transactions at the carrying amount of acquired assets and liabilities reflected in the financial statements of the parent company for the parties involved in the transaction and under its common control. The excess of the cost of the investment in such subsidiaries over the carrying amount of their net assets at the acquisition date is recognised within the Group's equity statement (line "Other reserves")

The financial statements include the results of acquired company from the date of acquisition.

3.3 Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate at the date when the fair value was determined. Foreign exchange differences arising from translation are recognised in profit or loss, except for exchange differences arising from translation of available-for-sale equity instruments which are recognised in other comrehensive income.

3.4 Financial instruments

The Group does not use derivative instruments in its operating activities.

Non-derivative financial instruments comprise investments in equity and debt securities, trade receivables, cash and cash equivalents, loans and borrowings, trade and other payables.

Non-derivative financial instruments (financial assets and liabilities) are recognised initially at fair value plus any costs directly attributable to the transaction, except for financial instruments at fair value, changes in which are recognised through profit or loss. Subsequent to initial recognition, non-derivative financial instruments are measured in accordance with the methods described below.

The classification of financial instruments to a particular category depends on the nature and purpose of their acquisition and is determined at their initial recognition.

Financial assets at fair value through profit or loss. A financial asset is classified as measured at fair value through profit or loss in the statement of comprehensive income, if it is intended for trading, i.e. acquired principally for sale in the near future. These financial assets are carried at fair value, with gains or losses arising from revaluation recorded in profit or loss for the period. Net gains or losses recognised in profit or loss include any dividend or interest earned on the financial asset.

Held-to-maturity investments. If the Group intends and is able to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured using the effective interest method, less any impairment losses.

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.

Available-for-sale financial assets. Available-for-sale financial assets comprise mainly shares listed on an active market, and stocks/shares that are not listed in an active market. At initial recognition available-for-sale financial assets are measured at fair value plus any costs directly attributable to the transaction. After initial recognition they are measured at fair value through other comprehensive income and presented within equity in the line financial assets revaluation reserve. When an available-for-sale financial asset is derecognised the cumulative gain or loss that was recognised in equity is transferred to profit or loss.

An active market is a market in which transactions with assets or liabilities are conducted with sufficient frequency and in sufficient quantities to obtain the information about the estimates on an ongoing basis.

Loans and receivables include financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term (which shall be classified as held for trading), and those that the Group upon initial recognition designates at fair value through profit or loss. After initial recognition loans and receivables are measured at amortised cost, calculated using the effective interest method, less any impairment losses.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, less or plus accrued interest, and for financial assets less any write-down for incurred impairment losses (direct or by using allowance account). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the 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 the related items in the statement of financial position.

Cash and cash equivalents include cash in hand and in bank accounts, deposits held at call with banks with original maturities of three months or less, and deposits held at call. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management policy are included in cash and cash equivalents for the purpose of the statement of cash flows.

The Group recognises the disposal of a financial asset only in the event of termination of the rights for cash flows under the relevant contract or if the financial asset and the related risks and rewards are transferred to other entity. If the Group retains substantially all the risks and rewards of ownership of the transferred financial asset, it continues to recognise the financial asset. The Group derecognises financial liabilities only when they are discharged, cancelled or expired.

Financial liabilities mainly include trade and other accounts payable, loans and borrowings payable, and recognised at amortised cost by using the effective interest method**.**

3.5 Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to an issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Treasury shares

When equity is repurchased, the amount of the consideration paid which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

3.6 Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are recognised at cost of actual acquisition or construction less accumulated depreciation and impairment losses. In the case of impairment, the carrying amount is reduced to its recoverable amount, the difference is recognised as an expense (impairment loss) in the income statement and included in accumulated depreciation and impairment. Loss on impairment of property, plant and equipment recognised in prior periods is reversed if there has been a positive change in the estimates used to determine the asset's recoverable amount.

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

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

The commencement date for capitalization 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.

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

The Group capitalizes borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Capitalized borrowing costs are calculated at the Group's average funding cost (the weighted average interest cost applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for obtaining a qualifying asset. When this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalized.

If an item of property, plant and equipment includes separate components with different useful lives, each component is accounted for as a separate item (significant component) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised in profit or loss for the period.

The Group's property, plant and equipment may be liquidated by the construction company at its own expense if they prevent the construction works in Moscow. As compensation the construction company should either build new assets at its own expense and transfer them to the Group in substitution of the liquidated ones, or pay the losses to the Group by cash depending on the contractual terms. Assets received as a compensation are accounted for at fair value. Compensation received in cash is recognised as advances received in the statement of financial position upon receipt. Gain on liquidation and the cost of the liquidated item of property, plant and equipment are recognised through profit or loss or other comprehensive income at the moment of liquidation.

(ii) Subsequent costs

The cost of replacing a significant component of an item of property, plant and equipment increases the carrying amount of the item if it is probable that the future economic benefits will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day maintenance of property, plant and equipment are recognised in profit or loss as incurred.

(iii) 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 commences when the asset is ready for use.

The estimated useful lives of certain classes of property, plant and equipment in the current and comparative periods are as follows:

- Buildings and constructions 5-80 years
- Heating networks 5-80 years
- Machinery and equipment 1-32 years
- Transport and other 2-30 years

Depreciation methods, estimated useful lives and residual values are reviewed at each reporting date.

3.7 Leased assets

Leases where the Group assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. The assets leased under finance lease are capitalised within property, plant and equipment at the lower of the fair value of the leased assets and the present value of the minimum lease payments at the commencement of the lease, with the related lease obligation recognised at the same value.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of lease term.

Finance lease payments are allocated using the effective interest method between the lease finance cost, which is included in finance costs, and the capital repayment, which reduces the related lease obligation to the lessor. Thus, to produce a constant periodic interest rate on the remaining balance of finance lease liabilities.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. The leased assets are not recognised in the Group's statement of financial position. Payments under operating leases are recognised as expenses in profit or loss for the period during the lease term.

3.8 Intangible assets

The Group's intangible assets include mainly software, which was acquired as separate assets.

Intangible assets are carried at cost less accumulated amortization and impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits from the specific asset to which it relates. All other costs, including costs of internally generated goodwill, are recognised in profit or loss as incurred.

Amortization

Amortization is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, except for goodwill, from the date when they are ready for use.

The estimated useful lives of the intangible assets for the current and comparative periods vary from one to ten years.

Amortization methods, estimated useful lives and residual values are reviewed at each reporting date.

3.9 Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss for the period. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortized cost, the reversal is recognised in profit or loss.

Impairment losses for available-for-sale financial assets are recognised in profit or loss for the reporting period when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the current period. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed by adjusting the allowance account through profit or loss for the current year.

(ii) Non-financial assets

The carrying amounts of the Group's property, plant and equipment are reviewed annually to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

To determine the amount of impairment, assets are grouped in the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets which cannot be tested individually, are grouped into the smallest group of assets that generates cash inflows from continuing use of respective assets that are largely independent of the cash inflows of other assets or groups of 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 profit or loss.

An impairment loss reversal of the carrying amount of an asset should not exceed the carrying amount that would be established (less depreciation) if no impairment loss would have been recognized in the previous periods. Impairment loss reversal is recognised in profit or loss.

3.10 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes purchase costs, cost of production or conversion and other costs incurred in bringing them to their existing location and condition. Regarding the inventories of own production and work in progress, the cost includes an appropriate share of production costs based on the entity's normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.11 Employee benefits

Wages payable to employees for the services rendered during the current period are recognised as expenses of the current period.

Social benefits

In accordance with the social policy PJSC MIPC is obliged to make one-time financial assistance payment to retired employees based on their length of service in the Company. Employee benefit obligations are measured at present value.

3.12 Provisions

Provisions are recognised if the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3.13 Revenue

Revenue includes the sale of heat energy in the form of heating and hot water, its transmission and other related services, and represents the fair value of the consideration received or receivable, net of value added tax.

Revenues from heat energy sales are calculated monthly based on:

- volume of heat consumed is based on the data from metering units, installed at the consumers' buildings or at heat distribution units, based on the contractual heat load of the consumers; and
- tariffs, approved by the Department of Economic Policy and Development of Moscow, the Committee on prices and tariffs of the Moscow region.

Revenue from the sale of goods other than electricity and heat is measured at the fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, receipt of the consideration is highly probable, the associated costs and possible return of goods can be estimated reliably. Transfers of risks and rewards vary depending on the specific terms of the sale contract.

Certain groups of customers receive the state subsidies under specific conditions (for example, disability, veteran status, etc.) that are provided in the form of the reduced payment for heat. The Group receives compensation payments from the relevant municipal authorities. In this case revenue is recognised based on the total amount that will be received from the buyer and government agencies.

3.14 Government subsidies

Subsidies provided by the Moscow Government to compensate the Group for the losses incurred as a result of selling heat to population at regulated reduced tariffs, are recognised in profit or loss in the period in which they were incurred.

Subsidies received before the related period are recognised as payables on subsidies.

3.15 Finance income and costs

Finance income comprises interest income on investments (including available-for-sale investments), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised in profit or loss as accrued, using the effective interest method. Dividend income is recognised in profit or loss on the date when the Group's right to receive payment is established; for quoted securities it is the ex-dividend date.

Finance costs include interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on certain financial assets. All borrowing costs are recognised in profit or loss using the effective interest method except for those which are attributable to the acquisition or construction of the qualified asset.

Foreign exchange gains and losses are recognised on a net basis.

3.16 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss for the period except to the extent that it relates to items recognised in other comprehensive income, in this case it is recognised in the consolidated statement of changes in equity.

Current tax is an amount expected to be paid to, or recovered from tax authorities, in respect of taxable profits or losses for the year, using tax rates enacted or substantively enacted at the reporting date, and includes any adjustments to tax payable in respect of previous years.

Deferred tax is recognised as liability using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction other than a business combination and that affects neither accounting nor taxable profit or loss;
- differences related to investments in subsidiaries and associates to the extent that it is probable that they will not be reversed in the foreseeable future.

Moreover deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3.17 Segment reporting

The Group does not apply IFRS 8 “Operating segments” because its debt and equity instruments are not traded on the open market.

3.18 Earnings per share

The Group presents basic and diluted earnings/(loss) per share data for its ordinary shares. Basic earnings/(loss) per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period. Diluted earnings/(loss) per share are determined by adjusting profit or 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. There were no dilutive instruments as at 31 December 2016 and 31 December 2015.

3.19 New standards and interpretations

The following new standards, amendments to standards and interpretations became effective starting from 1 January 2016:

- IFRS 14 “Regulatory Deferral Accounts” (issued in January 2014 and effective for the annual periods beginning on or after 1 January 2016).
- Amendments to IFRS 11 “Joint Arrangements” (issued in May 2014 and effective for the annual periods beginning on or after 1 January 2016) on accounting for acquisition of interests in joint operations that constitutes a separate business.
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” (issued in May 2014 and effective for the annual periods beginning on or after 1 January 2016) on clarification of acceptable methods of depreciation and amortization.
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” (issued in December 2014 and effective for the annual

periods beginning on or after 1 January 2016) clarify the rules concerning the accounting of investments in investment entities.

- Amendments to IAS 1 "Presentation of Financial Statements" (issued in December 2014 and effective for the annual periods beginning on or after 1 January 2016). The standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS requirements contain a list of specific requirements or describe them as minimum requirements.

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

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

The following new standards, amendments to standards and interpretations are not yet effective for the Group as at 31 December 2016 and were not early adopted by the Group:

- The amendments to IFRS 9 "Financial Instruments" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). IFRS 9 "Financial Instruments" replaces those parts of IAS 39 "Financial Instruments: Recognition and Measurement" relating to the classification and measurement of financial assets. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 "Financial Instruments" or continuing to apply IAS 39 "Financial Instruments: Recognition and Measurement" to all hedging instruments because the standard currently does not address accounting for macro hedging.

- IFRS 15 "Revenue from Contracts with Customers" (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Revenue from sales of any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognised as an asset and amortised over the period when the benefits of the contract are consumed.

- IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 "Leases" and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 "Leases" are implemented for lessors. Earlier application of the standard is permitted simultaneously with earlier application IFRS 15 "Revenue from Contracts with Customers".

- The amendments to IAS 7 "Cash Flow Statements" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The revised standard requires disclosing a reconciliation of movements for obligations arising from financing activities

- The amendments to IAS 12 "Income Taxes" in the recognition of deferred tax assets for unrealised losses (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).

- The amendments to IFRS 2 "Share-based Payment" (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.

- The amendments to IFRS 4 "Insurance Contracts" (issued in September 2016 and effective for annual periods beginning on or after 1 January 2018) concern the issues of the application of IFRS 4 "Insurance Contracts" and IFRS 9 "Financial Instruments" at one time.

- The amendments to IAS 40 "Investment Property" (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify the requirements on transfers to, or from, investment properties.

The Group is currently assessing the impact of these amendments on its financial position and performance results.

4 Critical judgments, estimates and assumptions

4.1 Professional judgments, estimates and assumptions

In preparing these consolidated financial statements in accordance with IFRS the management applied a number of judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognised in the period in which the estimates are revised and in any subsequent period in which such changes will have an impact on the financial statements.

In particular, information about the most significant areas requiring estimates of uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

(i) *Impairment allowance for property, plant and equipment.* The Group reviews property, plant and equipment for impairment indicators. If any impairment indicator exists, the management estimates the recoverable amount, which is determined as the higher of the two values: net selling price of an asset or its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or loss and included in accumulated depreciation and impairment. An impairment loss recognised for property, plant and equipment in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount if there has been a positive change in the estimates used to determine the recoverable amount of the asset. The effect of applying such estimate and judgment is included in Note 7.

(ii) *Useful lives of property, plant and equipment.* The estimation of useful life for an item of property, plant and equipment is subject to management judgment based on experience with similar assets. In determining the useful life of an asset, management considers the following factors: the character of expected usage, estimated technical obsolescence, the physical wear and tear and the operating environment of assets. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

(iii) *Impairment of accounts receivable.* An allowance for impairment loss of accounts receivable is based on the management’s assessment of deterioration in the collectability of accounts receivable of individual consumers, compared with previous forecasts. If there is a decrease in a major customer’s creditworthiness or actual defaults are higher than the estimates, the actual results may differ from the estimates. The effect of applying such estimate and judgment is presented in Note 25.

(iv) *Recognition of deferred tax asset.* The recognised deferred tax asset represents the amount of income tax which could be offset against future income taxes and is recorded in the statement of financial position. Deferred tax asset is recognised only if the related tax benefit is highly probable. The effect of applying such estimate and judgment is presented in Note 23.

The management has prepared these consolidated financial statements on the going concern basis. This management’s judgement is based on a review of the Group’s financial position, current plans, financial results, as well as on an analysis of the impact of the financial markets conditions on the Group’s operations.

The average personnel number of the Group increased by 4% from 16,846 people in 2015 to 16,911 people in 2016.

The Group owns 55.78% of shares of Mutual Investment Fund Perlovsky and is entitled to receive a cash corresponding to this share from the mutual investment fund, without control over the assets of the fund. Assets of Mutual Investment Fund Perlovsky are operated by an independent management company. Mutual Investment Fund Perlovsky is not included into the Group’s consolidation.

4.2 Presentation of changed information

Changes in approach to presentation of government subsidies

The Group reconsidered the previously used approach to presentation of government subsidies in the consolidated statement of profit or loss and other comprehensive income. Till 2016 government subsidies were presented in the separate line of the consolidated statement of profit or loss and other comprehensive income. Due to immaterial amounts of government subsidies, the Group’s management consideres this information to be insignificant for the disclosure in the financial statements and that the new form of presentation will be more appropriate. Based on this the Group presents its revenue on the basis of total amount that will be received both from customers and government bodies , as part of revenue from 2016.

(in millions of Russian Roubles)

As a result of changed approach to presentation of government subsidies, the information on the revenue for the year ended 31 December 2015 was adjusted in Note 6 “Related party transactions” and Note 19 “Revenue”.

Changes of comparative information on payables

As at 31 December 2015 the current portion of long-term payables on purchased fixed assets was not distinguished. For the reliable presentation of information on payables the current portion of long-term payables was transferred from the line “Long-term accounts payable” to the line “Short-term trade payables”.

The effect of the changes on the consolidated statement of financial position as at 31 December 2015 is presented below:

	As at 31 December 2015	Adjustment	As at 31 December 2015 (recalculated)
Accounts payable	4,268	(1,288)	2,980
Total non-current liabilities	**8,783**	**(1,288)**	**7,495**
Trade payables	42,534	1,288	43,822
Total current liabilities	**73,968**	**1,288**	**75,256**

Changes in presentation of information on financial risks

The credit quality of accounts receivable

The Group adjusted the information on ageing of accounts receivable. For the reliable presentation of information on overdue accounts receivable, the comparative information for the year 2015 was clarified, in particular, advances issued which are not financial assets, have been excluded from the disclosure.

The effect of the changes on the consolidated statement of financial position as at 31 December 2015 is presented below:

	As at 31 December 2015		Adjustment		As at 31 December 2015 (recalculated)	
	Carrying amount	Impairment	Carrying amount	Impairment	Carrying amount	Impairment
Not overdue	18,932	(54)	(3,492)	-	15,440	(54)
0-180 days overdue	12,859	(9)	(5,164)	(60)	7,695	(69)
180-360 days overdue	813	(295)	7,586	(195)	8,399	(490)
360 to 2 years days overdue	1,473	(744)	1,406	(475)	2,879	(1,219)
Overdue for more than two years	2,683	(2,683)	(560)	743	2,123	(1,940)
	36,760	**(3,785)**	**(224)**	**13**	**36,536**	**(3,772)**

Liquidity risk

In connection with the adjustment made to distinguish the current portion of long-term payables on purchased fixed assets the liquidity disclosure as at 31 December 2015 was clarified.

The effect of the changes on consolidated statement of financial position as at 31 December 2015 is presented below:

	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
31 December 2015 Non-derivative financial liabilities									
Trade payables	46,802	47,535	42,840	552	872	859	859	859	694
Total	**67,880**	**69,259**	**56,726**	**8,390**	**872**	**859**	**859**	**859**	**694**
Adjustment									
Trade payables	-	1,288	1,288	-	-	-	-	-	-
Total	**-**	**1,288**	**1,288**	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2015 (recalculated)									
Trade payables	46,802	48,823	44,128	552	872	859	859	859	694
Total	**67,880**	**70,547**	**58,014**	**8,390**	**872**	**859**	**859**	**859**	**694**

(in millions of Russian Roubles)

5 Capital and financial risk management

Overview of basic approaches

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- inflation risk;
- liquidity risk;
- market risk.

This Note presents information about the Group's exposure to each of the risks listed above, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Additional quantitative disclosures are included throughout these consolidated financial statements.

Capital management

The Group manages capital for all Group entities to continue as a going concern in the foreseeable future and, at the same time, to maximise profit for shareholders through optimising its gearing ratio.

The Group's capital structure depends on ratio between debt liabilities which include short-term and long-term borrowings, cash and cash equivalents and equity attributable to the Company's owners that includes share capital, reserves and retained earnings or accumulated deficit.

There were no changes in the Group's approach to capital management during the reporting period.

The management regularly reviews the capital structure using gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans and borrowings stated in the consolidated statement of financial position, net of cash. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt amount.

The gearing ratios as at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	**31 December 2015**
Loans and borrowings (Note 16)	(21,179)	(21,078)
Cash and cash equivalents (Note 14)	4,226	6,826
Net debt	(16,953)	(14,252)
Equity attributable to the Group's owners	(118,794)	(114,326)
Total equity	**(135,747)**	**(128,578)**
Gearing ratio	**12.49%**	**11.08%**

(i) Loans' covenants

The Group maintains an optimal capital structure by monitoring some credit covenants. As at 31 December 2016 and 31 December 2015 the Group was in compliance with certain covenants foreseen in credit agreements:

- the minimum level of EBITDA/Interest expenses;
- the maximum level of Net financial Debt/EBITDA;
- maintaining a specified minimum level of credit turnover at bank accounts.

(ii) Legislation requirements

The Group is subject to the following capital requirements that have been established for joint stock companies by the legislation of the Russian Federation:

- share capital cannot be lower than RUB 100,000;
- if the share capital of the entity exceeds the statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- if the minimum allowed share capital exceeds the statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2016 the Group was in compliance with the above share capital requirements.

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty fails to meet its contractual obligations in time. The Group's exposure to credit risk is associated with cash and cash equivalents in bank accounts and unsecured accounts receivable and loans issued.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Geographically credit risk is concentrated in Moscow and Moscow Region. Creditworthiness of existing customers is periodically evaluated based on internal and external information regarding the history of settlements with these customers. The Group constantly analyses accounts receivable turnover ratios, maturity dates and takes appropriate measures on collection of debts due. Approximately 90-95% of the customers are the Group's clients for a period longer than 2-3 years.

In monitoring customer credit risk, customers are grouped according to the accounts receivable type and maturity dates. Accounts receivable are divided into five major groups: current, overdue, long-term, doubtful and bad debts. When the accounts receivable are classified as overdue measures are taken to collect these receivables, including oral and written notifications to a debtor, filing a claim, assessing late payment interest, etc. The Group establishes an allowance for impairment of trade and other receivables as well as advances issued that represents its estimate of incurred credit losses. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payments for similar financial assets. The estimated amount of the allowance determined based on the coefficients of repayment probability by the debtor may be adjusted both upwards or downwards. In making such decision the management of the Group analyses the debtors' creditworthiness and dynamics of debt repayment, changes in payment terms, availability of existing guarantee letters on debt repayment as well as current overall economic conditions.

(ii) Guarantees

The Group's policy does not include provision for any financial guarantees for suppliers.

(iii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a high credit rating approved by the rating agency, except for related parties. Given these high credit ratings, the management does not expect any counterparty to fail to meet its obligations.

(iv) Bank deposits

Bank deposits of the Group are located mainly in banks with credit rating Ba2 (stable) estimated by Moody's.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages its liquidity risk using procedures of detailed planning and forecasting of cash flows to provide sufficient funds for timely repayment of its obligations.

The Group usually ensures the availability of funds in the amount sufficient for the timely fulfillment of its contractual obligations, including the servicing of financial obligations.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing the return.

(i) Currency risk

Currency risk is the risk of the negative effect of changes in the exchange rates on the Group's financial results. Due to the fact that the Group sells services in the domestic market, its activities are not directly affected by foreign exchange rates fluctuations and the risk can be defined as low. The Group has the insignificant obligations which are dependent on the foreign exchange rates.

The management of the Group does not establish an acceptable level of currency risk, but periodically reviews and assesses this risk.

(in millions of Russian Roubles)

(ii) Interest rate risk

Interest rate risk is in compliance with interest rate fluctuation which may affect the Group's financial results. Changes in interest rates impact primarily on loans and borrowings raised by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt).

The Group is not exposed to interest rate risk as all loans and borrowings have fixed interest rates.

(iii) The risk of changes in equity instruments prices

As the Group has investments in shares, it is exposed to the risk of changes in equity instruments prices.

The Group's strategy related to investments in shares is diversification of the portfolio, acquisition of the liquid securities of stable issuers and continuous monitoring the dynamics of their market data.

The analysis of the Group's sensitivity to a 20% change in the market value of shares included in the Group's investment portfolio is as follows:

- there is no effect on profit before tax for the year ended 31 December 2016 and 31 December 2015, if the market value of the shares increases or decreases;
- if the market value of the shares increases or decreases the effect on the investment revaluation reserve in equity for the year ended 31 December 2016 would have amounted to RUB nill million (for the year ended 31 December 2015: RUB 44 million).

6 Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. PJSC Gazprom is the ultimate parent company of the Group during current and previous reporting periods. The Russian Government is the ultimate controlling party of the Group during current and previous reporting periods.

Transactions with Gazprom Group and its associates

Revenue

	For the year ended 31 December 2016	For the year ended 31 December 2015
Revenue from heat energy transmission services	3,933	6,520
Revenue from heat energy sales	168	57
Revenue from water supply services	9	8
Other revenue	976	773
Total	**5,086**	**7,358**

For the year ended 31 December 2016, the Group provided services to PJSC Mosenergo amounting to RUB 4,828 million (for the year ended 31 December 2015: RUB 7,131 million), including:

- revenue from heat energy transmission services RUB 3,933 million (for the year ended 31 December 2015: RUB 6,520 million);
- other revenue RUB 895 million (for the year ended 31 December 2015: RUB 611 million).

Expenses	For the year ended 31 December 2016	For the year ended 31 December 2015
Purchased heat energy	65,022	47,731
Fuel expenses	6,177	7,208
Water expenses	989	1,110
Rent expenses	886	679
Purchased electricity	107	118
Gain on disposal of property, plant and equipment and other assets	(8)	(474)
Other operating expenses	3,372	2,700
Total	**76,545**	**59,072**

(in millions of Russian Roubles)

PJSC Mosenergo, a subsidiary of PJSC Gazprom, is the main supplier of heat energy and electricity for the Group. For the year ended 31 December 2016, the Group's purchases from PJSC Mosenergo amounted to RUB 67,014 million (for the year ended 31 December 2015: RUB 48,253 million) including:

- purchased heat energy RUB 64,988 million (for the year ended 31 December 2015: RUB 46,966 million);
- purchased electricity RUB 73 million (for the year ended 31 December 2015: RUB 67 million);
- rent expenses RUB 665 million (for the year ended 31 December 2015: RUB 380 million);
- other operating expenses RUB 1,288 million (for the year ended 31 December 2015: RUB 840 million).

LLC Gazprom Mezhregiongaz Moscow, a subsidiary of PJSC Gazprom, is the main gas supplier for the Group. For the year ended 31 December 2016, the Group's purchases from LLC Gazprom Mezhregiongaz Moscow amounted to RUB 6,177 million (for the year ended 31 December 2015: RUB 7,208 million).

In addition to the above data, in 2016 PJSC Mezhregionteplosetenergoremont provided the Group with capital construction services amounting to RUB 3,195 million (for the year ended 31 December 2015: RUB 3,685 million).

Finance income and finance costs	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**
Finance income	186	416
Finance costs	(607)	(468)
Net finance costs	**(421)**	**(52)**

Finance income for the year ended 31 December 2016 includes interest income on deposits with Gazprombank (Joint-stock Company), an associate of PJSC Gazprom, in the amount of RUB 79 million (for the year ended 31 December 2015: RUB 79 million), amortization of discount on long-term accounts receivable from sales of ordinary shares JSC MIPC-Project in the amount of RUB 41 million (for the year ended 31 December 2015: RUB 0 million) and interest income on finance lease provided by PJSC Mosenergo in the amount of RUB 16 million (for the year ended 31 December 2015: RUB 299 million).

Finance costs for the year ended 31 December 2016 include:

- discount on long-term accounts receivable from sales of ordinary shares JSC MIPC-Project in the amount of RUB 102 million (for the year ended 31 December 2015: RUB nill million);
- amortization of discount on long-term payables related to acquisition of the heating networks from PJSC Mosenergo in the amount of RUB 504 million (for the year ended 31 December 2015: RUB 449 million).

Outstanding balances	**Outstanding balances as at 31 December 2016**	**Outstanding balances as at 31 December 2015**
Cash and cash equivalents	1,291	3,058
Trade and other receivables	843	5,295
Advances for capital construction	790	473
Loans issued	455	320
Finance lease receivables	64	1,237
Advances issued and prepaid expenses	35	36
Total	**3,478**	**10,419**
Trade and other payables	36,463	35,876
Loans and borrowings	3,780	-
Advances received	9	3
Total	**40,252**	**35,879**

Trade and other receivables include an outstanding balance with PJSC Mosenergo, a subsidiary of PJSC Gazprom, in the amount of RUB 328 million as at 31 December 2016 (as at 31 December 2015: RUB 5,364 million), including present value of lease payments receivable in the amount of RUB 64 million at 31 December 2016 (as at 31 December 2015:RUB 1,237 million)

Cash balances as at 31 December 2016 relate to transactions with Gazprombank (Joint-stock Company), an associate of PJSC Gazprom. As at 31 December 2016 an outstanding balance amounted to RUB 1,291 million (as at 31 December 2015:RUB 3,039 million)

Trade and other payables include outstanding balances with PJSC Mosenergo in the amount of RUB 27,534 million as at 31 December 2016 (at 31 December 2015: RUB 27,504 million) and LLC Gazprom mezhregiongaz Moskva, a subsidiary of PJSC Gazprom, in the amount of RUB 1,158 million as at 31 December 2016 (as at 31 December 2015:

(in millions of Russian Roubles)

RUB 854 million).

Transactions with key management

Key management personnel (the members of the Board of Directors and top executives of the Group) received the following remuneration, which is included in staff costs:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Salaries and bonuses	211	197
Social taxes and contributions	39	37
Remuneration for membership in the Board of Directors	6	7
Termination benefits	-	22
Total	**256**	**263**

	Outstanding balance as at 31 December 2016	Outstanding balance as at 31 December 2015
Salaries and bonuses	12	8
Total	**12**	**8**

The management fee to LLC Gazprom energoholding for the year ended 31 December 2016 amounted to RUB 120 million (for the year ended 31 December 2015: RUB 44 million).

Transactions with other state-controlled entities

Revenue

	For the year ended 31 December 2016	For the year ended 31 December 2015
Revenue from heat energy sale	60,323	45,912
Revenue from hot water supply services	25,703	23,075
Revenue from transfer of water	1,990	1,970
Other revenue	1,410	388
Total	**89,426**	**71,345**

Subsidies received from the Moscow Government are included in revenue from heat energy and hot water sale (Note 19).

Expenses

	For the year ended 31 December 2016	For the year ended 31 December 2015
Water expenses	6,114	5,962
Purchased electricity	1,763	4,086
Taxes other than income tax	1,290	1,183
Rent expenses	239	417
Other operating expenses	1,383	4,295
Total	**10,789**	**15,943**

Finance income and costs

	For the year ended 31 December 2016	For the year ended 31 December 2015
Finance income	473	576
Finance costs	(582)	(418)
Net finance (costs)/income	**(109)**	**158**

(in millions of Russian Roubles)

Outstanding balances

	Outstanding balances as at 31 December 2016	Outstanding balances as at 31 December 2015
Trade and other receivables	27,024	16,746
Tax prepayments	869	1,040
Cash and cash equivalents	640	1,694
Loans issued	394	397
Advances for capital construction	31	44
Advances issued and prepaid expenses	11	18
Available-for-sale financial assets	-	1,087
Total	**28,969**	**21,026**
Loans and borrowings	10,500	20,700
Advances received	4,469	3,581
Trade and other payables	3,267	2,434
Taxes payable	1,322	643
Total	**19,558**	**27,358**

Trade and other receivables, advances issued and prepaid expenses with other state-controlled entities, as at 31 December 2016 include provision for impairment of accounts receivable in the amount of RUB 3,359 million (as at 31 December 2015 RUB: 1,134 million).

7 Property, plant and equipment

	Heating networks	Building and facilities	Machinery and equipment	Transport and other	Construction in progress	Total
Book value						
Balance as at 31 December 2014	**187,337**	**25,205**	**38,261**	**4,772**	**20,914**	**276,489**
Additions	405	99	346	42	22,577	23,469
Disposals	(1,213)	(3,216)	(3,033)	(242)	(608)	(8,312)
Transfers	11,045	2,091	2,414	191	(15,741)	-
Reclassification to assets held for sale	(29)	(177)	(66)	(320)	-	(592)
Balance as at 31 December 2015	**197,545**	**24,002**	**37,922**	**4,443**	**27,142**	**291,054**
Additions	17	726	250	28	20,977	21,998
Disposals	(1,176)	(65)	(589)	(279)	(327)	(2,436)
Transfers	11,610	341	2,878	3,446	(18,275)	-
Reclassification to assets held for sale	-	(560)	(3)	(4)	-	(567)
Balance as at 31 December 2016	**207,996**	**24,444**	**40,458**	**7,634**	**29,517**	**310,049**

(in millions of Russian Roubles)

Accumulated depreciation and impairment

	Heating networks	Building and facilities	Machinery and equipment	Transport and other	Construction in progress	Total
Balance as at 31 December 2014	**(101,216)**	**(11,445)**	**(22,593)**	**(3,430)**	**(2,760)**	**(141,444)**
Depreciation charge	(7,969)	(542)	(2,140)	(368)	-	(11,019)
Disposals	465	899	2,067	182	33	3,646
Transfer of impairment loss	(177)	-	(20)	-	197	-
Transfer to assets classified as held for sale	12	75	44	269	-	400
Impairment loss charge	(7,084)	(273)	(629)	(17)	(2,190)	(10,193)
Impairment loss reversal	7,091	1,339	1,594	7	161	10,192
Balance as at 31 December 2015	**(108,878)**	**(9,947)**	**(21,677)**	**(3,358)**	**(4,558)**	**(148,418)**
Depreciation charge	(8,270)	(649)	(2,304)	(569)	-	(11,792)
Disposals	841	59	433	217	48	1,598
Reversal of property, plant and equipment impairment loss	(727)	(1)	(55)	(67)	850	-
Transfer to assets classified as held for sale	-	114	2	1	-	117
Impairment loss charge	(8,017)	(1,742)	(986)	(183)	(4,417)	(15,345)
Impairment loss reversal	10,008	1,776	1,888	40	1,834	15,546
Balance as at 31 December 2016	**(115,043)**	**(10,390)**	**(22,699)**	**(3,919)**	**(6,243)**	**(158,294)**
Net book value						
As at 31 December 2014	**86,121**	**13,760**	**15,668**	**1,342**	**18,154**	**135,045**
As at 31 December 2015	**88,667**	**14,055**	**16,245**	**1,085**	**22,584**	**142,636**
As at 31 December 2016	**92,953**	**14,054**	**17,759**	**3,715**	**23,274**	**151,755**

The Group leases machinery and equipment under a number of finance lease agreements. At the end of the lease period the Group has the right to buy them at the discounted price. As at 31 December 2016 the carrying amount of leased property, plant and equipment amounted to RUB 111 million (as at 31 December 2015: RUB 209 million).

Capitalised borrowing costs for the year ended 31 December 2016 amounted to RUB 2,081 million (for the year ended 31 December 2015: RUB 1,755 million) with the capitalisation rate 10% (for the year ended 31 December 2015: 10%). The capitalisation rate represents the weighted average rate of loans and borrowings raised.

Property, plant and equipment are not pledged as collateral as at 31 December 2016 and 31 December 2015.

Impairment of property, plant and equipment

As at 31 December 2015 the impairment of the Group's assets amounted to RUB 47,723 million.

As at 31 December 2016 the Group determined the recoverable amount of its property, plant and equipment. During 2016 the Group specified the distribution of its property, plant and equipment by cash generating units (the "CGU"). As a result the impairment of property, plant and equipment was redistributed between CGU: the impairment loss in the amount of RUB 15,345 million was charged and the impairment loss in the amount of RUB 15,546 million for previously impaired property, plant and equipment was reversed. Total result of the Group's impairment test of property, plant and equipment held as at 31 December 2016 is impairment loss reversal for the amount of RUB 201 million.

The following assumptions were used in determining the recoverable amount of property, plant and equipment at 31 December 2016:

- cash flows are projected based on the actual experience and operational results for the previous years, and the Group's business plan for a three-year period; management's expectations on optimization of operating expenses for 2017 - 2019 years were taken into account as well;
- for the purposes of the analysis 72 CGU have been considered as at 31 December 2016 (as at 31 December 2015: 83 CGU): these CGU were allocated at the level of each production chain from the source to the customer;
- discount rate represents after-tax rate and reflect all relevant risks. Adjusted to the current market conditions the discount rate of 12.11% was applied in determining the recoverable amount of property, plant and equipment as at 31 December 2016 (as at 31 December 2015: 12.73%).

For the year ended 31 December 2016:

- the impairment loss provision for property, plant and equipment amounted to RUB 990 million;

(in millions of Russian Roubles)

- disposal of impairment loss for property, plant and equipment amounted to RUB 422 million;
- impairment loss transferred to assets classified as held for sale amounted to RUB 23 million.

As at 31 December 2016 impairment loss for property, plant and equipment amounted to RUB 48,067 million.

With the increase/decrease in the discount rate of 0.5% the amount of impairment loss as at 31 December 2016 would increase/decrease by RUB 3,585 million.

8 Assets classified as held for sale

As at 31 December 2016 the Group was in the process of disposing of non-core assets in the amount of RUB 385 million and corresponding liabilities in the amount of RUB 18 million (as at 31 December 2015: RUB 291 million and RUB 16 million, respectively). The Group plans to sell these assets during 2017.

Assets classified as held for sale

	Buildings and facilities	Machinery and equipment	Transport and others	Total
As at 1 January 2016	**245**	**8**	**38**	**291**
Additions	446	1	3	450
Disposals	(170)	(9)	(40)	(219)
Impairment loss	(137)	-		(137)
As at 31 December 2016	**384**	**-**	**1**	**385**

As at 31 December 2016 the amount of impairment loss for assets classified as held for sale recognised in the consolidated statement of profit or loss and other comprehensive income was RUB 137 million (as at 31 December 2015: RUB nill million).

Liabilities classified as held for sale

	31 December 2016	31 December 2015
Deferred tax liabilities	18	16
Total	**18**	**16**

9 Intangible assets

	Software	Licenses	Total
Book value			
Balance as at 31 December 2014	**3,837**	**2,469**	**6,306**
Acquisitions	1,492	34	1,526
Disposals	(56)	(2)	(58)
Balance as at 31 December 2015	**5,273**	**2,501**	**7,774**
Acquisitions	448	88	536
Disposals	(711)	(88)	(799)
Balance as at 31 December 2016	**5,010**	**2,501**	**7,511**
Accumulated amortisation			
Balance as at 31 December 2014	**(1,769)**	**(961)**	**(2,730)**
Amortisation for the period	(466)	(479)	(945)
Disposals	33	2	35
Balance as at 31 December 2015	**(2,202)**	**(1,438)**	**(3,640)**
Amortisation for the period	(821)	(469)	(1,290)
Disposals	641	88	729
Balance as at 31 December 2016	**(2,382)**	**(1,819)**	**(4,201)**
Net book value			
As at 31 December 2014	**2,068**	**1,508**	**3,576**
As at 31 December 2015	**3,071**	**1,063**	**4,134**
As at 31 December 2016	**2,628**	**682**	**3,310**

(in millions of Russian Roubles)

10 Inventories

	31 December 2016	31 December 2015
Materials	470	906
Spare parts	395	461
Other inventories	321	321
Total	**1,186**	**1,688**

The Group's inventories are not pledged as collateral as at 31 December 2016 and 31 December 2015.

11 Available-for-sale financial assets

	% share		Carrying value	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Mutual Investment Fund "Perlovsky"	55.78%	55.78%	796	944
PJSC "MOESK"	-	2.95%	-	1,077
PJSC "FGC UES"	-	0.01%	-	9
Other	-	-	-	1
Total			**796**	**2,031**

Increase in fair value of available-for-sale financial assets recognised in equity for the year ended 31 December 2016 amounted to RUB 46 million and was associated with increase in market prices. For the year ended 31 December 2015 decrease in fair value of available-for-sale financial assets due to decrease of market prices amounted to RUB 831 million.

For the year ended 31 December 2016 the Group sold available-for-sale financial assets with the carrying value of RUB 1,281 million. Proceeds from the sale of these financial assets amounted to RUB 105 million and the cumulative positive revaluation for these disposed assets in the amount of RUB 306 million recognised in equity was transferred to profit and loss. For the year ended 31 December 2015 the Group sold available-for-sale financial assets with the carrying value of RUB 1 million. Proceeds from the sale of these investments amounted to RUB 1 million and the cumulative positive revaluation of these disposed assets in the amount of RUB 2 million recognised in equity was transferred to profit and loss.

The cumulative negative revaluation for the Group's investment in Mutual Investment Fund Perlovsky in the amount of RUB 404 million recognised in equity was transferred to profit and loss due to the continuing trend to decrease in value of the net assets of the fund.

12 Trade and other receivables

	31 December 2016	31 December 2015
Trade receivables	43,351	33,599
Other receivables	6,848	2,937
Allowance for trade receivables impairment	(7,207)	(3,702)
Allowance for other receivables impairment	(60)	(70)
Financial assets	**42,932**	**32,764**
Advances to suppliers and prepaid expenses	243	224
Allowance for impairment of advances to suppliers and prepaid expenses	(11)	(13)
Total	**43,164**	**32,975**
VAT recoverable	446	994
Prepaid taxes, other than income tax	368	28
Other receivables	14	10
Total	**43,992**	**34,007**
Non-current assets	513	792
Current assets	43,479	33,215
Total	**43,992**	**34,007**

Long-term accounts receivable as at 31 December 2016 include advances to suppliers and prepaid expenses in the amount of RUB 101 million (as at 31 December 2015: RUB 97 million) and other receivables in the amount of RUB 412 million (as at 31 December 2015: RUB 695 million).

(in millions of Russian Roubles)

The Group's exposure to credit risk and impairment losses related to trade receivables are disclosed in Note 25.

13 Subsidies receivable/advances received on subsidies

	31 December 2016		31 December2015	
	Subsidies receivable	**Advances received on subsidies**	**Subsidies receivable**	**Advances received on subsidies**
Subsidies from the Moscow Government	914	83	1,329	173
Subsidies from the State Center of Household Subsidies	784	-	437	-
Total	**1,698**	**83**	**1,766**	**173**

14 Cash and cash equivalents

	31 December 2016	31 December 2015
Bank balances	3,980	3,243
Deposits with maturity of less than three months	246	3,583
Total	**4,226**	**6,826**

As at 31 December 2016 restricted cash includes the minimum balance on settlement accounts amounting to RUB 3,511 million (as at 31 December 2015: RUB 2,633 million). As at 31 December 2016 the arrested cash amounted to RUB 1 million (as at 31 December 2015: RUB 4 million).

The information about deposits with maturity of less than three months is presented in the table below:

	31 December 2016		31 December 2015	
	Currency	**Balances**	**Currency**	**Balances**
Gazprombank (Joint-stock Company)	Russian Ruble	134	Russian Ruble	3,039
PJSC Sberbank	Russian Ruble	112	Russian Ruble	42
PJSC Bank VTB	Russian Ruble	-	Russian Ruble	502
Total		**246**		**3,583**

15 Equity and reserves

Share capital

As at 31 December 2016 and 31 December 2015 the authorized share capital comprised 244,134,012 ordinary shares with a par value of RUB 100 each.

Treasury shares

As at 31 December 2016 and 31 December 2015 treasury shares comprised 21,748,990 ordinary shares with total value of RUB 16,669 million.

Reserves

During 2016 the accumulated revaluation reserve for available-for-sale financial assets at fair value was reclassified to the Statement of Profit or Loss in full amount and as at 31 December 2016 amounted to RUB 0 million (at 31 December 2015: RUB (115) million).

Other reserves

The Group's other reserves for the year ended 31 December 2016 include the effect of the acquisition of ownership interest in LLC HSC Novaya Moskva in the amount of RUB 736 million, and additional contribution to subsidiary LLC HSC Mosenergo in the amount of RUB 14 million. Excluding income tax in relation to other comprehensive income in the amount of RUB 150 million, the Group's other reserves as at 31 December 2016 amounted to RUB 159 million (as at 31 December 2015: RUB 441 million).

Dividends

In accordance with the legislation of the Russian Federation, the distributable reserves of the Company are limited to the retained earnings recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Rules. According to the statutory financial statements the Company had a loss for the year ended 31 December 2015, therefore no dividends were accrued for the year ended 31 December 2015.

(in millions of Russian Roubles)

16 Loans and borrowings

The Note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured under the effective interest rate method. More detailed information on the Group's exposure to the interest rate risk and liquidity risk is disclosed in Notes 5, 25.

	Nominal interest rate	Year of maturity	31 December 2016	31 December 2015
Short-term loans and borrowings				
PJSC Bank VTB	9.69%	2017	8,000	-
Gazprombank (Joint-stock Company)	10.00%	2017	3,700	-
PJSC Sberbank	9.77%	2017	2,500	-
JSC AB Rossia	12.25%	2017	390	-
Current portion of long-term loans and borrowings				
JSC Alfa-Bank	9.70%	2019	9	-
PJSC Sberbank	8.25%-11.98%	2016	-	20,700
JSC AB Rossia	13.50%	2016		378
Total short-term and current portion of long-term loans and borrowings			**14,599**	**21,078**
Long-term loans				
JSC Alfa-Bank	9.70%	2019	6,500	-
Long-term borrowings				
PJSC Mosenergo	12.00%	2021	80	-
Total long-term loans and borrowings			**6,580**	**-**
Total			**21,179**	**21,078**

All loans and borrowings are denominated in RUB. Pledge of property rights under loans and borrowings agreements as at 31 December 2016 amounted to RUB 908 million (as at 31 December 2015: RUB nill million).

17 Employee benefits

On voluntary leaving the company due to the retirement employees of PJSC MIPC are paid one-time retirement benefit according to length of continuous service.

	31 December 2016	31 December 2015
Retirement benefit obligations	241	182

18 Trade and other payables

	31 December 2016	31 December 2015
Financial liabilities		
Short-term trade payables	41,699	43,822
Long-term trade payables	2,618	2,980
Total	**44,317**	**46,802**
Non-financial liabilities		
Short-term advances received	13,517	7,901
Long-term advances received	2,855	1,871
Taxes payable	1,322	640
Other payables	1,628	1,639
Total	**19,322**	**12,051**
Short-term liabilities	58,166	54,002
Long-term liabilities	5,473	4,851
Total	**63,639**	**58,853**

(in millions of Russian Roubles)

Other payables of the Group includes the amount of provision for litigation claims. For the year ended 31 December 2016 and 31 December 2015 the movement of provision for litigation claims was the following:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Balance as at 1 January	**651**	**382**
Provision for litigation claims made during the period	285	539
Write-off against previously created provision	(62)	(142)
Reversal of previously created provision for litigation claims	(678)	(128)
Balance as at 31 December	**196**	**651**

Taxes payable are represented by the following items:

	31 December 2016	31 December 2015
VAT payable	879	29
Contributions to non-budgetary funds	286	248
Property tax	36	265
Other taxes payable	121	98
Total	**1,322**	**640**

The Group’s exposure to currency risk and liquidity risk related to trade payables are disclosed in Notes 5, 25.

19 Revenue

	For the year ended 31 December 2016	For the year ended 31 December 2015
Revenue from heat energy sale	94,266	66,624
Revenue from hot water supply services	31,004	30,450
Revenue from heat energy transmission services	3,886	6,520
Revenue from transfer of water	1,990	1,970
Other revenue	4,357	3,169
Total	**135,503**	**108,733**

The heat energy is provided to individual residential customers at regulated social tariffs, significantly lower than the rates applicable to commercial customers. The difference in tariffs is compensated to the Group in the form of subsidies from the Moscow Government . For the year ended 31 December 2016, the subsidies amounted to RUB 2,238 million (for the year ended 31 December 2015: RUB 4,245 million) and were recognised within profit or loss.

Revenue from services rendered to PJSC Mosenergo, the subsidiary of PJSC Gazprom, for the year ended 31 December 2016 in the amount of RUB 4,810 million (for the year ended 31 December 2015: RUB 7,173 million) was settled by offset of mutual claims.

(in millions of Russian Roubles)

20 Operating expenses

	For the year ended 31 December 2016	For the year ended 31 December 2015
Purchased heat energy	66,608	48,693
Staff costs (Note 21)	14,388	12,739
Depreciation and amortization	13,082	11,944
Water expenses	7,138	7,074
Fuel expenses	6,742	7,218
Purchased electricity	5,094	5,368
Repair and maintenance	4,267	2,963
Accrual of allowance for impairment of accounts receivable	4,002	734
Production services	2,303	2,905
Measurement units maintenance costs	2,135	1,575
Rent expenses	2,088	1,858
Taxes other than income tax	1,413	1,183
Change in the impairment allowance for inventories and non-functional capital investments	1,110	-
Materials	962	989
Software and database services	824	679
Security services	741	574
Bank services	480	291
Utilities expenses	362	257
Professional and consulting services	258	270
Communication services	173	180
Impairment loss for available-for-sale financial assets	137	-
Occupational safety and health expenses	64	43
Gain on disposal of a subsidiary	(61)	(943)
(Reversal)/charge of impairment loss for property, plant and equipment	(201)	1
Change in the provision for litigation claims	(393)	411
Gain on disposal of property, plant and equipment and other assets	(5,573)	(4,165)
Other operating income	(237)	(164)
Total	**127,906**	**102,677**

21 Staff costs

	For the year ended 31 December 2016	For the year ended 31 December 2015
Wages and bonuses	9,902	8,713
Social tax accrual on wages	3,003	2,674
Provision for unused vacation and bonuses	821	793
Other personnel expenses	662	559
Total	**14,388**	**12,739**

For the year ended 31 December 2016 total contributions to the Pension Fund of the Russian Federation amounted to RUB 2,338 million (for the year ended 31 December 2015: RUB 2,054 million).

(in millions of Russian Roubles)

22 Finance income and costs

	For the year ended 31 December 2016	For the year ended 31 December 2015
Finance income		
Profit on sales of available-for-sale financial assets, net	690	-
Interest income	517	927
Dividend income	221	147
Amortization of discount on long-term accounts receivable	111	203
Interest on finance lease	16	299
Other finance income	-	-
Total	**1,555**	**1,576**
Finance costs		
Interest expense	(2,115)	(2,283)
Loss on disposal of available-for-sale financial assets, net	(683)	-
Amortization of discount on long-term accounts payable	(503)	(457)
Discount on long-term accounts receivable	(399)	-
Finance lease interest expense	-	(3)
Other finance costs	(130)	(3)
Total	**(3,830)**	**(2,746)**
Less capitalized interest expenses on loans and borrowings relating to qualifying assets	2,081	1,755
Net finance (costs)/income recognised in profit or loss	**(194)**	**585**

23 Income tax

	For the year ended 31 December 2016	For the year ended 31 December 2015
Current income tax expense		
Current period	(49)	(28)
Under/(over)-accrued in prior periods	-	(18)
Total	**(49)**	**(46)**
Deferred tax		
Origination and reversal of temporary differences	(2,377)	(1,230)
Total	**(2,426)**	**(1,276)**

The Group’s applicable tax rate is 20% which represents the Russian corporate income tax.

Reconciliation of theoretical and actual income tax recognised in profit or loss for the period is presented below:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Profit before tax	**7,403**	**6,641**
Income tax at applicable tax rate of 20%	(1,481)	(1,328)
Non-deductible / non-taxable differences	(945)	70
Under/(over)-accrued in prior periods	-	(18)
Total income tax expense	**(2,426)**	**(1,276)**
Profit for the reporting period	**4,977**	**5,365**

(in millions of Russian Roubles)

Tax effects of items in the statement of other comprehensive income

	For the year ended 31 December 2016			For the year ended 31 December 2015		
	Before tax	**Tax charge**	**After tax**	**Before tax**	**Tax charge**	**After tax**
Revaluation of available-for-sale investments	144	(29)	115	(829)	166	(663)
Change of other reserves	(750)	150	(600)	551	(110)	441
Total	**(606)**	**121**	**(485)**	**(278)**	**56**	**(222)**

Deferred tax

Tax effect of temporary differences resulted in deferred tax assets and liabilities is as follows:

	Assets		Liabilities		Net amount	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
Property, plant and equipment	-	-	(7,269)	(6,609)	(7,269)	(6,609)
Intangible assets	8	1	-	-	8	1
Available-for-sale financial assets	42	-	-	(137)	42	(137)
Inventory	-	48	(29)	-	(29)	48
Trade and other receivables	160	-	-	(244)	160	(244)
Accounts payable	641	745	-	-	641	745
Other items	290	271	-	-	290	271
Tax loss carried forward	2,632	4,462	-	-	2,632	4,462
Total	**3,773**	**5,527**	**(7,298)**	**(6,990)**	**(3,525)**	**(1,463)**

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The details of the deferred tax balances (after the offset) presented in the consolidated statement of financial position are as follows:

	31 December 2016	**31 December 2015**
Deferred tax assets	1,668	624
Deferred tax liabilities	(5,193)	(2,087)
Deferred tax liabilities, net	**(3,525)**	**(1,463)**

Movements in temporary differences for the year ended 31 December 2016 are as follows:

	1 January 2016	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Acquired/ Disposed**	**31 December 2016**
Property, plant and equipment	(6,609)	(660)	-	-	(7,269)
Intangible assets	1	7	-	-	8
Available-for-sale financial assets	(137)	58	121	-	42
Inventory	48	(77)	-	-	(29)
Trade and other receivables	(244)	404	-	-	160
Accounts payable	745	(104)	-	-	641
Other items	271	19	-	-	290
Tax loss carried forward	4,462	(2,024)	-	194	2,632
Total	**(1,463)**	**(2,377)**	**121**	**194**	**(3,525)**

(in millions of Russian Roubles)

Movements in temporary differences for the year ended 31 December 2015 are as follows:

	1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ Disposed	31 December 2015
Property, plant and equipment	(5,520)	(1,055)	-	(34)	(6,609)
Intangible assets	(1)	2	-	-	1
Available for sale financial assets	(41)	(152)	56	-	(137)
Inventory	-	48	-	-	48
Trade and other receivables	1,056	(1,300)	-	-	(244)
Accounts payable	92	653	-	-	745
Other items	(870)	1,163	-	(22)	271
Tax loss carried forward	5,115	(589)	-	(64)	4,462
Total	**(169)**	**(1,230)**	**56**	**(120)**	**(1,463)**

24 Earnings per share

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding, calculated as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Outstanding shares	244,134,012	244,134,012
Treasury shares	(21,748,990)	(21,748,990)
Weighted average number of outstanding shares	**222,385,022**	**222,385,022**

The calculation of profit attributable to the ordinary shareholders is presented below:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Weighted average number of outstanding shares	222,385,022	222,385,022
Profit for the period	4,953	5,365
Earnings per share (basic and diluted) (in Russian Roubles) attributable to the owners of PJSC MIPC	**22**	**24**

There are no instruments with dilutive effect at 31 December 2016 and 31 December 2015.

25 Financial instruments

(a) Classification and fair value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy as at 31 December 2016:

(in millions of Russian Roubles)

		Carrying amount				Fair value			
	Note	**Loans issued and accounts receivable**	**Available -for-sale financial assets**	**Other financial liabilities**	**Total**	**Leve l 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value									
Available-for-sale financial assets	11	-	796	-	**796**	-	-	796	**796**
Total		**-**	**796**	**-**	**796**	**-**	**-**	**796**	**796**
Financial assets not measured at fair value									
Trade and other receivables	12	42,932	-	-	**42,932**	-	-	42,932	**42,932**
Cash and cash equivalents	14	4,226	-	-	**4,226**	4,226	-	-	**4,226**
Subsidies receivable	13	1,698	-	-	**1,698**	-	-	1,698	**1,698**
Loans issued		849	-	-	**849**	-	849	-	**849**
Finance lease receivables	26	64	-	-	**64**	-	-	64	**64**
Total		**49,769**	**-**	**-**	**49,769**	**4,226**	**849**	**44,694**	**49,769**
Financial liabilities not measured at fair value									
Trade and other payables	18	-	-	44,317	**44,317**	-	-	44,317	**44,317**
Loans and borrowings	16	-	-	21,179	**21,179**	-	-	21,179	**21,179**
Total		**-**	**-**	**65,496**	**65,496**	**-**	**-**	**65,496**	**65,496**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy as at 31 December 2015:

		Carrying amount				Fair value			
	Note	**Loans issued and accounts receivable**	**Available -for-sale financial assets**	**Other financial liabilities**	**Total**	**Leve l 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value									
Available-for-sale financial assets	11	-	2,031	-	**2,031**	1,087	-	944	**2,031**
Total		**-**	**2,031**	**-**	**2,031**	**1,087**	**-**	**944**	**2,031**
Financial assets not measured at fair value									
Trade and other receivables	12	32,764	-	-	**32,764**	-	-	32,764	**32,764**
Cash and cash equivalents	14	6,826	-	-	**6,826**	6,826	-	-	**6,826**
Subsidies receivable	13	1,766	-	-	**1,766**	-	-	1,766	**1,766**
Loans issued		1,596	-	-	**1,596**	-	1,596	-	**1,596**
Finance lease receivables	26	1,237	-	-	**1,237**	-	-	1,237	**1,237**
Total		**44,189**	**-**	**-**	**44,189**	**6,826**	**1,596**	**35,767**	**44,189**
Financial liabilities not measured at fair value									
Trade and other payables	18	-	-	46,802	**46,802**	-	-	46,802	**46,802**
Loans and borrowings	16	-	-	21,078	**21,078**	-	-	21,078	**21,078**
Total		**-**	**-**	**67,880**	**67,880**	**-**	**-**	**67,880**	**67,880**

The following table represents methods used for measurement of fair value for Level 3 of the fair value hierarchy:

Financial instruments	**Measurement**
Financial assets measured at fair value	On the basis of the share's value of a mutual investment fund, estimated by a professional appraiser based on the carrying amount of its net assets at the reporting date
Financial assets not measured at fair value	Discounted cash flow
Financial liabilities not measured at fair value	Discounted cash flow

The fair value of financial instruments is not disclosed as it does not differ significantly from their carrying amount.

(in millions of Russian Roubles)

(b) Credit risk

The carrying amount of financial assets represents the maximum credit risk to which the Group is exposed. The maximum exposure to credit risk at the reporting date is as follows:

		Carrying amount	
	Note	**31 December 2016**	**31 December 2015**
Trade and other receivables	12	42,932	32,764
Cash and cash equivalents	14	4,226	6,826
Subsidies receivable	13	1,698	1,766
Loans issued		849	1,596
Available-for-sale financial assets	11	796	2,031
Finance lease receivables	26	64	1,237
Total		**50,565**	**46,220**

(i) The credit quality of accounts receivable

The maximum exposure to credit risk for accounts receivable by revenue types at the reporting date is as follows:

	31 December 2016	**31 December 2015**
Revenue from hot water and heat energy supply and transmission services	33,567	24,217
Other revenue	2,577	5,680
Total	**36,144**	**29,897**

The accounts receivable mainly include receivables from large, well-established companies that purchase heat energy and hot water.

Each of the Group's customers contributes less than 3.0% of the total trade receivables amoun (excluding receivables from companies disclosed in Note 6), therefore there is no concentration of credit risk.

The most significant customers of the Group are LLC MC UNI-DOM, LLC Oleta, State Budget Institution of Moscow Zhilischnik of district Khoroshevo-Mnevniki, and the accounts receivable attributable to these customers as at 31 December 2016 amounted to RUB 694 million, RUB 647 million and RUB 461 million, respectively (as at 31 December 2015: RUB 528 million, RUB 5 million and RUB 259 million, respectively).

As at 31 December 2016 and 31 December 2015, the aging of trade and other receivables was as follows:

	31 December 2016		**31 December 2015**	
	Carrying amount	**Impairment**	**Carrying amount**	**Impairment**
Not overdue	22,650	-	15,440	(54)
0-180 days overdue	11,292	(525)	7,695	(69)
180-360 days overdue	5,999	(1,152)	8,399	(490)
360 to 2 years days overdue	6,425	(2,317)	2,879	(1,219)
Overdue for more than two years	3,833	(3,273)	2,123	(1,940)
	50,199	**(7,267)**	**36,536**	**(3,772)**

The movement in the allowance for impairment loss of accounts receivable and advances for capital construction for the year ended 31 December 2016 and 31 December 2015 was as follows:

	For the year ended 31 December 2016	**For the year ended 31 December 2015**
Balance as at 1 January	**3,796**	**2,941**
Impairment allowance made during the period	4,915	2,299
Write-off of receivables against previously created allowance	(517)	(59)
Reversal of previously created allowance	(913)	(1,385)
Balance as at 31 December	**7,281**	**3,796**

For the year ended 31 December 2016 the allowance for impairment loss of advances issued was accrued in the amount of RUB 14 million (for the year ended 31 December 2015: RUB 24 million).

Average delay in payments of the Group's buyers is from 1 to 30 months. No interest is accrued during that period. The Group's trade and other receivables are unsecured.

(in millions of Russian Roubles)

The Group does not have a formal procedure for analysing the creditworthiness of new customers due to the fact that the supply of heat energy is a monopoly service. If the client, that is a commercial enterprise, does not repay the debt on time, the Group sends a notification requiring payment within the next 10 days and, in the event of further non-payment, the Group has the right to terminate services to that customer. Regarding housing organizations and some state-controlled organisations, this right is limited to the termination of hot water supply only, but not heating.

In determining the provision for impairment of accounts receivable, the Group's management analyses the possibility of its collection. Customers are grouped according to their credit characteristics, including whether they are individuals or legal entities, obligation payment dates and existence of previous financial difficulties. The provision is determined based on the past experience and is regularly reviewed considering the facts and circumstances at each reporting date.

The management believes that impairment provision for trade and other receivables in the consolidated financial statements is sufficient to cover the Group's credit risk in respect of this type of financial assets.

The Group's policies and procedures for attracting new clients and assessing customers' solvency are disclosed in Note 5.

(ii) Credit risk related to cash and cash equivalents

The table below presents the credit quality analysis of banks according to external credit ratings, in which the Group holds its cash deposits. Corresponding ratings are published by Moody's and other credit rating agencies. The ratings are presented in the classification applied by Moody's:

Rating	31 December 2016	31 December 2015
Ba2 stable	2,230	922
No credit rating	1,996	134
Ba2 negative	-	5,268
Ba1 negative	-	502
Total	**4,226**	**6,826**

(c) Liquidity risk

The table below presents information on the contractual maturity of financial liabilities, including estimates of interest payable but excluding offset effects. Regarding cash flows included in the maturity analysis, the management does not expect them to occur significantly earlier, or in significantly different amounts.

As at 31 December 2016:

	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-3 years	3-4 years	4-5 years
Non-derivative financial liabilities								
Unsecured bank loans and borrowings	20,789	23,971	970	15,137	640	7,125	10	89
Secured bank loans and borrowings	390	410	410	-	-	-	-	-
Trade and other payables	44,317	45,836	42,118	440	859	859	859	701
Total	**65,496**	**70,217**	**43,498**	**15,577**	**1,499**	**7,984**	**869**	**790**

At 31 December 2015:

	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities									
Unsecured bank loans and borrowings	21,078	21,724	13,886	7,838	-	-	-	-	-
Trade and other payables	46,802	48,823	44,128	552	872	859	859	859	694
Total	**67,880**	**70,547**	**58,014**	**8,390**	**872**	**859**	**859**	**859**	**694**

All groups of financial liabilities are carried at amortised cost.

(d) Market risk

(i) Currency risk

The Group operates in the Russian Federation. Most of the Group's transactions are denominated in RUB.

(in millions of Russian Roubles)

(ii) Interest rate risk

The Group's income and operating cash flows are not substantially exposed to the changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the changes of interest rates of the Group's long-term loans and borrowings. Interest rates of most long-term and short-term loans and borrowings are fixed (disclosed in Note 16).

(iv) The risk of changes in equity instruments prices

The Group is exposed to the risk of changes in equity instruments prices, as it has investments in shares. The analysis of the Group's sensitivity to change in the market value of shares included in the Group's investment portfolio is disclosed in Note 5.

(e) General offset agreement or similar agreements

The Company may enter into agreements for the sale of services, works and goods and the acquisition of services, goods and other assets with the same contractors in the ordinary course of business. The respective accounts receivable and accounts payable do not always meet the criteria for offsetting in the statement of financial position. This is due to the fact that the Company may not have a legal right to offset the recognised amounts in the current period, as the right of offset may be valid only when certain events take place in future. In particular, in accordance with the Russian civil law the obligation may be settled by offsetting against the similar obligations which are due or for which the payment date is not defined or is the date of demand.

The following table presents the carrying amounts of recognised financial instruments that are the subject to the above-mentioned agreements:

	31 December 2016		31 December 2015	
	Trade and other receivables	**Trade and other payables**	**Trade and other receivables**	**Trade and other payables**
Amount presented in the statement of financial position	42,932	44,317	32,764	46,802
Amounts relating to recognised financial instruments for which some or all offsetting criteria are not met	-	-	(6,207)	(6,207)
Net amount	**42,932**	**44,317**	**26,557**	**40,595**

The amounts disclosed above are presented in the statement of financial position as at 31 December 2016 and are included in trade and other receivables (less impairment provision) as well as trade and other payables, respectively.

26 Leases

Operating leases

The Group rents some objects of property, plant and equipment without the right to purchase the leased assets after the lease period expires. Operating lease rentals are payable according to the periods below:

	31 December 2016	31 December 2015
Less than one year	2,469	1,789
Between one and five years	7,338	7,719
More than five years	1,523	1,263
Total	**11,330**	**10,771**

Finance leases

In 2014 the Group transferred to PJSC Mosenergo property complexes RTS Khimki-Hovrino and RTS Krasnaya Presnya under finance lease agreements. In September 2016 the finance lease agreement for RTS Khimki-Hovrino was terminated. Lease payments receivable and interest income are presented below :

(in millions of Russian Roubles)

	Future minimum lease payments		Present value of minimum lease payments	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Less than one year	18	329	3	31
From two through five years	72	1,214	22	43
More than five years	55	3,977	39	1,163
Total	**145**	**5,520**	**64**	**1,237**
Less future interest income	(81)	(4,283)	-	-
Present value of minimum lease payments receivable	**64**	**1,237**	**64**	**1,237**
Less current portion of receivable within one year and recognised within current assets	-	-	(3)	(31)
Long-term finance lease receivable	**-**	**-**	**61**	**1,206**

The Group's exposure to interest rate and liquidity risks related to finance leases are disclosed in Notes 5, 25.

27 Capital commitments

As at 31 December 2016 the Group was involved in a number of contingent contracts for construction and purchase of property, plant and equipment amounting to RUB 28,849 million (as at 31 December 2015: RUB 16,183 million), including:

- RUB 13,698 million for upgrading the technological equipment (as at 31 December 2015: RUB 10,455 million);
- RUB 15,151 million for new construction and purchase of equipment (as at 31 December 2015: RUB 5,728 million).

28 Acquisition of subsidiaries

28.1 Acquisition of LLC HSC Novaya Moskva

In July 2016 the Group acquired 77.49% of ownership interest in LLC HSC Novaya Moskva (previously the 100% subsidiary of PJSC Mosenergo).

The detailed information about acquired assets and liabilities is presented below:

	Carrying amount at acquisition date
Assets	
Non-current assets	
Property, plant and equipment	250
Intangible assets	6
Deferred tax assets	207
Total non-current assets	**464**
Current assets	
Inventories	26
Trade and other receivables	551
Cash and cash equivalents	505
Other current assets	10
Total current assets	**1,092**
Total assets	**1,556**
Non-current liabilities	
Deferred tax liabilities	1
Advances received	507
Total non-current liabilities	**508**
Current liabilities	
Loans and borrowings	1,615
Trade and other payables	345
Provisions	37
Total current liabilities	**1,997**
Total liabilities	**2,505**
Net assets at acquisition date	**(949)**
Pre-existing relationships	**1,708**
Acquired net assets considering pre-existing relationships	**759**

(in millions of Russian Roubles)

The acquisition cost is presented below:

	Acquisition cost
Transferred monetary compensation	-
Pre-existing relationships	1,708
Total	**1,708**

The effect of the acquisition is presented below:

	Acquisition cost
Acquired net assets considering pre-existing relationships	759
Acqusition cost	1,708
The effect of the acquisition	**949**

The effect of the acquisition was recognised in the consolidated statement of profit or loss and comprehensive income and shared proportionally between the Group and non-controlling interest in the amounts of RUB 736 million and RUB 213 million respectively.

28.2 Acquisiton of LLC HSC Mosenergo

During 2015 the Group acquired 74.39% of ownership interest in LLC HSC Mosenergo (previously the 100% subsidiary of PJSC Mosenergo):

- on 30 September 2015 ownership interest of 31.79% was acquired;
- on 31 December 2015 ownership interest of 42.60% was acquired.

As a contribution to the authorised capital the Group transferred to LLC HSC Mosenergo its property with the carrying value of RUB 1,911 million, located at the territory of Troitsk and Novomoskovsk administrative districts (TINAO) of Moscow.

The transferred property was territorially isolated and remoted from the core assets of the Group. At the same time LLC HSC Mosenergo has appropriate experience in operating heat and power assets in the cities of Moscow region and in effective providing of heat energy to the isolated areas.

The detailed information about acquired assets and liabilities is presented below:

	Carrying amount at acquisition date
Assets	
Non-current assets	
Property, plant and equipment	2,951
Advances for capital construction	167
Intangible assets	6
Deferred tax assets	9
Total non-current assets	**3,133**
Current assets	
Inventories	76
Financial investments	64
Trade and other receivables	2,810
Income tax advance payments	16
Cash and cash equivalents	127
Loans issued	880
Total current assets	**3,973**
Total assets	**7,106**
Non-current liabilities	
Deferred tax liabilities	48
Advances received	224
Total non-current liabilities	**272**
Current liabilities	
Loans and borrowings	1,448
Trade and other payables	2,076
Income tax payable	2
Total current liabilities	**3,526**
Total liabilities	**3,798**
Net assets at acquisition date	**3,308**
Non-controlling interest at the date of acquisition, measured by the proportionate share of the net assets	846
Acquisition cost	**1,911**

(in millions of Russian Roubles)

In case the acquisition took place on 1 January 2015 the Group's revenue and income for the year ended 31 December 2015 would have amounted to RUB 108,467 million and RUB 5,447 million, respectively.

On 20 July 2016 the Group additionaly acquired from PJSC Mosenergo 3.1% of ownership interest in LLC HSC Mosenergo. As a result of this transaction the Group's total ownership interest in LLC HSC Mosenergo increased from 74.39% till 77.49%.

28.3 Sale of JSC MIPC-Project

On 14 December 2015 the Group sold its 100.00% share of the subsidiary JSC MIPC-Project to JSC Gazprom Energoremont. The transaction cost amounted to RUB 1,477 million.

The detailed information about transferred assets and liabilities is presented below:

	Carrying amount at the date of sale
Assets	
Non-current assets	
Property, plant and equipment	544
Intangible assets	23
Financial investments	2
Deferred tax assets	71
Total non-current assets	**640**
Current assets	
Inventories	172
Trade and other receivables	1,712
Cash and cash equivalents	10
Total current assets	**1,894**
Total assets	**2,534**
Non-current liabilities	
Deferred tax liabilities	3
Advances received	140
Total non-current liabilities	**143**
Current liabilities	
Trade and other payables	1,857
Total current liabilities	**1,857**
Total liabilities	**2,000**
Net assets at the date of sale	**534**
Cost of sale	**1,477**

Gain on disposal in the amount of RUB 943 million was recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 (Note 20).

29 Commitments and contingencies

Taxation environment

The tax system of the Russian Federation is characterised by frequent changes in regulations, official interpretations and court decisions which are sometimes not clearly stated and contradict each other, which, in turn, gives way to possibility of multiple interpretations by various tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose fines and penalties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances such reviews may cover longer periods.

Based on the recent practice in the Russian Federation, tax authorities take a more rigid position when it comes to interpretation of and compliance with tax legislation aiming at discovery of unjustified tax benefits. These circumstances result in much higher tax risks in the Russian Federation compared to other countries. Based on its understanding of the effective tax legislation, official interpretations and court decisions, the Group's management believe that its tax liabilities are disclosed adequately. However, the interpretations of the relevant authorities could differ from the management's position and in case they are be able to enforce their interprations, this could have significant effect on these consolidated financial statements.

Environmental liabilities

The Group's management believes that its production technologies are in compliance with all current existing environmental legislation of the Russian Federation. However, environmental laws and regulations continue to evolve. The

Group is unable to predict the timing or extent to which those environmental laws and regulations may change. Such change, if it occurs, may require the Group to modernise its technologies to be in compliance with strict standards.

Litigation claims

As at 31 December 2016 the Group was involved in a number of litigations and claims. The management believes that currently there are no claims or suits against the Company (including those, which already have a final decision) which could have an adverse impact on the Group's financial position.

30 Subsequent events

On 27 January 2017 the Group received loan from PJSC Bank VTB for the amount of RUB 4,500 million and maturity date on 27 January 2018.

On 31 January 2017 the Group received loan from PJSC Bank VTB for the amount of RUB 500 million and maturity date on 27 January 2018.

On 28 February 2017 the Group received loan from JSC AB Rossiya for the amount of RUB 3,300 million and maturity date on 27 February 2018.

On 6 March 2017 the Group made application for termination of activity of its subsidiary OJSC MIPC-Generation by reorganization in the form of merger with the Group's subsidiary LLC MIPC-Finance.

Total numbered, bound and sealed 46

(forty six) pages

President of FBK, LLC

S.M. Shapiguzov

Audit manager

K.S. Shirikova

ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ ФИНАНСОВЫЕ И БУХГАЛТЕРСКИЕ КОНСУЛЬТАНТЫ

ФБК