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PJSC MIPC

IFRS Consolidated Financial Statements with Independent Auditor's Report

31 December 2018

Moscow | 2019

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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 2018 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended 31 December 2018, 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 2018 and its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2018 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of property, plant and equipment

Due to high significance of property, plant and equipment, high level of subjectivity of the underlying assumptions, judgments and estimates made by the management to conduct the impairment analysis, we consider this area to be one of the most significant audit areas.

We assessed significant assumptions underlying the impairment test procedures in respect of various cash-generating units. The significant assumptions, in particular, included determining the discount rate, as well as estimating volumes of production and sales. This analysis revealed that the significant assumptions applied by the Group's management in calculating the recoverable amount of assets as at the end of the reporting period were within the acceptable range and corresponded to the current economic environment.

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We also paid special attention to the assessment of assets under construction. We conducted a detailed analysis of non-functional assets under construction. The management of the Group decided to recognise impairment allowance in respect of such assets. In our opinion, this decision corresponds to the current expectations related to possible future economic benefits from these assets.

Information about the non-current assets and the conducted impairment test is disclosed in Note 7 “Property, plant and equipment” to the consolidated financial statements.

Loss allowance for expected credit losses

One of high-risk audit areas is the evaluation of sufficiency of loss allowance for expected credit losses. This matter is one of most significance in our audit in view of the need to apply professional judgements and estimates to assess the allowance for expected credit losses.

We analysed the method applied to assess the loss allowance for expected credit losses, which included, inter alia, the use of provision matrix. We analysed judgements and estimates applied by the Group’s management to assess the allowance, whether on an individual or collective basis. We focused on critical assessment of information by the Group to assess the risk of a default based on input data about defaults and information about current conditions and forecasts of future economic conditions.

Based on the results of the audit procedures we believe that the significant assumptions applied by the management to assess the loss allowance for expected credit losses are acceptable and are well in line with the current expectations of possible credit losses.

Information about the accounts receivable and the loss allowance for expected credit losses is disclosed in Note 12 “Trade and other receivables” and Note 25 “Financial instruments” to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report of PJSC MIPC for 2018 and the Quarterly issuer's report for the first quarter of 2019, 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 2018 and the Quarterly issuer's report of PJSC MIPC for the first quarter of 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors.

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.

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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;

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.

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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 (acting by virtue of the Articles of Organisation, audit qualification certificate 01-001230)
Engagement partner	K.S. Shirikova, ACCA (audit qualification certificate 01-000712)

Date of Independent Auditor's Report
11 March 2019

Audited entity

Name:

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

Address of the legal entity within its location:

Room 2017, floor 20,101/3 Vernadskogo Pr., Moscow, 119526, Russian Federation.

Official registration:

Registered by Moscow Inter-District Inspectorate of the Ministry of Taxes and Duties of the Russian Federation No. 46 on 16 December 2004, certificate: series 77 No. 006387601. The registration entry was made in the Unified State Register of Legal Entities on 16 December 2004 under principal state registration number 10477969740952.

Auditor

Name:

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 No. 484.583, 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 principal state registration number 1027700058286.

Membership in self-regulatory organization of auditors:

Member of Self-regulatory organization of auditors Association "Sodruzhestvo". Principal number of registration entry in the register of auditors and audit organizations of the self-regulatory organization of auditors 11506030481.

PJSC MIPC

Consolidated Statement of Financial Position as at 31 December 2018

(in millions of Russian Rubles)

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	7	181,375	163,238
Advances for capital construction		2,661	2,754
Intangible assets	9	1,759	2,563
Financial assets	11	741	769
Trade and other receivables	12	2,584	997
Deferred tax assets	23	2,097	1,360
Total non-current assets		**191,217**	**171,681**
Current assets			
Inventories	10	940	991
Trade and other receivables	12	43,557	43,538
Subsidies receivable	13	263	1,125
Income tax prepayments		78	75
Cash and cash equivalents	14	4,850	4,138
Loans issued		353	742
Other current assets		76	65
Total current assets		**50,117**	**50,674**
Assets classified as held for sale	8	159	574
Total assets		**241,493**	**222,929**
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	15	24,947	24,414
Share premium	15	139,102	138,596
Treasury shares	15	(16,964)	(16,964)
Accumulated loss and other reserves		(13,645)	(20,143)
Equity attributable to the shareholders of PJSC MIPC		**133,440**	**125,903**
Non-controlling interest	15	60	26
Total equity and reserves		**133,500**	**125,929**
Non-current liabilities			
Borrowings	16	8,930	135
Employee benefits	17	215	248
Deferred tax liabilities	23	8,899	6,621
Advances received from customers	18	3,575	3,588
Trade and other payables	18	1,343	1,654
Total non-current liabilities		**22,962**	**12,246**
Current liabilities			
Borrowings	16	16,981	24,695
Trade payables	18	41,768	35,604
Deferred income		67	1,389
Advances received from customers	18	22,882	20,090
Income tax payable		455	-
Advances received on subsidies	13	30	55
Other payables and provisions	18	2,848	2,921
Total current liabilities		**85,031**	**84,754**
Total liabilities		**107,993**	**97,000**
Total equity and liabilities		**241,493**	**222,929**

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

Chief Accountant A.N. Bukina

11 Марта 2019

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

PJSC MIPC

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2018
(in millions of Russian Rubles)

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue	19	162,841	144,270
Operating expenses	20	(144,730)	(133,520)
Impairment loss on financial assets		(6,193)	(2,733)
Result from operating activities		**11,918**	**8,017**
Finance income	22	618	988
Finance expense	22	(355)	(495)
Net finance income	22	**263**	**493**
Profit before tax		**12,181**	**8,510**
Income tax expense	23	(2,971)	(1,751)
Profit for the period		**9,210**	**6,759**
Comprehensive income for the period		**9,210**	**6,759**
Profit/(loss) attributable to:			
Shareholders of PJSC MIPC		9,842	7,404
Non-controlling interest		(632)	(645)
Profit for the period		**9,210**	**6,759**
Comprehensive income/(loss) attributable to:			
Shareholders of PJSC MIPC		9,842	7,404
Non-controlling interest		(632)	(645)
Comprehensive income for the period		**9,210**	**6,759**
Basic and diluted earnings per share attributable to the shareholders of PJSC MIPC (in Russian Rubles)	24	**43.8**	**33.4**

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

Chief Accountant A.N. Bukina

11 March 2019

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

PJSC MIPC

Consolidated Statement of Cash Flows for the year ended 31 December 2018

(in millions of Russian Rubles)

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Cash flows from operating activities			
Profit before tax		**12,181**	**8,510**
Adjustments for:			
Amortisation and depreciation	20	14,661	13,962
Impairment loss on financial assets		6,193	2,733
(Reversal of impairment loss)/impairment loss on non-financial assets	20	(90)	294
Change in provision for litigation claims	20	189	(24)
Gain on disposal of property, plant and equipment and other assets	20	(4,957)	(5,731)
Net finance income	22	(263)	(493)
Operating cash flows before changes in working capital		**27,914**	**19,251**
Change in inventories		18	141
Change in trade and other receivables		(8,653)	2,610
Change in employee benefits		(33)	7
Change in trade and other payables		5,645	(3,924)
Changes in subsidies		837	545
Change in deferred income		(1,322)	(170)
Cash flows from operating activities before income tax and interest paid		**24,406**	**18,460**
Interest received		251	306
Interest paid		(31)	(36)
Income tax paid		(526)	(35)
Net cash flows from operating activities		**24,100**	**18,695**
Cash flows from investing activities			
Purchase of property, plant and equipment		(26,252)	(20,549)
Proceeds from disposal of property, plant and equipment		4,086	1,158
Purchase of intangible assets		(709)	(947)
Acquisition of subsidiary under common control	28	4	-
Repayment of loans issued		20	576
Loans issued		-	(470)
Interest paid and capitalised		(1,679)	(2,072)
Dividends and interest received		94	165
Net cash flows used in investing activities		**(24,436)**	**(22,139)**
Cash flows from financing activities			
Proceeds from borrowings	16	25,445	27,891
Repayment of borrowings	16	(24,390)	(24,240)
Repurchase of treasury shares	15	(7)	(295)
Net cash flows from financing activities		**1,048**	**3,356**
Net increase/(decrease) in cash and cash equivalents		**712**	**(88)**
Cash and cash equivalents at the beginning of the period	14	4,138	4,226
Cash and cash equivalents at the end of the period	14	**4,850**	**4,138**

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

Chief Accountant A.N. Bukina

11 Mar 2019

Публичное акционерное общество «Московская объединенная энергетическая компания»
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PJSC MIPC
Consolidated Statement of Cash Flows for the year ended 31 December 2018
(in millions of Russian Rubles)

	Note	Attributable to the shareholders of PJSC MIPC						
		Share capital	Share premium	Treasury shares	Accumulated loss and other reserves	Total	Non-controlling interest	Total equity
Balance as at 31 December 2016		**24,414**	**138,596**	**(16,669)**	**(27,547)**	**118,794**	**671**	**119,465**
Profit for the period		-	-	-	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)**	**(20,143)**	**125,903**	**26**	**125,929**
Effect of initial application of new standards, net of income tax	3.19	-	-	-	(1,698)	(1,698)	(92)	(1,790)
Adjusted balance as at 1 January 2018		**24,414**	**138,596**	**(16,964)**	**(21,841)**	**124,205**	**(66)**	**124,139**
Profit/(loss) for the period	15	-	-	-	9,842	9,842	(632)	9,210
Comprehensive income/(loss) for the period		**-**	**-**	**-**	**9,842**	**9,842**	**(632)**	**9,210**
Transactions with the shareholders presented directly in equity								
Effect of acquisitions under common control	15, 28	-	-	-	(888)	**(888)**	-	**(888)**
Issue of ordinary shares	15	533	506	-	-	**1,039**	-	**1,039**
Change of non-controlling interest in subsidiaries		-	-	-	(758)	**(758)**	758	-
Balance as at 31 December 2018		**24,947**	**139,102**	**(16,964)**	**(13,645)**	**133,440**	**60**	**133,500**

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

Chief Accountant A.N. Bukina

11 Апреля 2019

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

1 The Group and its operations

1.1 Organisational structure and operations

Public Joint Stock Company Moscow Integrated Power Company (further on - the "Company" or PJSC MIPC) and its subsidiaries (the "Group") are involved in generation, purchase and distribution of heat energy in the form of heating and hot water to commercial entities 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.

PJSC MIPC is an operator of the most long-distance heating system in the world: the Company is operating more than 16.4 thousand kilometers of heating networks, including about 8.1 thousand kilometers of magistral heating networks and 8.4 thousand kilometers of distributing heating networks. PJSC MIPC maintains 143 energy stations with total heat capacity of 4.82 thousand Gkal/h. The Company also operates above 10 thousand heating units.

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

The average personnel number of the Group increased by 1% from 17,156 employees in 2017 to 17,369 employees in 2018.

The Group's production assets are located in Moscow. The Company's registered address is: 119526, the Russian Federation, Moscow, Prospekt Vernadskogo, building 101, housing 3, floor 20, office 2017.

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 acquired 0.07% of the Company's shares from non-controlling 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 reorganisation in form of merger with PJSC Mezhregionteplosetenergoremont. The total amount of redeemed ordinary shares was 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%.

In March 2018 PJSC MIPC was reorganised by merging with PJSC Mezhregionteplosetenergoremont. As a result by means of share conversion the share capital of PJSC MIPC was increased by 5,326,453 additional ordinary shares and amounted to 249,460,465 shares. Taking into account this operation, the actual ownership interest of LLC Gazprom energoholding amounted to 99.42%.

As at 31 December 2018 LLC Gazprom energoholding was the immediate parent company of the Group (the "Parent company"). The Group's immediate parent company does not issue consolidated financial statements for public use.

1.2 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 30). The Russian economy was negatively impacted and may be impacted in the future by a continuing fluctuations in oil prices, political tension in the region and international sanctions against certain Russian companies and individuals.

As a result during 2018:

- the Central Bank of the Russian Federation (further on – "CBRF") exchange rate fluctuated from 55.6717 Russian Rubles (further on – "ruble" or "RUB") till RUB 69.9744 per US Dollar;
- the CBRF key refinancing interest fluctuated between 7.25–7.75% p.a.;
- access to international financial markets to raise funding was limited for certain entities.

(in millions of Russian Rubles)

The financial markets continue to demonstrate volatility, frequent significant price movements and increasing trading spreads.

Subsequent to 31 December 2018:

- the CBRF exchange rate fluctuated between RUB 65.2582 and RUB 67.192 per USD;
- Credit rating of the Russian Federation per Moody's and Fitch's Ratings is still in line with the investment level;
- the CBRF key refinancing interest rate remained at the level 7.75% 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.

1.3 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 directly affects the Group's operations through regulations of wholesale and retail sales of heat and electricity, effected by the Federal Antymonopoly Service, the Department of Economic Policy and 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. Detailed information about operations with related parties is provided in Note 6.

Moreover heat and hot water were 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 had lost revenue from the sale of heat and hot water to housing companies, which represents the difference between the income that could be obtained in the application of economically justified rates, and the income actually accrued at the preferential rates for the population. 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 of difference in rates.

1.4 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 2018	**31 December 2017**
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 TSK MIPC	Production, transmission and distribution of steam and hot water (heat energy)	100.00%	100.00%
LLC TSK Novaya Moskva	Production, transmission and distribution of steam and hot water (heat energy)	100.00%	77.49%
LLC Tsentr technologicheskih prisoedineniy MIPC	Connection to networks of engineering and technical support	100.00%	100.00%
LLC Tsentr upravleniya nedvizhimostiu	Intermediary services in buying, selling and renting real estate	100.00%	100.00%
LLC TSK Mosenergo	Production, transmission and distribution of steam and hot water (heat energy)	77.49%	77.49%

As at 31 December 2018 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 (further on – "IFRS").

2.2 Basis of measurement

The consolidated financial statements have been prepared based on rules of accounting at historical cost except for financial assets classified as financial assets measured at fair value through profit or loss.

2.3 Functional and presentation currency

The national currency of the Russian Federation is the Russian Ruble, 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 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 derecognises 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 former 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 to make or already made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

Intercompany transactions and balances as well as any unrealised 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. Unrealised losses are eliminated in the same way as unrealised 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. Any difference between the carrying amount of net assets, including the amount of goodwill generated by the predecessor organisation (transferring party), and the amount of the consideration paid is recognised in the consolidated financial statements in equity.

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.

3.4 Financial instruments

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

The Group's non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, borrowings, trade and other payables.

Non-derivative financial instruments (financial assets and liabilities) are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability. 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 occurs at their initial recognition on the basis of the entity's business-model for managing financial assets and financial liabilities and characteristics of the financial instrument associated with the contractual cash flows.

Financial assets measured at amortised cost. Financial asset is classified as measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost is the amount at which the financial instrument is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for the financial assets, adjusted for any estimated loss allowance.

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.

Loans and receivables classified as financial assets measured at amortised cost 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, and those that the Group classified upon initial recognition as financial assets measured at fair value through profit or loss.

Cash and cash equivalents classified as financial assets measured at amortised cost include cash in hand and in bank accounts, deposits with banks with original maturities of three months or less, and call deposits. 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 consolidated 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.

Financial assets measured at fair value through other comprehensive income. Financial asset is classified as measured at fair value through other comprehensive income if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. When the financial asset is derecognised the cumulative gain or loss that was recognised in other comprehensive income is transferred from equity to profit or loss of the period as a reclassification adjustment.

For the purpose of the above classification the principal is the fair value of the financial asset at initial recognition. The interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

Financial assets measured at fair value through profit or loss. Financial asset is classified as measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income.

Irrespective of the described above conditions, an entity may at its sole discretion, at initial recognition, classify a financial asset as measured at fair value through profit or loss or other comprehensive income without the right of subsequent reclassification, if it eliminates or significantly reduce a measurement or recognition inconsistency ("accounting mismatch").

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 another 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. On derecognition of a financial asset in its entirety the difference between its carrying amount measured at the date of derecognition and consideration received (including any new asset obtained less any new liability assumed) shall be recognised in profit or loss. 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 are classified as measured subsequently 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.

For funds, borrowed specifically for the purpose of obtaining a qualifying asset, amount of costs eligible for capitalisation is determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. For funds, borrowed for general purposes and used also for obtaining a qualifying asset, borrowing costs eligible for capitalisation are calculated at the Group's average funding cost, determined with the exception of borrowings obtained specifically for obtaining a qualifying asset (the weighted average interest cost applied to the expenditures on the qualifying assets). If calculated amount of costs eligible for capitalisation exceed actual borrowing costs, the actual borrowing costs incurred during the period are capitalised less any investment income on the temporary investment of those borrowings.

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

Loss allowance for expected credit losses of the financial instrument is measured at each reporting date in the amount equal to the lifetime expected credit losses if there have been significant increase in credit risk of the financial instrument since its initial recognition, whether assessed on an individual or collective basis, considering all reasonable and supportable information, including that which is forward-looking. In respect of trade receivables with or without financial component loss allowance for expected credit losses is always measured in the amount equal to the lifetime expected credit losses.

In respect of a financial asset measured at amortised cost the amount of impairment loss is calculated as the difference between the carrying amount of the asset and the present value of the expected future cash flows discounted at the original effective interest rate.

Expected credit losses are a probability-weighted estimate of credit losses over the expected life of the financial instrument. The amount of credit losses represents the present value of all cash shortfalls. As expected credit losses model considers the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due. For the purposes of financial assets' credit risk management, the Group determines a default as a customer's violation of its obligation of debt repayment within the terms provided by the contract.

Expected credit losses are measured in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money;
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For the purposes of calculating expected credit losses for accounts receivables the Group used the loss allowance matrix based on the number of days of delay of trade receivables and customer groups.

The amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with the expected credit losses model is recognised in profit or loss as an impairment gain or loss.

If a financial asset is classified by the entity as measured at fair value through other comprehensive income, loss allowance for such financial asset is recognised in other comprehensive income and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

(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 recognised 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 realisable 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 occurred until the reporting date, 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 from contracts with customers 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 on the basis of the data from metering units, installed at the consumers' buildings or at heat distribution units, based on the contractual heat load of the consumer; 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 contracts with customers other than heat energy sales is measured at fair value of the consideration received. Revenue is recognised when (or as) the entity satisfies a performance obligation by transfer of the promised good or service (i.e. the asset) to the customer. The asset is transferred when (or as) the customer obtains control over such an asset. The moment of transfer of risks and rewards varies depending on the specific terms of the sale contract.

In case if certain groups of customers receive state subsidies under specific conditions (for example, disability, veteran status, etc.) that are provided in the form of the reduced payment for heat, which the Group collects directly from the customer and the Group receives compensation payments from the relevant municipal authorities, then in such cases revenue is recognised based on the total amount that will be received from both the customer 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 advances received 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 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.

Finance expenses include interest expenses on borrowings, amortisation of discount on long-term accounts payable and any losses from changes of fair value of financial assets. All borrowing costs except for those capitalised are recognised in profit or loss for the period using the effective interest method.

3.16 Income tax

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:

- differences arising at 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 realised 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 utilised. 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 realised.

3.17 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). The Group's management analyses on a regular basis the operating results of all operating segments for which discrete financial information is available, in order to make decisions about resources allocation between the segments and assessment of their financial performance (Note 29).

Due to the fact that the management making operational decisions does not analyse assets and liabilities for each reportable segment, the Group does not disclose information on assets and liabilities by segments.

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 2018.

3.19 New standards and interpretations

A number of new standards, which came into force, are mandatory for application starting from 1 January 2018 and were taken into account by the Group in the preparation of these consolidated financial statements:

- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018). According to the new standard revenue is recognised when a performance obligation is satisfied by transfer of the promised good or service to the customer, the asset is transferred when the customer obtains control over such an asset. The application of this standard did not have significant impact on the consolidated financial statements of the Group, therefore the comparative information as well as the opening balance of accumulated loss and other reserves and non-controlling interest as at 1 January 2018 were not recalculated.

- IFRS 9 Financial Instruments (issued in November 2009 and effective for annual periods beginning on or after 1 January 2018).

  Classification and measurement

  IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and changes requirements related to the classification and measurement of financial assets. Classification of financial assets is carried out in the following measurement categories: measured subsequently at amortised cost (trade and other receivables, loans issued), measured subsequently at fair value through profit or loss (shares of Mutual Investment Fund Perlovsky) and measured subsequently at fair value through other comprehensive income (are not present in the Group).

  The new classification requirements did not have a material impact on its accounting. Standard amendments will not also 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.

  Impairment

  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 IAS 39 Financial Instruments: Recognition and Measurement. It means that under the new standard’s requirement recognition of impairment losses occurs earlier than according to “incurred losses” model in IAS 39 Financial Instruments: Recognition and Measurement. The new impairment model is applied to financial assets measured at amortised cost (trade and other receivables, loans issued).

  Upon the initial application of the new standard IFRS 9 Financial Instruments starting from 1 January 2018 the Group used the specified in the standard option not to recalculate the comparative information for the past periods. The difference between the previous carrying amount of financial assets and the carrying amount at the date of initial application of the standard was recognised in the opening balance of accumulated loss and other reserves of the consolidated statement of changes in equity for the year ended 31 December 2018, and in accordance with ownership interests, was allocated to the part of the shareholders of the Group and to the non-controlling interest’s part. Therefore, the comparative information as at 31 December 2017 and for the year ended 31 December 2017, presented in current consolidated financial statements, does not reflect the requirements of IFRS 9 Financial Instruments and is prepared on the basis of requirements of IAS 39 Financial Instruments: Recognition and Measurement.

  In accordance with the new standard’s requirements impairment loss on financial assets is presented separately in the consolidated statement of profit or loss and other comprehensive income. The Group applied this standard’s requirement in respect of the current period, as well as reclassified the comparative information on recognised credit losses from impairment of financial assets in the amount of RUB 2,733 million from the line “Operating expenses” into the line “Impairment loss on financial assets” in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017.

(in millions of Russian Rubles)

The effect of initial application of IFRS 9 Financial Instruments on the opening balance of accumulated loss as at 1 January 2018, net of income tax, in the consolidated statement of changes in equity for the year ended 31 December 2018, is presented in the table below:

	Balance as at 1 January 2018	**The effect of initial application of IFRS 9 on the opening balance**	**Adjusted balance as at 1 January 2018**
Accumulated loss	(19,984)	(1,698)	(21,682)
Non-controlling interest	26	(92)	(66)
Total	**(19,958)**	**(1,790)**	**(21,748)**

A new interpretation and some amendments to standards became effective starting from 1 January 2018:

- 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.

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

The Group reviewed these amendments and interpretations to the standards during preparation of the consolidated financial statements. The amendments and interpretations to the standards did not affect significantly the Group's consolidated financial statements.

A new standard, interpretation and amendments to standards are effective for annual periods beginning on or after 1 January 2019. In particular the following standard, interpretation and amendments to standards were not early adopted by the Group:

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The 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 most lease agreements except for specifically mentioned cases. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. The Group intends to apply modified retrospective approach without recalculation of the comparative information, which implies the reflection of the cumulative effect of the initial adoption of the standard at the date of initial application, which is 1 January 2019. According to the Group's preliminary estimates an one-off increase in non-current assets and liabilities as at 1 January 2019 will be within 2.5% of the Group's assets.

- 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 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 amendments to IFRS 9 Financial Instruments (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments allow to measure at amortised cost some financial assets with negative compensation which provide for the possibility of early repayment.

- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify, which kind of borrowing costs can be capitalised in certain circumstances.

- The amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how obtaining of control (or joint control) over joint arrangement should be recognised, if the entity already participates in the business.

- The amendments to IAS 12 Income taxes (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify income tax consequences of payments on instruments classified as equity.

Unless otherwise noted above, the new standard, interpretation and amendments to standards will not significantly affect 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 affected the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and 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 is presented below:

(i) *Impairment allowance for property, plant and equipment.* The Group determines existence of impairment indicators for property, plant and equipment, if at least one such 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 positive change in the estimates used to determine the assets recoverable amount. The effect of applying such accounting 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) *Loss allowance for expected credit losses of accounts receivable.* An allowance for expected credit losses of accounts receivable is based on the Group's management's assessment of the lifetime expected credit losses. 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 accounting 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 accounting estimate and judgment is presented in Note 23.

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

4.2 Presentation of changed information

Change of comparative information on related party transactions

The Group specified the affiliation of a number of entities with related party categories. Additionally a separate disclosure for transactions with JSC FSC was made. For the purpose of more reliable presentation of information on related party transactions with state-controlled entities and Gazprom Group, the comparative information in Note 6 was adjusted.

The Group also made changes to the presentation of comparative information by means of separation the lines "Production services" and "Impairment loss on financial assets" out of the line "Other expenses".

(in millions of Russian Rubles)

The effect of the changes on the disclosure of related party transactions for the year ended 31 December 2017 and the balances as at 31 December 2017 is presented below:

Related party transactions with Gazprom Group and its associates	**For the year ended 31 December 2017**	**Adjustment**	**For the year ended 31 December 2017 (adjusted)**
Rent	129	96	225
Production services	-	405	405
Other expenses	1,467	(712)	755
Total	**1,596**	**(211)**	**1,385**
Related party transactions with other state-controlled entities	**For the year ended 31 December 2017**	**Adjustment**	**For the year ended 31 December 2017 (adjusted)**
Other revenue	772	(6)	766
Total	**772**	**(6)**	**766**
Purchased electricity	1,803	(450)	1,353
Other expenses/(income)	1,425	(1,827)	(402)
Total	**3,228**	**(2,277)**	**951**
	Outstanding balance as at 31 December 2017	**Adjustment**	**Outstanding balance as at 31 December 2017 (adjusted)**
Trade and other payables	3,279	(16)	3,263
Total	**3,279**	**(16)**	**3,263**
Amount of contractual obligations for construction of property, plant and equipment (including VAT)	**Outstanding balance as at 31 December 2017**	**Adjustment**	**Outstanding balance as at 31 December 2017 (adjusted)**
Gazprom Group and its associates	16,639	2,419	19,058
Total	**16,639**	**2,419**	**19,058**

Cash and cash equivalents	**Outstanding balance as at 31 December 2017**	**Adjustment**	**Outstanding balance as at 31 December 2017 (adjusted)**
Other state-controlled entities	684	1,400	2,084
Total	**684**	**1,400**	**2,084**

Within the disclosure on transactions with other state-controlled entities the Group has added information on subsidies receivable in the amount of RUB 1,125 million, on advances received on subsidies in the amount of RUB 55 million and also on the subsidies included in deferred income in the amount of RUB 1,389 million.

Within expenses on acquisition and construction of non-current and current assets the disclosure has been added on the amount of capitalised borrowing expenses for the year ended 31 December 2017 with Gazprom Group and its associates: RUB 118 million, with other state-controlled entities: RUB 1,673 million.

Changes of comparative information on other receivables and payables

The Group changed the presentation of information on other receivables as at 31 December 2017 in Note 12 by means of separation into separate line out of the category of financial assets other non-financial receivables in the amount of RUB 9,095 million, including receivables on property compensation in the amount of RUB 8,366 million and other receivables in the amount of RUB 729 million. Also an allowance for impairment related to this type of receivables was separately presented in the amount of RUB 83 million, including allowance for impairment of receivables on property compensation in the amount of RUB 39 million and of other receivables in the amount of RUB 44 million.

The Group changed the presentation of information on other payables as at 31 December 2017 in Note 18 by means of separation into separate line other finance payables in the amount of RUB 19 million out of the category of non-financial liabilities.

The corresponding amounts were also adjusted in disclosures on financial assets and liabilities as at 31 December 2017 in Note 25.

(in millions of Russian Rubles)

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

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 2018 and 31 December 2017 were as follows:

	31 December 2018	**31 December 2017**
Borrowings (Note 16)	(25,911)	(24,830)
Cash and cash equivalents (Note 14)	4,850	4,138
Net debt (borrowed capital)	**(21,061)**	**(20,692)**
Equity attributable to the Group's shareholders	(133,440)	(125,903)
Total equity	**(154,501)**	**(146,595)**
Gearing ratio	**13.63%**	**14.12%**

(i) Borrowing covenants

The Group maintains an optimal capital structure by monitoring some credit covenants. As at 31 December 2018 and 31 December 2017 the Group was in compliance with certain covenants foreseen in credit agreements:

- the minimum level of index "EBITDA/Interest expenses";
- the maximum level of index "Total debt/EBITDA";
- maintaining a specified minimum level of credit turnover at bank accounts;
- maintaining the value of net assets of PJSC MIPC in accordance with the annual balance sheet or the results of the audit in the amount not less than the amount of the authorised 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 2018 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 expected credit losses of trade and other receivables and impairment provision for advances issued. 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 loss allowance is determined on the basis of expected credit loss model, weighted by the probability of default and 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, as well as current overall economic conditions and forecast values of macroeconomic indicators.

(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 with the original maturity of three months or less

Most part of bank deposits of the Group is located in bank with credit rating ruAA (stable) estimated by RAEX ("Expert RA").

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

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's 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).

(in millions of Russian Rubles)

6 Related parties transactions

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

Below is a description of the nature of the relationship with those related parties with which the Group performed significant transactions or has significant outstanding balances.

a) Transactions with Gazprom Group and its associates

The information on operations with Gazprom Group and its associates as well as outstanding balances of these transactions are presented below:

Revenue

	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue from heat energy transmission services	724	1,837
Revenue from heat energy sales	174	118
Revenue from hot water supply services	10	11
Other revenue	887	908
Total	**1,795**	**2,874**

Operating expenses

	For the year ended 31 December 2018	For the year ended 31 December 2017
Purchased heat energy	76,757	69,326
Fuel expenses	7,400	6,944
Rent	1,181	225
Water expenses	1,086	1,107
Repair and maintenance	569	593
Production services	213	405
Purchased electricity	92	99
Other expenses	1,474	755
Total	**88,772**	**79,454**

PJSC Mosenergo, a subsidiary of PJSC Gazprom, is the main supplier of heat energy for the Group. For the year ended 31 December 2018, the Group's purchases of heat energy from PJSC Mosenergo amounted to RUB 76,700 million (for the year ended 31 December 2017: RUB 69,271 million).

Loss on impairment of financial assets for the year ended 31 December 2018 amounted to RUB 1 million (for the year ended 31 December 2017: RUB 0 million).

Finance income and expenses

	For the year ended 31 December 2018	For the year ended 31 December 2017
Interest income	31	92
Interest on finance lease	14	15
Amortisation of discount on long-term accounts receivable	-	60
Other finance income	-	268
Total finance income	**45**	**435**
Amortisation of discount on long-term accounts payable	(272)	(251)
Interest expense	(37)	(19)
Total finance expenses	**(309)**	**(270)**
Net finance (expenses)/income	**(264)**	**165**

(in millions of Russian Rubles)

Outstanding balances

	Outstanding balances as at 31 December 2018	Outstanding balances as at 31 December 2017
Advances for capital construction	1,494	1,553
Trade and other receivables	462	1,208
Allowance for expected credit losses on receivables	(8)	-
Cash and cash equivalents	50	240
Advances to suppliers and prepaid expenses	46	36
Loans issued	-	369
Total	**2,044**	**3,406**
Trade and other payables	32,783	27,179
Borrowings	1,734	435
Advances received from customers	11	11
Total	**34,528**	**27,625**

As at 31 December 2018 the Group's trade payables to PJSC Mosenergo amounted to RUB 26,212 million (as at 31 December 2017: RUB 21,701 million).

Acquisition and construction of non-current and current assets

The Group performs capital transactions with Gazprom Group and its associates. The summary of such transactions for the year ended 31 December 2018 and for the year ended 31 December 2017 as well as the amount of contractual obligations as at 31 December 2018 and 31 December 2017 is presented below:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Acquisition of non-current and current assets	8,089	6,716
incl. capitalised borrowing expenses	-	118

The outstanding amount of contractual obligations on acquisition and construction of property, plant and equipment to Gazprom Group and its associates as at 31 December 2018 is RUB 16,029 million, including VAT (as at 31 December 2017: RUB 19,058 million, including VAT).

b) Transactions with other state-controlled entities

Revenue

	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue from heat energy sales	70,720	65,356
Revenue from hot water supply services	25,127	24,699
Revenue from connection services to heat and hot water supply system	3,808	783
Revenue from transfer of water	2,073	2,008
Other revenue	542	766
Total	**102,270**	**93,612**

Revenue from heat energy sales and hot water supply services for the year ended 31 December 2017 includes subsidies received from the Moscow Government (Note 19).

Operating expenses

	For the year ended 31 December 2018	For the year ended 31 December 2017
Water expenses	6,887	6,504
Measurement units maintenance expenses	2,903	2,901
Production services	2,294	1,887
Taxes other than income tax	2,109	1,721
Purchased heat energy	1,584	1,422
Purchased electricity	1,393	1,353
Rent	475	464
Income from disposal of property, plant and equipment and other assets	(3,841)	(4,707)
Other expenses	(1,693)	(402)
Total	**12,111**	**11,143**

Impairment loss on financial assets for the year ended 31 December 2018 amounted to RUB 3,705 million (for the year ended 31 December 2017: RUB 1,094 million).

(in millions of Russian Rubles)

Finance income and expenses

	For the year ended 31 December 2018	For the year ended 31 December 2017
Interest income	149	142
Amortisation of discount on long-term accounts receivable	-	156
Other finance income	210	-
Total finance income	**359**	**298**
Discount on long-term accounts receivable	-	(166)
Total finance expense	**-**	**(166)**
Net finance income	**359**	**132**

Outstanding balances

	Outstanding balances as at 31 December 2018	Outstanding balances as at 31 December 2017
Trade and other receivables	37,031	31,359
Allowance for expected credit losses of receivables	(9,434)	(4,350)
Cash and cash equivalents	1,229	2,084
Tax prepayments	512	452
Loans issued	353	373
Subsidies receivable	263	1,125
Advances for capital construction	95	90
Income tax prepayments	78	75
Advances to suppliers and prepaid expenses	21	74
Allowance for impairment of advances to suppliers and prepaid expenses	(3)	(1)
Total	**30,145**	**31,281**
Borrowings	24,177	24,175
Advances received from customers	9,868	8,161
Trade and other payables	2,368	3,263
Taxes payable	1,111	1,224
Deferred income	67	1,389
Advances received on subsidies	30	55
Income tax payable	455	-
Total	**38,076**	**38,267**

Acquisition and construction of non-current and current assets

The Group performs capital transactions with state-controlled entities. The summary of such transactions for the year ended 31 December 2018 and for the year ended 31 December 2017 as well as the amount of contractual obligations as at 31 December 2018 and 31 December 2017 is presented below:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Acquisition of non-current and current assets	3,792	3,121
incl. capitalised borrowing expenses	1,703	1,673

The outstanding amount of contractual obligations on acquisition and construction of property, plant and equipment to state-controlled entities as at 31 December 2018 is RUB 269 million, including VAT (as at 31 December 2017: RUB 174 million, including VAT).

c) Transactions with JSC FSC

Some operations in the wholesale electricity and capacity market (hereinafter referred to as the WECM) are carried out by means of commission agreements concluded with JSC FSC. The current system of financial settlements in the JSC FSC does not allow the end customers to receive information about transactions and outstanding balances with the WECM in automatic mode. The customers can also be Gazprom Group entities and its associates and state-controlled entities.

The details of main transactions between the Group and JSC FSC are presented below:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue	**6**	**6**
Other revenue	6	6
Operating expenses	**(445)**	**(450)**
Purchased electricity	(445)	(450)

(in millions of Russian Rubles)

	Outstanding balances as at 31 December 2018	Outstanding balances as at 31 December 2017
Trade and other receivables	1	-
Total assets	**1**	**-**
Trade and other payables	(18)	(16)
Total liabilities	**(18)**	**(16)**

d) Transactions with key management personnel

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 2018	For the year ended 31 December 2017
Wages and bonuses	315	257
Social contributions	54	61
Remuneration for membership in the Board of Directors	7	9
Termination benefits	3	11
Total	**379**	**338**

	Outstanding balances as at 31 December 2018	Outstanding balances as at 31 December 2017
Wages payable	12	13
Total	**12**	**13**

The management fee to LLC Gazprom energoholding for the year ended 31 December 2018 amounted to RUB 121 million (for the year ended 31 December 2017: RUB 123 million).

7 Property, plant and equipment

	Heating networks	Building and facilities	Machinery and equipment	Transport and other	Construction in progress	Total
Book value						
Balance as at 31 December 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**
Additions	5	2	13	1	31,806	31,827
Additions from acquisition of subsidiary under common control	-	55	-	1	-	56
Disposals	(1,221)	(182)	(762)	(93)	(424)	(2,682)
Transfers	20,911	1,956	5,336	518	(28,721)	-
Reclassification to assets held for sale	-	(83)	(16)	(42)	-	(141)
Balance as at 31 December 2018	**243,512**	**26,401**	**46,464**	**8,236**	**37,215**	**361,828**

(in millions of Russian Rubles)

	Heating networks	Building and facilities	Machinery and equipment	Transport and other	Construction in progress	Total
Accumulated depreciation and impairment						
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)**
Depreciation charge	(8,756)	(674)	(2,785)	(933)	-	(13,148)
Disposals	865	136	611	76	87	1,775
Transfer of impairment loss	(3,400)	(153)	(959)	(134)	4,646	-
Impairment loss accrual	(1,628)	(57)	(431)	(33)	(3,249)	(5,398)
Impairment loss reversal	3,673	280	629	308	900	5,790
Reclassification to assets held for sale	-	22	10	26	-	58
Balance as at 31 December 2018	**(127,501)**	**(11,823)**	**(28,641)**	**(5,496)**	**(6,992)**	**(180,453)**
Net book value						
Balance as at 31 December 2016	**92,953**	**14,054**	**17,759**	**3,715**	**23,274**	**151,755**
Balance as at 31 December 2017	**105,562**	**13,276**	**16,177**	**3,045**	**25,178**	**163,238**
Balance as at 31 December 2018	**116,011**	**14,578**	**17,823**	**2,740**	**30,223**	**181,375**

Capitalised borrowing costs for the year ended 31 December 2018 amounted to RUB 1,703 million (for the year ended 31 December 2017: RUB 2,091 million) with the capitalisation rate 7.0% (for the year ended 31 December 2017: 9.3%). The capitalisation rate represents the weighted average rate of borrowings raised.

Property, plant and equipment are not pledged as collateral.

Impairment of property, plant and equipment

As at 31 December 2017 the impairment of PJSC MIPC assets amounted to RUB 47,444 million.

As at 31 December 2018 the Group determined the recoverable amount of its property, plant and equipment and construction in progress. As a result of valuation the impairment loss in the amount of RUB 4,941 million was accrued and the impairment loss in the amount of RUB 5,443 million for previously impaired items of property, plant and equipment was reversed. Total result of the Group's impairment test of property, plant and equipment is impairment loss reversal in the amount of RUB 502 million.

The following assumptions were used in determining the recoverable amount of property, plant and equipment as at 31 December 2018:

- cash flows are projected based on the actual experience and operational results for the previous years, and the Groups business plan for 2019;
- for the purposes of the analysis 71 CGU have been considered as at 31 December 2018 (as at 31 December 2017: 73 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 reflects all relevant risks. Adjusted to the current market conditions the discount rate as at 31 December 2018 amounted to 11.02% (as at 31 December 2017: 10.66%).

With the increase/decrease in the discount rate of 0.5% the amount of impairment loss as at 31 December 2018 would increase/decrease by RUB 689 million.

For the year ended 31 December 2018:

- disposed impairment loss for property, plant and equipment and construction in progress amounted to RUB 328 million;
- impairment loss on non-functional capital investments accrued in the amount of RUB 110 million;
- disposed impairment loss for non-core assets amounted to RUB 12 million.

(in millions of Russian Rubles)

As at 31 December 2018 impairment loss for property, plant and equipment and construction in progress amounted to RUB 39,720 million and RUB 6,992 million, respectively (as at 31 December 2017: RUB 38,068 million and RUB 9,376 million).

8 Assets classified as held for sale

As at 31 December 2018 the Group was in the process of disposing of non-core assets in the amount of RUB 159 million (as at 31 December 2017: RUB 574 million). The Group plans to sell these assets during 2019.

Assets classified as held for sale

	Heating networks	Buildings and facilities	Machinery and equipment	Transport and others	Total
As at 31 December 2016	**-**	**384**	**-**	**1**	**385**
Additions	53	157	3	18	231
Disposals	-	(38)	(1)	(3)	(42)
As at 31 December 2017	**53**	**503**	**2**	**16**	**574**
Additions	-	61	6	16	83
Disposals	-	(435)	(8)	(15)	(458)
Impairment loss	-	(40)	-	-	(40)
As at 31 December 2018	**53**	**89**	**-**	**17**	**159**

9 Intangible assets

	Software	Licenses	Other	Total
Book value				
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**
Acquisitions	497	188	24	709
Disposals	(362)	(265)	-	(627)
Balance as at 31 December 2018	**5,511**	**2,751**	**24**	**8,286**
Accumulated amortisation				
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)**
Amortisation for the period	(1,166)	(343)	(4)	(1,513)
Disposals	362	265	-	627
Balance as at 31 December 2018	**(4,136)**	**(2,387)**	**(4)**	**(6,527)**
Net book value				
Balance as at 31 December 2016	**2,628**	**682**	**-**	**3,310**
Balance as at 31 December 2017	**2,044**	**519**	**-**	**2,563**
Balance as at 31 December 2018	**1,375**	**364**	**20**	**1,759**

10 Inventories

	31 December 2018	31 December 2017
Materials	383	209
Spare parts	247	432
Other inventories	310	350
Total	**940**	**991**

Allowance for impairment of inventories amounted to RUB 267 million as at 31 December 2018 (as at 31 December 2017: RUB 177 million).

The Group's inventories are not pledged as collateral as at 31 December 2018 and 31 December 2017.

(in millions of Russian Rubles)

11 Financial assets

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. Investments in Mutual Investment Fund Perlovsky are classified by the Group as financial assets measured at fair value through profit or loss.

	% share		Carrying value	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Mutual Investment Fund Perlovsky	55.78%	55.78%	741	769
Total			**741**	**769**

Decrease in fair value of financial assets measured through profit or loss for the year ended 31 December 2018 amounted to RUB 28 million due to decrease of Mutual Investment Fund Perlovsky net assets and was recognised in profit or loss (for the year ended 31 December 2017: RUB 27 million).

12 Trade and other receivables

	31 December 2018	**31 December 2017**
Trade receivables	49,692	42,226
Other receivables	1,014	1,767
Allowance for expected credit losses of trade receivables	(17,066)	(9,229)
Allowance for expected credit losses of other receivables	(38)	(33)
Financial assets	**33,602**	**34,731**
Other non-financial receivables	12,189	9,095
Allowance for impairment of other non-financial receivables	(293)	(83)
Advances to suppliers and prepaid expenses	143	350
Allowance for impairment of advances to suppliers and prepaid expenses	(12)	(10)
Total	**45,629**	**44,083**
VAT recoverable	399	416
Prepaid taxes, other than income tax	113	36
Total	**46,141**	**44,535**
Non-current assets	2,584	997
Current assets	43,557	43,538
Total	**46,141**	**44,535**

Long-term accounts receivable as at 31 December 2018 include advances to suppliers and prepaid expenses in the amount of RUB 29 million (as at 31 December 2017: RUB 123 million), finance lease receivables in the amount of RUB 52 million (as at 31 December 2017: RUB 57 million) and other non-financial receivables in the amount of RUB 2,503 million (as at 31 December 2017: RUB 817 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 2018		31 December 2017	
	Subsidies receivable	**Advances received on subsidies**	**Subsidies receivable**	**Advances received on subsidies**
Subsidies from the Moscow Government	263	30	308	55
Subsidies from the State Center of Household Subsidies	-	-	817	-
Total	**263**	**30**	**1,125**	**55**

14 Cash and cash equivalents

	31 December 2018	**31 December 2017**
Deposits with maturity of less than three months	3,404	128
Bank balances	1,446	4,010
Total	**4,850**	**4,138**

(in millions of Russian Rubles)

As at 31 December 2018 restricted cash includes the minimum balance on settlement accounts in the amount of RUB 702 million (as at 31 December 2017: RUB 2,201 million). As at 31 December 2018 there arrested cash amounted to RUB 1 million (as at 31 December 2017: RUB 2 million).

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

	31 December 2018		31 December 2017	
	Currency	**Balances**	**Currency**	**Balances**
JSC BANK ROSSYIA	Russian Ruble	3,330	Russian Ruble	-
PJSC Bank VTB	Russian Ruble	46	Russian Ruble	-
Gazprombank (Joint-stock Company)	Russian Ruble	28	Russian Ruble	128
Total		**3,404**		**128**

15 Equity and reserves

Share capital and share premium

On 30 March 2018 PJSC MIPC was reorganised by merging with PJSC Mezhregionteplosetenergoremont. Shares of PJSC Mezhregionteplosetenergoremont were converted into shares of PJSC MIPC with a conversion ratio of 5,270.2703. As a result of the operation, the share capital of PJSC MIPC was increased by placing 5,326,453 additional ordinary shares of PJSC MIPC with a nominal value of RUB 100 per share for a total amount of RUB 533 million, share premium was increased by RUB 506 million. As at 31 December 2018 the Group's share capital consists of 249,460,465 ordinary shares for the total amount of RUB 24,947 million (as at 31 December 2017: 244,134,012 shares for the total amount of RUB 24,414 million), share premium amounts to RUB 139,102 million (as at 31 December 2017: RUB 138,596 million).

Treasury shares

On 1 August 2017 the Group 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 2018 and 31 December 2017 treasury shares comprised 23,260,402 ordinary shares with total value of RUB 16,964 million.

Non-controlling interest

As at 1 January 2018 the opening balance of the non-controlling interest was adjusted for the amount of the impairment loss on accounts receivable in accordance with the initial application of the new standard IFRS 9 for the amount of RUB 92 million (Note 3.19).

For the year ended 31 December 2018 the total financial result of LLC TSK Mosenergo and LLC TSC Novaya Moskva amounted to RUB 3,332 million loss, from which RUB 632 million was allocated to a non-controlling interest in accordance with the percentage of ownership.

In October 2018 PJSC MIPC acquired from its subsidiary LLC TSK Mosenergo 100% share in the authorised capital of LLC TSK Novaya Moskva. As a result the carrying amount of controlling and non-controlling interest was adjusted to reflect the changes in their proportional ratio in the equity of subsidiary. Accumulated loss of LLC TSK Novaya Moskva owned by the holders of non-controlling interest share in the amount of RUB 758 million (including RUB 264 million of loss for the year 2018) was allocated to the shareholders of PJSC MIPC directly in equity.

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 Annual General Meeting of shareholders of PJSC MIPC, dividends on ordinary registered shares of PJSC MIPC for the results of 2017 were not accrued.

(in millions of Russian Rubles)

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 2018	31 December 2017
Short-term borrowings with fixed interest rate				
PJSC Sberbank	7.30%-8.65%	2019	16,574	8,570
PJSC Bank VTB	7.90%-8.30%	2018	-	15,605
JSC BANK ROSSYIA	10.00%	2018	-	220
Short-term borrowings with variable interest rate				
PJSC Mosenergo	6.98%-8.53%	2019	404	300
Short-term part of long-term borrowings with fixed interest rate				
PJSC Bank VTB	7.90%	2019	3	-
Total short-term borrowings			**16,981**	**24,695**
Long-term borrowings with fixed interest rate				
PJSC Bank VTB	7.90%	2020	7,600	-
Long-term borrowings with variable interest rate				
PJSC Mosenergo	8.22%-8.53%	2020-2023	1,330	135
Total long-term borrowings			**8,930**	**135**
Total			**25,911**	**24,830**

All borrowings are denominated in RUB. Pledge of property rights under borrowings agreements as at 31 December 2018 amounted to RUB 682 million (as at 31 December 2017: RUB 1,216 million).

Reconciliation of movements for liabilities arising from financing activities of the Group for the year ended 31 December 2018 and 31 December 2017 is presented in the table below:

	Liabilities arising from financing activities		
Index	**Long-term borrowings**	**Short-term borrowings**	**Total**
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	(277)	(1,795)	(2,072)
Interest paid	(15)	(21)	(36)
Total cash flows from other activities	**(292)**	**(1,816)**	**(2,108)**
Other changes			
Interest expense accrual	292	1,839	2,131
Non-cash liabilities set-off	-	(23)	(23)
Total other changes	**292**	**1,816**	**2,108**
Liabilities arising from financing activities as at 31 December 2017	**135**	**24,695**	**24,830**
Cash flows from financing activities			
Proceeds from borrowings	8,875	16,570	25,445
Repayment of borrowings	-	(24,390)	(24,390)
Liability transfer to short-term part	(80)	80	-
Total cash flows from financing activities	**8,795**	**(7,740)**	**1,055**
Cash flows from other activities			
Interest paid and capitalised	(232)	(1,447)	(1,679)
Interest paid	(6)	(25)	(31)
Total cash flows from other activities	**(238)**	**(1,472)**	**(1,710)**

(in millions of Russian Rubles)

Other changes			
Interest expense accrual	241	1,517	1,758
Non-cash liabilities set-off	-	(22)	(22)
Interest liability transfer to short-term part	(3)	3	-
Total other changes	**238**	**1,498**	**1,736**
Liabilities arising from financing activities as at 31 December 2018	**8,930**	**16,981**	**25,911**

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 2018 amounted to RUB 215 million (as at 31 December 2017: RUB 248 million).

18 Trade and other payables and provisions

	31 December 2018	31 December 2017
Financial liabilities		
Trade payables	29,066	23,910
Payables for the acquisition and construction of property, plant and equipment	14,040	13,348
Other payables	46	19
Total	**43,152**	**37,277**
Non-financial liabilities		
Advances received from customers	26,457	23,678
Taxes payable	1,111	1,224
Other payables and provisions	1,696	1,678
Total	**29,264**	**26,580**
Short-term liabilities	67,498	58,615
Long-term liabilities	4,918	5,242
Total	**72,416**	**63,857**

Other payables of the Group include the amount of provision for litigation claims. For the year ended 31 December 2018 and for the year ended 31 December 2017 the movement of provision for litigation claims was the following:

	2018	2017
Balance as at 1 January	**171**	**196**
Accrual	287	84
Utilisation	(31)	(1)
Reversal	(98)	(108)
Balance as at 31 December	**329**	**171**

Taxes payable are represented by the following items:

	31 December 2018	31 December 2017
Property tax	413	283
Social contributions	379	351
VAT payable	196	480
Other taxes payable	123	110
Total	**1,111**	**1,224**

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

(in millions of Russian Rubles)

19 Revenue

	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue from heat energy sales	114,615	101,456
Revenue from hot water supply services	34,024	33,185
Revenue from connection services to heat and hot water supply system	9,435	3,969
Revenue from transfer of water	2,073	2,008
Revenue from heat energy transmission services	724	1,837
Other revenue	1,970	1,815
Total	**162,841**	**144,270**

Previously the heat energy was provided to individual residential customers at regulated social tariffs, significantly lower than the economically justified rates, as a result of which the Group received compensation for the difference in tariffs in the form of subsidies from the Moscow Government. Since 1 July 2017 PJSC MIPC no longer receives subsidies to compensate for the difference between tariffs. For the year ended 31 December 2017 subsidies amounted to RUB 948 million.

For the year ended 31 December 2018 and 31 December 2017, advances received from customers as at the beginning of the relevant period were recognised as revenue in the amount of RUB 8,508 million and RUB 3,274 million, respectively.

Revenue from services rendered to PJSC Mosenergo, the subsidiary of PJSC Gazprom, for the year ended 31 December 2018 in the amount of RUB 832 million was settled by offset of mutual claims (for the year ended 31 December 2017: RUB 2,298 million).

20 Operating expenses

	For the year ended 31 December 2018	For the year ended 31 December 2017
Purchased heat energy	78,880	71,117
Staff costs (Note 21)	17,069	16,266
Amortisation and depreciation	14,661	13,962
Water expenses	8,123	7,712
Fuel expenses	7,602	7,057
Purchased electricity	5,672	5,210
Repair and maintenance	4,586	5,253
Measurement units maintenance expenses	2,903	2,902
Production services	2,802	2,370
Rent	2,215	1,654
Taxes other than income tax	2,109	1,721
Material expenses	1,265	1,175
Software services	1,091	1,090
Security services	658	767
Bank services	361	361
Professional and consulting services	347	315
Utilities expenses	338	383
Change in the provision for litigation claims	189	(24)
Occupational safety and health expenses	181	59
Communication services	121	176
(Reversal of impairment loss)/impairment loss on non-financial assets	(90)	294
Gain on disposal of property, plant and equipment and other assets	(4,957)	(5,731)
Other income	(1,396)	(569)
Total	**144,730**	**133,520**

Line “(Reversal of impairment loss)/impairment loss on non-financial assets” includes the following expenses:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Impairment loss on non-financial receivables	172	93
Impairment loss on inventories	90	57
Impairment loss on assets classified as held for sale	40	-
(Reversal of impairment loss)/impairment loss on property, plant and equipment	(392)	144
Total	**(90)**	**294**

(in millions of Russian Rubles)

21 Staff costs

	For the year ended 31 December 2018	For the year ended 31 December 2017
Wages and bonuses	11,772	11,307
Social contributions for wages and bonuses	3,363	3,183
Liabilities for unused vacation and rewards	1,024	885
Social contributions for unused vacation and rewards	283	267
Other personnel expenses	627	624
Total	**17,069**	**16,266**

For the year ended 31 December 2018 total pension contributions amounted to RUB 2,789 million (for the year ended 31 December 2017: RUB 2,600 million).

22 Finance income and expenses

	For the year ended 31 December 2018	For the year ended 31 December 2017
Finance income		
Interest income	301	403
Dividend income	72	73
Interest on finance lease	14	15
Amortisation of discount on long-term accounts receivable	-	229
Other finance income	231	268
Total	**618**	**988**
Finance expenses		
Interest expense	(1,758)	(2,131)
Amortisation of discount on long-term accounts payable	(272)	(251)
Loss from changes of fair value of financial assets	(28)	(27)
Discount on long-term accounts receivable	-	(177)
Total	**(2,058)**	**(2,586)**
Less capitalised interest expenses on borrowings relating to qualifying assets	1,703	2,091
Net finance income recognised in profit or loss	**263**	**493**

Total amount of interest paid for the year ended 31 December 2018 and for the year ended 31 December 2017 was RUB 1,710 million and RUB 2,108 million, respectively.

23 Income tax

	For the year ended 31 December 2018	For the year ended 31 December 2017
Current income tax expense		
Current period	(970)	(17)
Over-accrued in prior periods	1	2
Total	**(969)**	**(15)**
Deferred tax		
Origination and reversal of temporary differences	(2,002)	(1,736)
Total	**(2,971)**	**(1,751)**

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 2018	For the year ended 31 December 2017
Profit before tax	**12,181**	**8,510**
Income tax at applicable tax rate of 20%	(2,436)	(1,702)
Non-deductible/non-taxable differences	(536)	(51)
Over-accrued in prior periods	1	2
Total income tax	**(2,971)**	**(1,751)**
Profit for the reporting period	**9,210**	**6,759**

(in millions of Russian Rubles)

Deferred tax

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

	Assets		Liabilities		Net	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Property, plant and equipment	-	-	(9,665)	(8,536)	(9,665)	(8,536)
Intangible assets	16	12	-	-	16	12
Financial investments	4	42	-	-	4	42
Inventory	-	-	(93)	(63)	(93)	(63)
Trade and other receivables	123	-	-	(119)	123	(119)
Accounts payable	356	508	-	-	356	508
Other items	181	244	-	-	181	244
Tax loss carried forward	2,276	2,651	-	-	2,276	2,651
Total	**2,956**	**3,457**	**(9,758)**	**(8,718)**	**(6,802)**	**(5,261)**

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 2018	**31 December 2017**
Deferred tax assets	2,097	1,360
Deferred tax liabilities	(8,899)	(6,621)
Deferred tax liabilities, net	**(6,802)**	**(5,261)**

Movements in temporary differences for the year ended 31 December 2018 are as follows:

	1 January 2018	**Recognised in profit or loss**	**Effect of the initial application of IFRS 9**	**Acquired**	**31 December 2018**
Property, plant and equipment	(8,536)	(1,124)	-	(5)	(9,665)
Intangible assets	12	4	-	-	16
Financial investments	42	(41)	-	3	4
Inventory	(63)	(30)	-	-	(93)
Trade and other receivables	(119)	(205)	447	-	123
Accounts payable	508	(152)	-	-	356
Other items	244	(63)	-	-	181
Tax loss carried forward	2,651	(391)	-	16	2,276
Total	**(5,261)**	**(2,002)**	**447**	**14**	**(6,802)**

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)**

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 2018	**For the year ended 31 December 2017**
Outstanding shares (weighted average number)	248,176,279	244,134,012
Treasury shares (weighted average number)	(23,260,402)	(22,382,541)
Weighted average number of outstanding shares	**224,915,877**	**221,751,471**

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

(in millions of Russian Rubles)

	For the year ended 31 December 2018	For the year ended 31 December 2017
Weighted average number of outstanding shares	224,915,877	221,751,471
Profit attributable to the shareholders of PJSC MIPC for the period	9,842	7,404
Earnings per share (basic and diluted) (in Russian Rubles) attributable to the shareholders of PJSC MIPC	**43.8**	**33.4**

There are no instruments with dilutive effect as at 31 December 2018 and 31 December 2017.

25 Financial instruments

(a) Classification and fair value

As at 31 December 2018 and 31 December 2017 the following assets and liabilities measured at fair value were recognised in the Group's balance sheet:

			Fair value			
	Note	Carrying amount	Level 1	Level 2	Level 3	Total
Balance as at 31 December 2018						
Financial assets measured at fair value through profit or loss	11	741	-	-	741	**741**
Balance as at 31 December 2017						
Financial assets measured at fair value through profit or loss	11	769	-	-	769	**769**

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 through profit or loss	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

As at 31 December 2018 and 31 December 2017 the estimated fair value of financial assets and liabilities which are not recognised at fair value in the consolidated statement of financial position is reasonable approximation to 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:

		Carrying amount	
	Note	31 December 2018	31 December 2017
Trade and other receivables	12	33,602	34,731
Cash and cash equivalents	14	4,850	4,138
Available-for-sale financial assets	11	741	769
Loans issued		353	742
Subsidies receivable	13	263	1,125
Total		**39,809**	**41,505**

(i) The credit quality of accounts receivable

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

	31 December 2018	31 December 2017
Revenue from heat energy sales, hot water supply and transmission services	30,804	31,029
Other revenue	1,822	1,968
Total	**32,626**	**32,997**

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

(in millions of Russian Rubles)

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 LLC MC UNI-DOM, LLC MC Dom-Master and DMUP "EKPO", accounts receivable attributable to these customers as at 31 December 2018 amounted to RUB 649 million, RUB 624 million, RUB 466 million, respectively (as at 31 December 2017: RUB 700 million, RUB 453 million, RUB 282 million, respectively).

As at 31 December 2018 and 31 December 2017, the aging of accounts receivable was as follows:

	31 December 2018		**31 December 2017**	
	Carrying amount	**Impairment**	**Carrying amount**	**Impairment**
Not overdue	16,692	(1,301)	15,197	(6)
0-181 days overdue	9,218	(2,056)	13,973	(1,010)
181-365 days overdue	8,143	(2,781)	5,000	(1,367)
365 days to 2 years overdue	9,394	(5,329)	4,253	(2,303)
Overdue for more than 2 years	7,259	(5,637)	5,570	(4,576)
	50,706	**(17,104)**	**43,993**	**(9,262)**

The movement in the expected credit loss allowance for accounts receivable and advances for capital construction for the year ended 31 December 2018 and for the year ended 31 December 2017 was as follows:

	2018	**2017**
Balance as at 1 January	**9,399**	**7,281**
Effect of the initial application of IFRS 9	2,238	-
Adjusted balance as at 1 January	**11,637**	**7,281**
Impairment allowance accrued	11,420	4,391
Addition upon acquisition of entity under common control	29	-
Write-off of receivables against previously accrued allowance	(612)	(708)
Reversal of allowance	(5,055)	(1,565)
Balance as at 31 December	**17,419**	**9,399**

As at 31 December 2018 the impairment allowance for advances given was accrued in the amount of RUB 22 million (as at 31 December 2017: RUB 54 million), the impairment allowance for other non-financial receivables was accrued in the amount of RUB 293 million (as at 31 December 2017: RUB 83 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 organisations and some state-controlled organisations, this right is limited to the termination of hot water supply only, but not heating.

In determining expected credit loss allowance for accounts receivable, the Group's management analyses the possibility of its collection. The allowance is determined based on the past experience and is regularly reviewed considering the facts and circumstances at each reporting date.

The management believes that expected credit loss 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 by external credit ratings, assigned to banks in which the Group holds its cash. Corresponding ratings are published by RAEX ("Expert RA"), Moody's and other credit rating agencies. The ratings are conditionally presented in the classification applied by "Expert RA":

Rating	**31 December 2018**	**31 December 2017**
ruAA stable	3,571	1,814
ruAA+ stable	50	240
ruAAA stable	60	55
No credit rating	1,169	2,029
	4,850	**4,138**

(in millions of Russian Rubles)

(c) Liquidity risk

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

As at 31 December 2018:

	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	25,911	27,703	12,390	5,909	7,827	105	105	1,367
Trade and other payables	43,152	44,060	41,485	984	664	927	-	-
Total	**69,063**	**71,763**	**53,875**	**6,893**	**8,491**	**1,032**	**105**	**1,367**

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	37,277	38,490	35,972	356	704	704	754	-
Total	**62,107**	**64,360**	**50,559**	**11,457**	**720**	**720**	**904**	-

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, this information is disclosed in Note 16.

(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:

	31 December 2018		31 December 2017	
	Trade and other receivables	**Trade and other payables**	**Trade and other receivables**	**Trade and other payables**
Amount presented in the statement of financial position	33,602	43,152	34,731	37,277
Amounts relating to recognised financial instruments for which some or all offsetting criteria are not met	(1,988)	(1,988)	(576)	(576)
Net amount	**31,614**	**41,164**	**34,155**	**36,701**

(in millions of Russian Rubles)

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 2018	31 December 2017
Less than one year	1,612	1,473
Between one and five years	5,297	3,393
More than five years	1,311	819
Total	**8,220**	**5,685**

Finance leases

In 2014 the Group transferred to PJSC Mosenergo property complex RTS Krasnaya Presnya under finance lease agreement.

The present value of the future minimum lease payments receivable as at 31 December 2018 amounted to RUB 57 million (as at 31 December 2017: RUB 61 million).

27 Capital commitments

As at 31 December 2018 the Group was involved in a number of contingent contracts for construction and purchase of property, plant and equipment amounting to RUB 44,513 million, including VAT (as at 31 December 2017: RUB 43,785 million, including VAT), including:

- RUB 10,825 million for upgrading the Group’s technological equipment (as at 31 December 2017: RUB 13,771 million);
- RUB 33,688 million for new construction and purchase of equipment (as at 31 December 2017: RUB 30,014 million).

28 Acquisition of subsidiaries

On 30 March 2018 PJSC MIPC was reorganised by merging with PJSC Mezhregionteplosetenergoremont (previously subsidiary of LLC Gazprom energoholding).

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

	Carrying amount at acquisition date
Assets	
Non-current assets	
Property, plant and equipment	56
Deferred tax assets	19
Total non-current assets	**75**
Current assets	
Inventories	32
Trade and other receivables	552
Cash and cash equivalents	4
Other current assets	2
Total current assets	**590**
Total assets	**665**
Non-current liabilities	
Deferred tax liabilities	5
Total non-current liabilities	**5**
Current liabilities	
Borrowings	390
Trade and other payables	119
Total current liabilities	**509**
Total liabilities	**514**
Net assets at acquisition date	**151**
Pre-existing relationships	**355**
Acquired net assets considering pre-existing relationships	**506**

(in millions of Russian Rubles)

The acquisition was made by convertion of shares of PJSC Mezhregionteplosetenergoremont into shares of PJSC MIPC by a conversion ratio of 5,279.2703 shares PJSC Mezhregionteplosetenergoremont into 1 share of PJSC MIPC. As a result of the conversion, 5,326,453 additional ordinary shares of PJSC MIPC were placed.

The acquisition cost of PJSC Mezhregionteplosetenergoremont is presented below:

	Acquisition cost
Conversion of 5,326,453 shares at market value	1,039
Pre-existing relationships	355
Total	**1,394**

The effect of the acquisition of PJSC Mezhregionteplosetenergoremont is presented below:

	Acquisition cost
Acquired net assets considering pre-existing relationships	506
Acqusition cost	1,394
The effect of the acquisition	**888**

The effect of the acquisition in the amount of RUB 888 million is recognised in equity.

29 Segment information

Segment information for the year ended 31 December 2018 and the year ended 31 December 2017 is presented below:

	Note	Heat energy	Connection to the heating system	Other segments	Total by segments	Inter-group operations	Total
For the year ended 31 December 2018							
Revenue		**151,004**	**9,984**	**6,021**	**167,009**	**(4,168)**	**162,841**
External revenue	19	148,639	9,435	4,767	162,841	-	162,841
Intergroup revenue		2,365	549	1,254	4,168	(4,168)	-
Financial result by segments		**3,793**	**9,346**	**(1,075)**	**12,064**	**-**	**12,064**
Amortisation and depreciation	20	(14,220)	(9)	(432)	(14,661)	-	(14,661)
Loss on impairment of receivables		(5,824)	(250)	(291)	(6,365)	-	(6,365)
For the year ended 31 December 2017							
Revenue		**135,989**	**4,396**	**6,924**	**147,309**	**(3,039)**	**144,270**
External revenue	19	134,641	3,969	5,660	144,270	-	144,270
Intergroup revenue		1,348	427	1,264	3,039	(3,039)	-
Financial result by segments		**3,965**	**3,833**	**219**	**8,017**	**-**	**8,017**
Amortisation and depreciation	20	(13,475)	(7)	(480)	(13,962)	-	(13,962)
Loss on impairment of receivables		(2,737)	(5)	(84)	(2,826)	-	(2,826)

Revenue in the “Heat energy” segment includes revenue from heat energy sales and hot water supply services, revenue in the “Connection to the heating system” segment corresponds to the revenue from connection services to heat and hot water supply system, other types of revenue constitute the revenue of other segments.

Presented below is presentation of the financial result for reportable segments to profit before tax in the consolidated statement of profit or loss and other comprehensive income:

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Financial result for reportable segments		13,139	7,798
Financial result for other segments		(1,075)	219
Financial result by segments		**12,064**	**8,017**
Change in provisions	20	(189)	24
Net finance income	22	263	493
Other		43	(24)
Profit before tax		**12,181**	**8,510**

30 Commitments and contingencies

Taxation in the Russian Federation

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 2018 the Group is one of the parties in a number of litigations and claims. The management believes that currently there are no claims or suits against the Company which could have an adverse impact on the Group's financial position.

31 Subsequent events

On 17 January 2019 by the decision of the extraordinary General Meeting of Participants it was decided to increase the authorised capital of LLC TSK Mosenergo by means of contribution moveable and immovable property owned by PJSC Mosenergo. On 14 February 2019 a corresponding entry to the USRLE was made about the change of LLC TSK Mosenergo authorised capital. After additional contribution of PJSC Mosenergo to the authorised capital of LLC TSK Mosenergo the share of PJSC MIPC in the authorised capital of LLC TSK Mosenergo amounted to 74.64%.

On 23 January 2019 the Group 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 subsidiary LLC TSK Novaya Moskva. The total amount of redeemed ordinary registered shares is 38,054 with the total value of RUB 7 million.

On 6 March 2019 PJSC MIPC placed on the Moscow Exchange the issue of exchange bonds of the 001P-01 series with a nominal value of RUB 5 billion under the program of exchanged bonds 4-55039-E-001P-02E from 18 October 2018. The maturity period of the bonds is 6 years, the ussue provides for an offer after 3 years from the date of placement. The interest rate is 8.65% per anum.