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PJSC MIPC

IFRS Consolidated Financial Statements with Independent Auditor's Report

31 December 2017

Moscow | 2018

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Independent Auditor's Report

To the Shareholders

of PJCS MIPC

Opinion

We have audited the accompanying consolidated financial statements of PJSC MIPC and its subsidiaries (hereinafter – the Group), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2017, and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2017 in accordance with International Financial Reporting Standards (hereinafter – IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter – ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with 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 information included in the Annual report of PJSC MIPC for 2017 and the Quarterly issuer's report for the first quarter of 2018, which are expected to be made available to us after the date of this auditor's report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

When we read the Annual report of PJSC MIPC for 2017 and the Quarterly issuer's report of PJSC MIPC for the first quarter of 2018, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors.

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Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

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

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

The Board of Directors is responsible for overseeing the Group's consolidated financial reporting process.

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

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

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

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

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 Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease its ability to continue as a going concern;

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

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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 the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

President of FBK, LLC

S.M. Shapiguzov
(by virtue of the Charter,
audit qualification certificate
01-001230, ORNZ 21606043397)

Engagement partner

K.S. Shirikova, ACCA
(audit qualification certificate
01-000712, ORNZ 21606042126)

Date of Independent auditor's report
12 March 2018

Audited entity

Name:

Public Joint Stock Company Moscow Integrated Power Company (PJSCMIPC).

Address of the legal entity within its location:

119048, Moscow, Efremova St., 10.

Official registration:

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

Name:

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

Address of the legal entity within its location:

44/1, 2AB, Myasnitskaya St., Moscow, 101990, Russian Federation.

Official registration:

State Registration Certificate series YZ 3 No. 484.583 RP issued by Moscow Registration Chamber on 15 November 1993. The registration entry was made in the Unified State Register of Legal Entities on 24 July 2002 under primary state registration number (OGRN) 1027700058286.

Membership in self-regulatory organization of auditors:

Self-regulatory organization of auditors Association "Sodruzhestvo".

Number in the register of self-regulatory organization of auditors:

Certificate of membership in the self-regulatory organization of auditors Association "Sodruzhestvo" No. 7198, number in the register – 11506030481.

PJSC MIPC

Consolidated Statement of Financial Position as at 31 December 2017

(in millions of Russian Roubles)

	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	7	163,238	151,755
Advances for capital construction		2,754	1,336
Intangible assets	9	2,563	3,310
Available-for-sale financial assets	11	769	796
Trade and other receivables	12	940	513
Finance lease receivables	26	57	61
Deferred tax assets	23	1,360	1,668
Other non-current assets		-	16
Total non-current assets		**171,681**	**159,455**
Current assets			
Inventories	10	991	1,186
Trade and other receivables	12	43,534	43,479
Finance lease receivables	26	4	3
Subsidies receivable	13	1,125	1,698
Income tax prepayments		75	55
Cash and cash equivalents	14	4,138	4,226
Short-term loans issued		742	849
Other current assets		65	23
Total current assets		**50,674**	**51,519**
Assets classified as held for sale	8	574	385
Total assets		**222,929**	**211,359**
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	15	24,414	24,414
Share premium		138,596	138,596
Treasury shares	15	(16,964)	(16,669)
Other reserves	15	(159)	(159)
Accumulated loss		(19,984)	(27,388)
Equity attributable to the shareholders of PJSC MIPC		**125,903**	**118,794**
Non-controlling interest		26	671
Total equity and reserves		**125,929**	**119,465**
Non-current liabilities			
Borrowings	16	135	6,580
Employee benefits	17	248	241
Deferred tax liabilities	23	6,621	5,193
Advances received from customers	18	3,588	2,855
Accounts payable	18	1,654	2,618
Total non-current liabilities		**12,246**	**17,487**
Current liabilities			
Borrowings	16	24,695	14,599
Trade payables	18	35,604	41,699
Deferred income		1,389	1,559
Advances received from customers	18	20,090	13,517
Advances received on subsidies	13	55	83
Other payables and accruals	18	2,921	2,950
Total current liabilities		**84,754**	**74,407**
Total liabilities		**97,000**	**91,894**
Total equity and liabilities		**222,929**	**211,359**

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

Chief Accountant A.N. Bukina

12 March 2018

ПАО «МОЭК»

ОГРН 1047796974092

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Аудиторское заключение

PJSC MIPC

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017

(in millions of Russian Roubles)

	Notes	For the year ended 31 December 2017	For the year ended 31 December 2016
Revenue	19	144,270	135,503
Operating expenses	20	(136,253)	(127,906)
Results from operating activities		**8,017**	**7,597**
Finance income	22	988	1,555
Finance expenses	22	(495)	(1,749)
Net finance income/(expenses)	22	**493**	**(194)**
Profit before tax		**8,510**	**7,403**
Income tax expense	23	(1,751)	(2,426)
Profit for the period		**6,759**	**4,977**
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss:			
Change in other reserves, net of tax		-	(600)
Change in fair value of available-for-sale financial assets, net of tax	11	-	115
Total items that may be reclassified subsequently to profit or loss		-	**(485)**
Other comprehensive loss for the period, net of tax		-	**(485)**
Comprehensive income for the period		**6,759**	**4,492**
Profit/(loss) attributable to:			
Shareholders of PJSC MIPC		7,404	4,953
Non-controlling interest		(645)	24
Profit for the period		**6,759**	**4,977**
Comprehensive income/(loss) attributable to:			
Shareholders of PJSC MIPC		7,404	4,468
Non-controlling interest		(645)	24
Comprehensive income for the period		**6,759**	**4,492**
Basic and diluted earnings per share attributable to the shareholders of PJSC MIPC (in Russian Roubles)	24	**33.4**	**22.3**

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

Chief Accountant — A.N. Bukina

March 2018

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

Общество с ограниченной ответственностью ФБК Аудиторское заключение ОГРН 1027700058286 г. Москва

PJSC MIPC

Consolidated Statement of Cash Flows for the year ended 31 December 2017

(in millions of Russian Roubles)

	Notes	For the year ended 31 December 2017	For the year ended 31 December 2016
Cash flows from operating activities			
Profit before tax		**8,510**	**7,403**
Adjustments for:			
Amortization and depreciation	20	13,962	13,082
Gain on disposal of a subsidiary	20	-	(61)
Change in allowance for impairment of accounts receivable	20	2,826	4,002
Reversal of impairment loss on property, plant and equipment	20	(177)	(201)
Change in impairment allowance for inventories and non-functional capital investments	20	378	1,110
Change in provision for litigation claims	20	(24)	(393)
Impairment loss on available-for-sale financial assets	20	-	137
Gain on disposal of property, plant and equipment and other assets	20	(5,731)	(5,573)
Net finance (income)/expenses	22	(493)	194
Other non-cash transactions		(22)	(189)
Operating cash flows before changes in working capital and provisions		**19,229**	**19,511**
Change in inventories		141	475
Change in trade and other receivables		2,632	(9,945)
Change in employee benefits		7	59
Change in trade and other payables		(3,924)	5,704
Changes in subsidies		545	(22)
Change in deferred income		(170)	1,184
Cash flows from operating activities before income tax and interest paid		**18,460**	**16,966**
Interest received		306	340
Interest paid		(36)	(33)
Income tax paid		(35)	(92)
Net cash flows from operating activities		**18,695**	**17,181**
Cash flows used in investing activities			
Purchase of property, plant and equipment		(20,549)	(20,321)
Proceeds from disposal of property, plant and equipment		1,158	2,027
Acquisition of intangible assets		(947)	(536)
Proceeds from sale of available-for-sale financial assets		-	1,387
Repayment of loans issued		576	277
Loans issued		(470)	(1,003)
Interest paid and capitalized		(2,072)	(2,073)
Dividends and interest received		165	370
Net cash flows used in investing activities		**(22,139)**	**(19,872)**
Cash flows from financing activities			
Proceeds from borrowings		27,891	36,470
Repayment of borrowings		(24,240)	(36,378)
Repurchase of treasury shares		(295)	-
Finance lease payments		-	(1)
Net cash flows from financing activities		**3,356**	**91**
Net decrease in cash and cash equivalents		**(88)**	**(2,600)**
Cash and cash equivalents at the beginning of the period	14	4,226	6,826
Cash and cash equivalents at the end of the period	14	**4,138**	**4,226**

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

Chief Accountant A.N. Bukina

12 March 2018

ПАО «МОЭК»

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Аудиторское заключение

Consolidated Statement of Changes in Equity for the year ended 31 December 2017

(in million of Russian Roubles)

	Notes	Attributable to the shareholders of PJSC MIPC							Non-controlling interest	Total equity
		Share capital	Share premium	Treasury shares	Financial assets revaluation reserve	Other reserves	Accumulated loss	Total		
Balance as 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 income/(loss)	23	-	-	-	(29)	150	-	121	-	121
Total other comprehensive income /(loss)		-	-	-	**115**	**(600)**	-	**(485)**	-	**(485)**
Comprehensive income/(loss) for the period		-	-	-	**115**	**(600)**	**4,953**	**4,468**	**24**	**4,492**
Transactions with the shareholders presented directly in equity										
Recognition of non-controlling interest on subsidiary acquisition		-	-	-	-	-	-	-	(199)	(199)
Balance as at 31 December 2016		**24,414**	**138,596**	**(16,669)**	-	**(159)**	**(27,388)**	**118,794**	**671**	**119,465**
Balance as at 1 January 2017		**24,414**	**138,596**	**(16,669)**	-	**(159)**	**(27,388)**	**118,794**	**671**	**119,465**
Profit/(loss) for the period	15	-	-	-	-	-	7,404	7,404	(645)	6,759
Comprehensive income/(loss) for the period		-	-	-	-	-	**7,404**	**7,404**	**(645)**	**6,759**
Transactions with the shareholders presented directly in equity										
Repurchase of treasury shares	15	-	-	(295)	-	-	-	**(295)**	-	**(295)**
Balance as at 31 December 2017		**24,414**	**138,596**	**(16,964)**	-	**(159)**	**(19,984)**	**125,903**	**26**	**125,929**

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

Chief Accountant A.N. Bukina

12 March 2018

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 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 101 generating assets: 12 RTS, 13 KTS and 76 small boiler and autonomous heating units with total heat capacity of approximately 4,279.27 Gkal/h.

PJSC MIPC is an operator of the most long-distance heating system in the world: the Company is operating more than 15.8 thousand kilometers of heating networks, including about 8.0 thousand kilometers of magistral heating networks and 7.8 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.

In August 2017 PJSC MIPC repurchased its own treasury shares from shareholders who claimed for redemption in connection with the planned reorganization in form of merger with PJSC Mezhregionteplosetenergoremont. The total amount of redeemed ordinary shares is 1,511,412, as a result the amount of voting shares of PJSC MIPC decreased by 1,511,412. The actual ownership interest of LLC Gazprom energoholding amounted to 99.53%.

As at 31 December 2017 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 and may be impacted in the future by a continuing decline in oil prices, political tension in the region and international sanctions against certain Russian companies and individuals.

As a result during 2017:

- the Central Bank of the Russian Federation ("CBRF") exchange rate fluctuated between the Russian Rouble ("RUB") 55.8453 per US Dollar ("USD") and RUB 60.7503 per USD;
- the CBRF key refinancing interest rate decreased from 10.0% p.a. to 7.75% 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.

(in millions of Russian Roubles)

Subsequent to 31 December 2017:

- the CBRF exchange rate fluctuated between RUB 55.6717 per USD and RUB 58.1718 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 decreased to 7.50% p.a.

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 economically justified rates, and the income actually accrued for the population at the preferential rates. To compensate this lost revenue the Moscow Government used to provide subsidies, which were recorded in the Group's revenue (Note 19). Starting from 1 July 2017 PJSC MIPC does not receive subsidies as compensation between the difference in rates. 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 2017	31 December 2016
OJSC Mosgorenergo	Energy distribution services	100.00%	100.00%
LLC MIPC-Finance	Operations on securities market	100.00%	100.00%
LLC Razvitiye teplosetevogo kompleksa	Heating network and associated equipment development	100.00%	100.00%
LLC HSC MIPC	Production, transmission and distribution of steam and hot water (heat energy)	100.00%	100.00%
LLC Center for MIPC technological connections	Connection to networks of engineering and technical support	100.00%	100.00%
LLC Property Management Center	Intermediary services in buying, selling and renting real estate	100.00%	100.00%
LLC HSC Mosenergo	Production, transmission and distribution of steam and hot water (heat energy)	77.49%	77.49%
LLC HSC Novaya Moskva	Production, transmission and distribution of steam and hot water (heat energy)	77.49%	77.49%
OJSC MIPC-Generation	Purchase/sale of heat and electricity	-	100.00%

On 14 April 2017 the Group's subsidiary OJSC MIPC-Generation terminated its activity by reorganization in the form of merger with the Group's subsidiary LLC MIPC-Finance. The transaction did not have a significant impact on the Group's operations and its financial position.

As at 31 December 2017 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 all 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 returns;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- 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 its 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 (including all long-term investments) 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 (line "Other reserves").

The consolidated financial statements include the results of an 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 comprehensive 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, 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 profit or loss and other 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 gain or loss 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 stocks 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 other comprehensive income is transferred to profit or loss of the period.

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 consolidated 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 presents interest accrued on bank accounts balances as cash flows from operating activities in the consolidated 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 paid, cancelled or expired.

Financial liabilities include mainly trade and other accounts payable, 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 consolidated statement of profit or loss and other comprehensive income and included in accumulated depreciation and impairment. Impairment loss on 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 capitalised as part of that equipment.

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

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

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

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Capitalised 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 capitalised.

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.

Gain and loss 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 depending on the contractual terms 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. Assets received as a compensation are accounted for at fair value. Compensation received in cash is recognised as advances received in the consolidated statement of financial position upon receipt. Gain on liquidation and the cost of the liquidated item of property, plant and equipment are recognised in the consolidated statement of profit or loss and 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 for the period 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 expenses, and the capital repayment, which reduces the related lease obligation to the lessor with 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 consolidated 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 amortisation and impairment losses. Subsequent expenditure is capitalised 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.

Amortisation

Amortisation 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 software for the current and comparative periods vary from one to ten years.

Amortisation 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 amortised 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 amortised 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 expenses in the consolidated statement of profit or loss and other comprehensive income for the current period. Impairment loss 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 period.

(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 overheads 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 heat is measured at the fair value of the consideration received. 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 returns 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 expenses

Finance income comprises interest income on investments (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised in the consolidated statement of profit or loss and other comprehensive income 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 expenses include interest expenses 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 to income tax 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 2017 and 31 December 2016.

3.19 New standards and interpretations

The following new standards, amendments to standards and interpretations became effective starting from 1 January 2017:

- 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 disclosure of 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).

These changes, applicable to the activities of the Group, were taken into account in the preparation of these consolidated financial statements.

Some new standards, amendments to standards and interpretations are not yet effective for the Group as at 31 December 2017 and were not early adopted by the Group:

- 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. The Group assessed that application of the new standard would not have significant impact on its consolidated financial statements.
- IFRS 9 "Financial Instruments" (issued in November 2009 and effective for annual periods beginning on or after 1 January 2018). IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" and changes requirements related to the classification and measurement of financial assets. Financial assets are required to be classified into following measurement categories: measured subsequently at amortised cost, measured subsequently at fair value through other comprehensive income and measured subsequently at fair value through profit or loss. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument's contract. The Group management does not expect that the new classification requirements would have a material impact on its accounting.

  IFRS 9 "Financial Instruments" implements new requirements for recognition of impairment losses for the financial assets based on the model of "expected credit losses" which replaces the model of "incurred losses" in IFRS (IAS) 39 "Financial Instruments: Recognition and Measurement". Generally, management expects that application of expected credit losses model in accordance with IFRS 9 "Financial Instruments" will result in earlier recognition of credit losses and overall increase of impairment losses amount. The management expects that increase of impairment losses amount in relation to accounts receivables will not exceed 20%. This valuation is based on currently available information and may be changed due to receipt of additional justified and confirmed information which will be available when the Group starts applying IFRS 9 "Financial Instruments".

  Standard amendments will not impact accounting for financial liabilities of the Group, as new requirements relate to accounting for financial liabilities measured through profit or loss which are not present in the Group.
- 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 unified model for presentation of all types of lease agreements in the statement of financial position, similar to current financial leases accounting model, and requires lessees to recognise assets and liabilities under lease agreements except for specifically mentioned cases. 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 Group is currently assessing the impact of these amendments on its financial position and performance results.
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018) clarifies the procedure for recognition of non-monetary asset or non-monetary obligation arising as a result of advance given or prepayment received prior to the recognition of the related asset, income or expense.
- IFRIC 23 "Uncertainty over Income Taxes Treatments" (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) specifies the requirements for the recognition and assessment of tax liability or tax asset where there is uncertainty over income taxes treatments.

- 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 amendments to IAS 28 "Investments in associates and joint ventures" (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify that long-term investments in an associate or joint venture that form part of an entity's net investment in an associate or joint venture should be accounted for in accordance with IFRS 9 "Financial Instruments".

The estimated impact of the adoption of these standards on the Group's equity as at 1 January 2018 is based on assessments undertaken to date. The actual impacts of adopting the new standards as at 1 January 2018 may change because the new accounting policies are subject to change until the Group presents its first consolidated financial statements that include the date of initial application. Unless otherwise noted above, the new standards, amendments and interpretations are not expected to affect significantly the Group's consolidated financial statements.

4 Use of 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 critical 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 consolidated 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 consolidated financial statements presented below:

(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 of accounts receivable is based on the Group's 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 consolidated 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.

(in millions of Russian Roubles)

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 1% from 16,911 people in 2016 to 17,156 people in 2017.

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. Financial investments in Mutual Investment Fund Perlovsky are not included into the Group's consolidation and are presented as available-for sale financial assets.

4.2 Presentation of changed information

Changes of comparative information in the consolidated statement of cash flows

For the purpose of more reliable and structured presentation of information in the consolidated statement of cash flows for the year ended 31 December 2017 the column "For the year ended 31 December 2016" was adjusted in the following way:

- paid value added tax on purchased property, plant and equipment was reclassified from the line "Purchase of property, plant and equipment" in investing activity into the line "Change in trade and other receivables" in operating activity as this is an indirect tax and is not directly related to the creation of property, plant and equipment;
- interest paid and capitalised was reclassified from the line "Interest paid" in operating activity into the line "Interest paid and capitalised" in investing activity as this interest directly relates to the creation of property, plant and equipment and, accordingly, relates to investing activity;
- interest received on cash and cash equivalents was reclassified from the line "Change in trade and other receivables" in operating activity into the separate line "Interest received" within operating activity due to the need of its separate presentation.

The effect of these changes on the consolidated statement of cash flows for the year ended 31 December 2016 is presented below:

	For the year ended 31 December 2016	Adjustment	For the year ended 31 December 2016 (adjusted)
Cash flows from operating activities			
Change in trade and other receivables	(9,605)	(340)	(9,945)
Change in trade and other payables	9,151	(3,447)	5,704
Cash flows from operating activities before income tax and interest paid	**20,753**	**(3,788)**	**16,966**
Interest received	-	340	340
Interest paid	(2,106)	2,073	(33)
Net cash flows from operating activities	**18,555**	**(1,375)**	**17,181**
Cash flows used in investing activities			
Purchase of property, plant and equipment	(23,768)	3,447	(20,321)
Interest paid and capitalised	-	(2,073)	(2,073)
Net cash flows used in investing activities	**(21,246)**	**1,374**	**(19,872)**

Changes of comparative information on transactions with state-controlled entities

The Group specified the affiliation of a number of entities with the state. For the purpose of more reliable presentation of information on related party transactions with state-controlled entities, the comparative information was changed.

The effect of the changes on the disclosure of related party transactions with other state-controlled entities for the year ended 31 December 2016 and the balances as at 31 December 2016 is presented below:

(in millions of Russian Roubles)

	For the year ended 31 December 2016	Adjustment	For the year ended 31 December 2016 (adjusted)
Purchased heat energy	435	935	1,370
Total	**435**	**935**	**1,370**

	Outstanding balances as at 31 December 2016	Adjustment	Outstanding balances as at 31 December 2016 (adjusted)
Advances received from customers	4,469	1,169	5,638
Trade and other accounts payable	3,267	296	3,563
Total	**7,736**	**1,465**	**9,201**

The Group also made changes to the presentation of comparative information by means of separation the following lines out of the line "Other expenses": "Measurement units maintenance expenses" "Production services", "Purchased heat energy" and "Gain on disposal of property, plant and equipment and other assets".

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 Parents company shareholders that includes share capital, reserves and retained earnings or accumulated loss.

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 borrowings stated in the consolidated statement of financial position, net of cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt amount.

The gearing ratios as at 31 December 2017 and 31 December 2016 were as follows:

	31 December 2017	31 December 2016
Borrowings (Note 16)	(24,830)	(21,179)
Cash and cash equivalents (Note 14)	4,138	4,226
Net debt (borrowed capital)	**(20,692)**	**(16,953)**
Equity attributable to the Group's shareholders	(125,903)	(118,794)
Total equity	**(146,595)**	**(135,747)**
Gearing ratio	**14.12%**	**12.49%**

(i) Borrowings covenants

The Group maintains an optimal capital structure by monitoring some credit covenants. As at 31 December 2017 and 31 December 2016 the Group was in compliance with certain covenants foreseen in credit agreements:

- the minimum level of EBITDA/Interest expenses;
- the maximum level of Total Debt/EBITDA;
- maintaining a specified minimum level of credit turnover at bank accounts;
- maintaining the value of net assets in the amount not less than the amount of the authorized capital.

(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 2017 the Group was in compliance with the share capital requirements listed above.

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, 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 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

Most part of bank deposits of the Group is located mainly in banks with credit rating Ba2 (positive) 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.

(in millions of Russian Roubles)

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 profit 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.

(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 borrowings 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 borrowings have fixed interest rates.

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 over the other party in making financial and operational decisions, or have joint control.

Transactions with Gazprom Group and its associates

PJSC Gazprom is the ultimate parent company of the Group during current and previous reporting periods. The Government of the Russian Federation is the ultimate controlling party of the Group during current and previous reporting periods.

Revenue	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**
Revenue from heat energy transmission services	1,837	3,886
Revenue from heat energy sales	118	215
Revenue from hot water supply services	11	9
Other revenue	908	976
Total	**2,874**	**5,086**

For the year ended 31 December 2017, the Group provided services to PJSC Mosenergo amounting to RUB 2,706 million (for the year ended 31 December 2016: RUB 4,828 million), including:

- revenue from heat energy transmission services RUB 1,837 million (for the year ended 31 December 2016: RUB 3,886 million);
- other revenue RUB 869 million (for the year ended 31 December 2016: RUB 942 million).

(in millions of Russian Roubles)

Operating expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Purchased heat energy	69,326	65,022
Fuel expenses	6,944	6,177
Water expenses	1,107	989
Repair and maintenance	593	2,133
Rent	129	886
Purchased electricity	99	107
Gain on disposal of property, plant and equipment and other assets	(77)	(8)
Other expenses	1,467	1,239
Total	**79,588**	**76,545**

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 2017, the Group's purchases from PJSC Mosenergo amounted to RUB 69,731 million (for the year ended 31 December 2016: RUB 67,123 million) including:

- purchased heat energy RUB 69,271 million (for the year ended 31 December 2016: RUB 64,988 million);
- purchased electricity RUB 67 million (for the year ended 31 December 2016: RUB 73 million);
- other expenses RUB 394 million (for the year ended 31 December 2016: RUB 1,953 million).

LLC Gazprom Mezhregiongaz Moscow, a subsidiary of PJSC Gazprom, is the main gas supplier for the Group. For the year ended 31 December 2017 the Groups purchases from LLC Gazprom Mezhregiongaz Moscow amounted to RUB 6,944 million (for the year ended 31 December 2016: RUB 6,177 million). These purchases are included in the line "Fuel expenses".

Finance income and finance expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Finance income	435	186
Finance expenses	(270)	(607)
Net finance income/(expenses)	**166**	**(421)**

Finance income for the year ended 31 December 2017 includes amortisation of discount on long-term accounts receivable from sales of ordinary shares JSC MIPC-Project in the amount of RUB 61 million (for the year ended 31 December 2016: RUB 41 million), interest income on deposits with Gazprombank (Joint-stock Company), an associate of PJSC Gazprom, in the amount of RUB 26 million (for the year ended 31 December 2016: RUB 79 million) and interest income on finance lease provided by PJSC Mosenergo in the amount of RUB 15 million (for the year ended 31 December 2016: RUB 16 million).

Finance expenses for the year ended 31 December 2017 include amortisation of discount on long-term payables related to acquisition of the heating networks from PJSC Mosenergo in the amount of RUB 251 million (for the year ended 31 December 2016: RUB 504 million).

Outstanding balances

	Outstanding balances as at 31 December 2017	Outstanding balances as at 31 December 2016
Advances for capital construction	1,553	790
Trade and other receivables	1,147	843
Loans issued	369	455
Cash and cash equivalents	240	1,291
Finance lease receivables	61	64
Advances given and prepaid expenses	36	35
Total	**3,406**	**3,478**
Trade and other payables	27,179	36,463
Borrowings	435	3,780
Advances received from customers	11	9
Total	**27,625**	**40,252**

(in millions of Russian Roubles)

Trade and other receivables include an outstanding balance with PJSC Mosenergo, a subsidiary of PJSC Gazprom, in the amount of RUB 583 million as at 31 December 2017 (as at 31 December 2016: RUB 328 million), including present value of lease payments receivable in the amount of RUB 61 million as at 31 December 2017 (as at 31 December 2016: RUB 64 million).

Cash balances relate to transactions with Gazprombank (Joint-stock Company), an associate of PJSC Gazprom. As at 31 December 2017 an outstanding balance amounted to RUB 240 million (as at 31 December 2016: RUB 1,291 million).

As at 31 December 2017 the Group's trade payables to PJSC Mosenergo amounted to RUB 21,701 million (at 31 December 2016: RUB 27,534 million).

As at 31 December 2017 the Group's trade payables to LLC Gazprom mezhregiongaz Moskva, a subsidiary of PJSC Gazprom, amounted to RUB 1,086 million (as at 31 December 2016: RUB 1,158 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 2017	For the year ended 31 December 2016
Wages and bonuses	257	211
Social contributions	61	39
Termination benefits	11	-
Remuneration for membership in the Board of Directors	9	6
Total	**338**	**256**

	Outstanding balance as at 31 December 2017	Outstanding balance as at 31 December 2016
Wages payable	13	12
Total	**13**	**12**

The management fee to LLC Gazprom energoholding for the year ended 31 December 2017 amounted to RUB 123 million (for the year ended 31 December 2016: RUB 120 million).

Transactions with other state-controlled entities

Revenue

	For the year ended 31 December 2017	For the year ended 31 December 2016
Revenue from heat energy sales	65,356	60,323
Revenue from hot water supply services	24,699	25,703
Revenue from transfer of water	2,008	1,990
Other revenue	1,555	1,410
Total	**93,618**	**89,426**

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

Operating expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Water expenses	6,504	6,114
Measurement units maintenance expenses	2,901	2,131
Production services	1,887	1,879
Purchased electricity	1,803	1,763
Taxes other than income tax	1,721	1,290
Purchased heat energy	1,422	1,370
Rent	464	239
Gain on disposal of property, plant and equipment and other assets	(4,707)	(5,034)
Other expenses	1,425	1,972
Total	**13,420**	**11,724**

(in millions of Russian Roubles)

Finance income and expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Finance income	298	473
Finance expenses	(166)	(582)
Net finance income/(expenses)	**132**	**(109)**

Outstanding balances

	Outstanding balances as at 31 December 2017	Outstanding balances as at 31 December 2016
Trade and other receivables	27,009	27,024
Cash and cash equivalents	684	640
Tax prepayments	527	869
Loans issued	373	394
Advances for capital construction	90	31
Advances given and prepaid expenses	73	11
Total	**28,756**	**28,969**
Borrowings	24,175	10,500
Advances received from customers	8,161	5,638
Trade and other payables	3,279	3,563
Taxes payable	1,224	1,322
Total	**36,839**	**21,023**

Trade and other receivables, advances issued and prepaid expenses with other state-controlled entities, as at 31 December 2017 include provision for impairment of accounts receivable in the amount of RUB 4,352 million (as at 31 December 2016: RUB 3,359 million).

The Group performs capital transactions with Gazprom Group and its associates and other state-controlled entities. The summary of such transactions for the year ended 31 December 2017 and 31 December 2016 as well as the amount of contractual obligations as at 31 December 2017 and 31 December 2016 is presented in the tables:

Capital expenditure on acquisition and construction of property, plant and equipment

	Outstanding balances as at 31 December 2017	Outstanding balances as at 31 December 2016
Gazprom Group and its associates	6,598	9,440
State-controlled entities	1,505	590
Total	**8,103**	**10,030**

Amount of contractual obligations for acquisition and construction of property, plant and equipment

	Outstanding balances as at 31 December 2017 (including VAT)	Outstanding balances as at 31 December 2016 (including VAT)
Gazprom Group and its associates	16,639	19,798
State-controlled entities	174	54
Total	**16,813**	**19,852**

(in millions of Russian Roubles)

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 2015	**197,545**	**24,002**	**37,922**	**4,443**	**27,142**	**291,054**
Additions	17	726	250	28	21,967	22,988
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**	**30,507**	**311,039**
Additions	-	-	7	5	25,404	25,416
Disposals	(1,733)	(37)	(423)	(408)	(778)	(3,379)
Transfers	17,614	433	1,859	673	(20,579)	-
Reclassification to assets held for sale	(60)	(187)	(8)	(53)	-	(308)
Balance as at 31 December 2017	**223,817**	**24,653**	**41,893**	**7,851**	**34,554**	**332,768**
Accumulated depreciation and impairment						
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
Transfer of impairment loss	(727)	(1)	(55)	(67)	850	-
Reclassification to assets held for sale	-	114	2	1	-	117
Impairment loss accrual	(8,017)	(1,742)	(986)	(183)	(5,407)	(16,335)
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)**	**(7,233)**	**(159,284)**
Depreciation charge	(8,178)	(569)	(2,579)	(954)	-	(12,280)
Disposals	1,207	29	268	264	333	2,101
Transfer of impairment loss	(1,755)	(116)	(351)	(125)	2,347	-
Impairment loss accrual	(4,839)	(1,368)	(1,474)	(227)	(5,284)	(13,192)
Impairment loss reversal	10,346	1,007	1,114	120	461	13,048
Reclassification to assets held for sale	7	30	5	35	-	77
Balance as at 31 December 2017	**(118,255)**	**(11,377)**	**(25,716)**	**(4,806)**	**(9,376)**	**(169,530)**
Net book value						
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**
As at 31 December 2017	**105,562**	**13,276**	**16,177**	**3,045**	**25,178**	**163,238**

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 2017 the carrying amount of leased property, plant and equipment amounted to RUB 52 million (as at 31 December 2016: RUB 111 million).

Capitalised borrowing costs for the year ended 31 December 2017 amounted to RUB 2,091 million (for the year ended 31 December 2016: RUB 2,081 million) with the capitalisation rate 9.32% (For the year ended 31 December 2016: 10.00%). The capitalisation rate represents the weighted average rate on borrowings.

Property, plant and equipment are not pledged as collateral.

Impairment of property, plant and equipment

As at 31 December 2016 the impairment of the Group's assets amounted to RUB 48,067 million.

(in millions of Russian Roubles)

As at 31 December 2017 the Group determined the recoverable amount of its property, plant and equipment. During 2017 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 12,823 million was accrued and the impairment loss in the amount of RUB 13,000 million for previously impaired property, plant and equipment was reversed. Total result of the Group's impairment test of property, plant and equipment is impairment loss reversal for the amount of RUB 177 million.

The following assumptions were used in determining the recoverable amount of property, plant and equipment as at 31 December 2017:

- cash flows are projected based on the actual experience and operational results for the previous years, and the Groups business plan for a three-year period; management's expectations on optimization of operating expenses for 2018 - 2020 years were taken into account as well;
- for the purposes of the analysis 73 CGU have been considered as at 31 December 2017 (as at 31 December 2016: 72 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 10.66% was applied in determining the recoverable amount of property, plant and equipment as at 31 December 2017 (as at 31 December 2016: 12.11%).

With the increase/decrease in the discount rate of 0.5% the amount of impairment loss as at 31 December 2017 would increase/decrease by RUB 1,556 million.

For the year ended 31 December 2017:

- disposal of impairment loss for property, plant and equipment amounted to RUB 767 million;
- impairment allowance for non-functional capital investments accrued in the amount of RUB 369 million;
- impairment allowance for non-functional capital investments reversed in the amount of RUB 48 million.

As at 31 December 2017 impairment loss for property, plant and equipment amounted to RUB 47,444 million.

8 Assets classified as held for sale

As at 31 December 2017 the Group was in the process of disposing of non-core assets in the amount of RUB 574 million (as at 31 December 2016: RUB 385 million). The Group plans to sell these assets during 2018.

Assets classified as held for sale

	Heating networks	Buildings and facilities	Machinery and equipment	Transport and others	Total
As at 1 January 2017	**-**	**384**	**-**	**1**	**385**
Additions	53	157	3	18	231
Disposals	-	(38)	(1)	(3)	(42)
As at 31 December 2017	**53**	**503**	**2**	**16**	**574**

(in millions of Russian Roubles)

9 Intangible assets

	Software	Licenses	Total
Book value			
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**
Acquisitions	550	397	947
Disposals	(184)	(70)	(254)
Balance as at 31 December 2017	**5,376**	**2,828**	**8,204**
Accumulated amortisation			
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)**
Amortisation for the period	(1,124)	(558)	(1,682)
Disposals	174	68	242
Balance as at 31 December 2017	**(3,332)**	**(2,309)**	**(5,641)**
Net book value			
As at 31 December 2015	**3,071**	**1,063**	**4,134**
As at 31 December 2016	**2,628**	**682**	**3,310**
As at 31 December 2017	**2,044**	**519**	**2,563**

10 Inventories

	31 December 2017	31 December 2016
Spare parts	432	395
Materials	209	470
Other inventories	350	321
Total	**991**	**1,186**

Allowance for impairment of inventories amounted to RUB 177 million as at 31 December 2017 (as at 31 December 2016: RUB 119 million).

The Group's inventories are not pledged as collateral as at 31 December 2017 and 31 December 2016.

11 Available-for-sale financial assets

	% share		Carrying value	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Mutual Investment Fund Perlovsky	55.78%	55.78%	769	796
Total			**769**	**796**

Decrease in fair value of available-for-sale financial assets for the year ended 31 December 2017 amounted to RUB 27 million due to decrease of Mutual Investment Fund Perlovsky net assets and was recognised in profit and loss. For the year ended 31 December 2016 increase in fair value of available-for-sale financial assets due to increase of market prices amounted to RUB 46 million.

For the year ended 31 December 2017 the Group did not sale any available-for-sale financial assets. 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. 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.

(in millions of Russian Roubles)

12 Trade and other receivables

	31 December 2017	31 December 2016
Trade receivables	42,165	43,351
Other receivables	10,853	6,848
Allowance for impairment of trade receivables	(9,229)	(7,207)
Allowance for impairment of other receivables	(116)	(60)
Financial assets	**43,673**	**42,932**
Advances to suppliers and prepaid expenses	350	243
Allowance for impairment of advances to suppliers and prepaid expenses	(10)	(11)
Total	**44,013**	**43,164**
VAT recoverable	416	446
Prepaid taxes, other than income tax	36	368
Other receivables	9	14
Total	**44,474**	**43,992**
Non-current assets	940	513
Current assets	43,534	43,479
Total	**44,474**	**43,992**

Long-term accounts receivable as at 31 December 2017 include advances to suppliers and prepaid expenses in the amount of RUB 123 million (as at 31 December 2016: RUB 101 million) and other receivables in the amount of RUB 817 million (as at 31 December 2016: RUB 412 million).

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

13 Subsidies receivable/advances received on subsidies

	31 December 2017		31 December 2016	
	Subsidies receivable	Advances received on subsidies	Subsidies receivable	Advances received on subsidies
Subsidies from the Moscow Government	308	55	914	83
Subsidies from the State Center of Household Subsidies	817	-	784	-
Total	**1,125**	**55**	**1,698**	**83**

14 Cash and cash equivalents

	31 December 2017	31 December 2016
Bank balances	4,010	3,980
Deposits with maturity of less than three months	128	246
Total	**4,138**	**4,226**

As at 31 December 2017 restricted cash includes the minimum balance on settlement accounts in the amount of RUB 2,201 million (as at 31 December 2016: RUB 3,511 million). As at 31 December 2017 the arrested cash amounted to RUB 2 million (as at 31 December 2016: RUB 1 million).

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

	31 December 2017		31 December 2016	
	Currency	Balances	Currency	Balances
Gazprombank (Joint-stock Company)	Russian Rouble	128	Russian Rouble	134
PJSC Sberbank	Russian Rouble	-	Russian Rouble	112
Total		**128**		**246**

15 Equity and reserves

Share capital

As at 31 December 2017 and 31 December 2016 the authorized share capital comprised 244,134,012 ordinary shares with a par value of RUB 100 each.

(in millions of Russian Roubles)

Treasury shares

On 1 August 2017 PJSC MIPC repurchased its own shares from shareholders who claimed for redemption in connection with the planned reorganisation of PJSC MIPC in the form of merger with PJSC Mezhregionteplosetenergoremont. The total amount of redeemed ordinary shares is 1,511,412 with the total value of RUB 295 million. As at 31 December 2017 treasury shares comprised 23,260,402 ordinary shares with total value of RUB 16,964 million (as at 31 December 2016: 21,748,990 ordinary shares with total value of RUB 16,669 million).

Other reserves

The Group recognises in other reserves the effect of transactions between the entities under common control. For the year ended 31 December 2017 the Group did not perform such transactions. The Group's other reserves as at 31 December 2017 amounted to RUB 159 million (as at 31 December 2016: RUB 159 million). 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.

Non-controlling interest

The Group has non-controlling interest of 22.51% in LLC HSC Mosenergo and LLC HSC Novaya Moskva. For the year ended 31 December 2017 the financial result of LLC HSC Mosenergo and LLC HSC Novaya Moskva amounts to the loss of RUB 2,866 million, RUB 645 million of that was allocated to a non-controlling interest in accordance with the percentage of ownership.

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 decision of the Board of Directors of PJSC MIPC, dividends on ordinary shares for the results of 2016 were not accrued.

16 Borrowings

Table below provides information about the contractual terms of the Group's interest-bearing 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 as at period end	Year of maturity	31 December 2017	31 December 2016
Short-term borrowings				
PJSC Bank VTB	7.90%-8.30%	2018	15,605	8,000
PJSC Sberbank	8.30%	2018	8,570	2,500
PJSC Mosenergo	8.53%	2018	300	-
JSC BANK ROSSYIA	11.00%	2018	220	390
Gazprombank (Joint-stock Company)	10.00%	2017	-	3,700
Current portion of long-term borrowings				
JSC ALFA-BANK	9.70%	2019	-	9
Total short-term and current portion of long-term borrowings			**24,695**	**14,599**
Long-term borrowings				
PJSC Mosenergo	11.50%	2021	135	80
Long-term borrowings				
JSC ALFA-BANK	9.70%	2019	-	6,500
Total long-term borrowings			**135**	**6,580**
Total			**24,830**	**21,179**

All borrowings are denominated in RUB. Pledge of property rights under borrowings agreements as at 31 December 2017 amounted to RUB 1,216 million (as at 31 December 2016: RUB 908 million).

Reconciliation of movements for liabilities arising from financing activities of the Group for the year ended 31 December 2017 and 31 December 2016 is presented in the table below:

(in millions of Russian Roubles)

Index	Liabilities arising from financing activities		
	Long-term borrowings	Short-term borrowings	Total
Liabilities arising from financing activities as at 1 January 2016	-	**21,078**	**21,078**
Cash flows from financing activities			
Proceeds from borrowings	21,880	14,590	36,470
Repayment of borrowings	(15,300)	(21,078)	(36,378)
Total cash flows from financing activities	**6,580**	**(6,488)**	**92**
Cash flows from other activities			
Interest paid and capitalised	-	(2,072)	(2,072)
Interest paid	-	(33)	(33)
Total cash flows from other activities	-	**(2,105)**	**(2,105)**
Other changes	-		
Interest expense accrual	-	2,114	2,114
Non-cash liabilities set-off	-	-	-
Total other changes	-	**2,114**	**2,114**
Liabilities arising from financing activities as at 31 December 2016	**6,580**	**14,599**	**21,179**
Cash flows from financing activities			-
Proceeds from borrowings	1,055	26,836	27,891
Repayment of borrowings	(7,500)	(16,740)	(24,240)
Total cash flows from financing activities	**(6,445)**	**10,096**	**3,651**
Cash flows from other activities			-
Interest paid and capitalised	-	(2,072)	(2,072)
Interest paid		(36)	(36)
Total cash flows from other activities	-	**(2,108)**	**(2,108)**
Other changes			-
Interest expense accrual	-	2,131	2,131
Non-cash liabilities set-off	-	(23)	(23)
Total other changes	-	**2,108**	**2,108**
Liabilities arising from financing activities as at 31 December 2017	**135**	**24,695**	**24,830**

17 Employee benefits

On dismissal due to the retirement employees of PJSC MIPC are paid one-time retirement benefit according to length of continuous service. Retirement benefit obligations of the Group as at 31 December 2017 amounted to RUB 248 million (as at 31 December 2016: RUB 241 million).

18 Trade and other payables

	31 December 2017	31 December 2016
Financial liabilities		
Short-term trade payables	35,604	41,699
Long-term trade payables	1,654	2,618
Total	**37,258**	**44,317**
Non-financial liabilities		
Short-term advances received from customers	20,090	13,517
Long-term advances received from customers	3,588	2,855
Taxes payable	1,224	1,322
Other payables	1,697	1,628
Total	**26,599**	**19,322**
Short-term liabilities	58,615	58,166
Long-term liabilities	5,242	5,473
Total	**63,857**	**63,639**

(in millions of Russian Roubles)

Other payables of the Group include the amount of provision for litigation claims. For the year ended 31 December 2017 and 31 December 2016 the movement of provision for litigation claims was the following:

	2017	2016
Balance as at 1 January	**196**	**651**
Accrual	84	285
Utilisation	(1)	(62)
Reversal	(108)	(678)
Balance as at 31 December	**171**	**196**

Taxes payable are represented by the following items:

	31 December 2017	31 December 2016
VAT payable	480	879
Social contributions	351	286
Property tax	283	36
Other taxes payable	110	121
Total	**1,224**	**1,322**

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 2017	For the year ended 31 December 2016
Revenue from heat energy sales	101,456	94,266
Revenue from hot water supply services	33,185	31,004
Revenue from transfer of water	2,008	1,990
Revenue from heat energy transmission services	1,837	3,886
Other revenue	5,784	4,357
Total	**144,270**	**135,503**

The heat energy is provided to individual residential customers at regulated social tariffs, significantly lower than the economically justified rates. The difference in tariffs is compensated to the Group in the form of subsidies from the Moscow Government. For the year ended 31 December 2017 the subsidies amounted to RUB 948 million (for the year ended 31 December 2016: RUB 2,238 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 2017 in the amount of RUB 2,298 million was settled by offset of mutual claims (for the year ended 31 December 2016: RUB 4,810 million).

(in millions of Russian Roubles)

20 Operating expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Purchased heat energy	71,117	66,608
Staff costs (Note 21)	16,266	14,388
Amortisation and depreciation	13,962	13,082
Water expenses	7,712	7,138
Fuel expenses	7,057	6,742
Repair and maintenance	5,253	4,267
Purchased electricity	5,210	5,094
Measurement units maintenance expenses	2,902	2,135
Change in allowance for impairment of accounts receivable	2,826	4,002
Production services	2,370	2,303
Taxes other than income tax	1,721	1,413
Rent	1,654	2,088
Material expenses	1,175	962
Software and database services	1,090	824
Security services	767	741
Utilities expenses	383	362
Change in the impairment allowance for inventories and non-functional capital investments	378	1,110
Bank services	361	480
Professional and consulting services	315	258
Communication services	176	173
Occupational safety and health expenses	59	64
Impairment loss for available-for-sale financial assets	-	137
Gain on disposal of subsidiaries	-	(61)
Change in the provision for litigation claims	(24)	(393)
Reversal of impairment loss for property, plant and equipment	(177)	(201)
Gain on disposal of property, plant and equipment and other assets	(5,731)	(5,573)
Other income	(569)	(237)
Total	**136,253**	**127,906**

21 Staff costs

	For the year ended 31 December 2017	For the year ended 31 December 2016
Wages and bonuses	11,307	9,902
Social contributions	3,450	3,003
Provision for unused vacation and bonuses	885	821
Other personnel expenses	624	662
Total	**16,266**	**14,388**

For the year ended 31 December 2017 total contributions to the Pension Fund of the Russian Federation amounted to RUB 2,600 million (For the year ended 31 December 2016: RUB 2,338 million).

(in millions of Russian Roubles)

22 Finance income and expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Finance income		
Interest income	403	517
Amortisation of discount on long-term accounts receivable	229	111
Dividend income	73	221
Interest on finance lease	15	16
Profit on sales of available-for-sale financial assets, net	-	690
Other finance income	268	-
Total	**988**	**1,555**
Finance expenses		
Interest expense	(2,131)	(2,115)
Amortisation of discount on long-term accounts payable	(251)	(503)
Discount on long-term accounts receivable	(177)	(399)
Loss on revaluation of financial assets recognised at fair value, net	(27)	-
Loss on disposal of available-for-sale financial assets, net	-	(683)
Other finance expenses	-	(130)
Total	**(2,586)**	**(3,830)**
Less capitalised interest expenses on borrowings relating to qualifying assets	2,091	2,081
Net finance income/(expenses) recognised in profit or loss	**493**	**(194)**

23 Income tax

	For the year ended 31 December 2017	For the year ended 31 December 2016
Current income tax expense		
Current period	(17)	(49)
Over-accrued in prior periods	2	-
Total	**(15)**	**(49)**
Deferred tax		
Origination and reversal of temporary differences	(1,736)	(2,377)
Total	**(1,751)**	**(2,426)**

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 2017	For the year ended 31 December 2016
Profit before tax	**8,510**	**7,403**
Income tax at applicable tax rate of 20%	(1,702)	(1,481)
Non-deductible/non-taxable differences	(51)	(945)
Over-accrued in prior periods	2	-
Total income tax	**(1,751)**	**(2,426)**
Profit for the reporting period	**6,759**	**4,977**

Tax effects of items in the statement of profit or loss and other comprehensive income

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Before tax	**Tax charge**	**After tax**	**Before tax**	**Tax charge**	**After tax**
Revaluation of available-for-sale investments	-	-	-	144	(29)	115
Change of other reserves				(750)	150	(600)
Total	-	-	-	**(606)**	**121**	**(485)**

(in millions of Russian Roubles)

Deferred tax

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

	Assets		Liabilities		Net	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Property, plant and equipment	-	-	(8,536)	(7,269)	(8,536)	(7,269)
Intangible assets	12	8	-	-	12	8
Financial investments	42	42	-	-	42	42
Inventory	-	-	(63)	(29)	(63)	(29)
Trade and other receivables	-	160	(119)	-	(119)	160
Accounts payable	508	641	-	-	508	641
Other items	244	290	-	-	244	290
Tax loss carried forward	2,651	2,632	-	-	2,651	2,632
Total	**3,457**	**3,773**	**(8,718)**	**(7,298)**	**(5,261)**	**(3,525)**

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 2017	31 December 2016
Deferred tax assets	1,360	1,668
Deferred tax liabilities	(6,621)	(5,193)
Deferred tax liabilities, net	**(5,261)**	**(3,525)**

Movements in temporary differences for the year ended 31 December 2017 are as follows:

	1 January 2017	Recognised in profit or loss	31 December 2017
Property, plant and equipment	(7,269)	(1,267)	(8,536)
Intangible assets	8	4	12
Financial investments	42	-	42
Inventory	(29)	(34)	(63)
Trade and other receivables	160	(279)	(119)
Accounts payable	641	(133)	508
Other items	290	(46)	244
Tax loss carried forward	2,632	19	2,651
Total	**(3,525)**	**(1,736)**	**(5,261)**

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
Financial investments	(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)

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 2017	For the year ended 31 December 2016
Outstanding shares	244,134,012	244,134,012
Treasury shares (weighted average number)	(22,382,541)	(21,748,990)
Weighted average number of outstanding shares	**221,751,471**	**222,385,022**

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

	For the year ended 31 December 2017	For the year ended 31 December 2016
Weighted average number of outstanding shares	221,751,471	222,385,022
Profit attributable to the shareholders of PJSC MIPC for the period	7,404	4,953
Earnings per share (basic and diluted) (in Russian Roubles) attributable to the shareholders of PJSC MIPC	**33.4**	**22.3**

There are no instruments with dilutive effect as at 31 December 2017 and 31 December 2016.

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 2017:

		Carrying amount				Fair value			
	Note	Loans issued and accounts receivable	Available -for-sale financial assets	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value									
Available-for-sale financial assets	11	-	769	-	**769**	-	-	769	**769**
Total		-	**769**	-	**769**	-	-	**769**	**769**
Financial assets not measured at fair value									
Trade and other receivables	12	43,673	-	-	**43,673**	-	-	43,673	**43,673**
Cash and cash equivalents	14	4,138	-	-	**4,138**	4,138	-	-	**4,138**
Subsidies receivable	13	1,125	-	-	**1,125**	-	-	1,125	**1,125**
Loans issued		742	-	-	**742**	-	742	-	**742**
Finance lease receivables	26	61	-	-	**61**	-	-	61	**61**
Total		**49,739**	-	-	**49,739**	**4,138**	**742**	**44,859**	**49,739**
Financial liabilities not measured at fair value									
Trade and other payables	18	-	-	37,258	**37,258**	-	-	37,258	37,258
Borrowings	16	-	-	24,830	**24,830**	-	-	24,830	24,830
Total		-	-	**62,088**	**62,088**	-	-	**62,088**	**62,088**

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)

	Note	Carrying amount				Fair value			
		Loans issued and accounts receivable	Available-for-sale financial assets	Other financial liabilities	Total	Level 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**
Borrowings	16	-	-	21,179	**21,179**	-	-	21,179	**21,179**
Total		-	-	**65,496**	**65,496**	-	-	**65,496**	**65,496**

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.

(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:

	Note	Carrying amount	
		31 December 2017	31 December 2016
Trade and other receivables	12	43,673	42,932
Subsidies receivable	13	1,125	1,698
Cash and cash equivalents	14	4,138	4,226
Loans issued		742	849
Available-for-sale financial assets	11	769	796
Finance lease receivables	26	61	64
Total		**50,508**	**50,565**

(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 2017	31 December 2016
Revenue from heat energy sales, hot water supply and transmission services	31,029	33,567
Other revenue	1,907	2,577
Total	**32,936**	**36,144**

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

(in millions of Russian Roubles)

Each of the Group's customers contributes less than 3% of the total trade receivables amount (excluding receivables from companies disclosed in Note 6), therefore there is no concentration of credit risk.

The most significant customers of the Group are MP DEZ ZHKU, LLC MC UNI-DOM and LLC MC Dom-Master, accounts receivable attributable to these customers as at 31 December 2017 amounted to RUB 736 million, RUB 700 million and RUB 453 million, respectively (as at 31 December 2016: RUB 608 million, RUB 694 million and RUB 432 million, respectively).

As at 31 December 2017 and 31 December 2016, the aging of accounts receivables was as follows:

	31 December 2017		31 December 2016	
	Carrying amount	Impairment	Carrying amount	Impairment
Not overdue	18,562	(6)	22,650	-
0-180 days overdue	16,140	(1,010)	11,292	(525)
180-360 days overdue	6,660	(1,346)	5,999	(1,152)
360 days to 2 years overdue	5,503	(2,336)	6,425	(2,317)
Overdue for more than 2 years	6,153	(4,647)	3,833	(3,273)
	53,018	**(9,345)**	**50,199**	**(7,267)**

The movement in the impairment allowance for accounts receivable and advances for capital construction for the year ended 31 December 2017 and 31 December 2016 was as follows:

	2017	2016
Balance as at 1 January	**7,281**	**3,796**
Impairment allowance accrued during the period	4,391	4,915
Write-off of receivables against previously created allowance	(708)	(517)
Reversal of previously created allowance	(1,565)	(913)
Balance as at 31 December	**9,399**	**7,281**

For the year ended 31 December 2017 the impairment allowance for advances given was accrued in the amount of RUB 54 million (for the year ended 31 December 2016: RUB 14 million). All Group's trade and other receivables are unsecured.

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 impairment allowance for 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 allwance 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 allowance 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. 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 2017	31 December 2016
Ba2 positive	666	-
Ba2 stable	-	2,230
No credit rating	3,472	1,996
	4,138	**4,226**

(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.

(in millions of Russian Roubles)

As at 31 December 2017:

	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 borrowings	24,610	25,636	14,575	10,879	16	16	150	-
Secured borrowings	220	234	12	222	-	-	-	-
Trade and other payables	37,258	38,471	35,953	356	704	704	754	-
Total	**62,088**	**64,341**	**50,540**	**11,457**	**720**	**720**	**904**	**-**

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 borrowings	20,789	23,971	970	15,137	640	7,125	10	89
Secured 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**

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.

(ii) Interest rate risk

The Group's profit 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 borrowings. Interest rates of most long-term and short-term borrowings are fixed (disclosed in Note 16).

(iii) 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 consolidated 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:

(in millions of Russian Roubles)

	31 December 2017		31 December 2016	
	Trade and other receivables	**Trade and other payables**	**Trade and other receivables**	**Trade and other payables**
Amount presented in the statement of financial position	43,673	37,258	42,932	44,317
Amounts relating to recognised financial instruments for which some or all offsetting criteria are not met	(1,755)	(1,755)	-	-
Net amount	**41,918**	**35,503**	**42,932**	**44,317**

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 2017	31 December 2016
Less than one year	1,473	2,469
Between one and five years	3,393	7,338
More than five years	819	1,523
Total	**5,685**	**11,330**

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:

	Future minimum lease payments		Present value of minimum lease payments	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Less than one year	18	18	4	3
From two through five years	72	72	28	22
More than five years	37	55	29	39
Total	**127**	**145**	**61**	**64**
Less future interest income	(66)	(81)	-	-
Present value of minimum lease payments receivable	**61**	**64**	**61**	**64**
Less current portion of receivable within one year and recognised within current assets	-	-	(4)	(3)
Long-term finance lease receivable	-	-	**57**	**61**

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 2017 the Group was involved in a number of contingent contracts for construction and purchase of property, plant and equipment amounting to RUB 43,785 million, including VAT (as at 31 December 2016: RUB 28,849 million, including VAT), including:

- RUB 13,771 million for upgrading the technological equipment (as at 31 December 2016: RUB 13,698 million);
- RUB 30,014 million for new construction and purchase of equipment (as at 31 December 2016: RUB 15,151 million).

(in millions of Russian Roubles)

28 Acquisition / sale of subsidiaries

On 14 April 2017 the Group's subsidiary OJSC MIPC-Generation terminated its activity by reorganization in the form of merger with the Group's subsidiary LLC MIPC-Finance. The transaction did not have a significant impact on the Group's operations as well as its financial position.

On 14 March 2016 LLC HSC Mosenergo sold 99% share of its subsidiary LLC HSC Metrologiya to LLC ANT-Service. The transaction cost amounted to RUB 10 thousands.

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	7
Intangible assets	1
Deferred tax assets	14
Total non-current assets	**22**
Current assets	
Inventories	12
Trade and other receivables	302
Cash and cash equivalents	16
Total current assets	**330**
Total assets	**352**
Non-current liabilities	
Borrowings	64
Total non-current liabilities	**64**
Current liabilities	
Trade and other payables	349
Total current liabilities	**349**
Total liabilities	**413**
Net assets at the date of sale	**(61)**
Cost of sale	**-**

Gain on the sale of subsidiary in the amount of RUB 61 million was recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 (Note 20).

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:

(in millions of Russian Roubles)

	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	
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**

The acquisition cost of LLC HSC Novaya Moskva is presented below:

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

The effect of the acquisition of LLC HSC Novaya Moskva 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 other comprehensive income and shared proportionally between the Group and non-controlling interest in the amounts of RUB 736 million and RUB 213 million respectively.

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 2017 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 25 January 2018 the Group received borrowings from PJSC Bank VTB for the amount of RUB 2,000 million and maturity date on 25 January 2019.

On 31 January 2018 the Group received borrowings from PJSC Bank VTB for the amount of RUB 500 million and maturity date on 1 February 2019.