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PJSC MIPC

IFRS Consolidated Financial Statements with Independent Auditor's Report

31 December 2019

Moscow | 2020

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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 2019 and the consolidated statements of comprehensive income, of cash flows and of changes in equity for the year ended 31 December 2019, and notes to the consolidated financial statements, including 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 2019, and its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2019 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 the Rules of Independence of the Auditors and Audit Organizations and the Code of Professional Ethics of the Auditors, which are in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards), 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.

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Impairment of property, plant and equipment

Due to the material carrying amount 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 discount rate, as well as estimating volumes of sales. This analysis revealed that the significant assumptions applied by the Group's management in calculating the recoverable amount of the assets as at the end of the reporting period are within the acceptable range and correspond to the current economic environment.

We also paid special attention to the assessment of the assets under construction. We conducted a detailed analysis of the non-functional objects 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.

Allowance for expected credit losses

One of high-risk audit areas is the evaluation of sufficiency of 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 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 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 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 allowance for expected credit losses is disclosed in Note 12 "Accounts receivable and prepayments" and Note 25 "Financial instruments" to the consolidated financial statements.

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Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report of PJSC "MIPC" for 2019 and the Quarterly issuer's report of PJSC "MIPC" for the first quarter of 2020, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report of PJSC "MIPC" for 2019 and the Quarterly issuer's report of PJSC "MIPC" for the first quarter of 2020 are expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available to us, 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 2019 and the Quarterly issuer's report of PJSC "MIPC" for the first quarter of 2020, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional 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 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

President of FBK, LLC

S.M. Shapiguzov
(acting by virtue of the Articles of Organisation,
audit qualification certificate 01-001230)

Engagement partner on the audit resulting in this independent auditor's report

K.S. Shirikova, FCCA
(audit qualification certificate
01-000712)

Date of Independent Auditor's Report
10 March 2020

Audited entity

Name:

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

Address of the legal entity within its location:

101/3 Vernadskogo Pr., Moscow, 119526, Russian Federation.

State registration:

Registered by the Moscow Inter-District Inspectorate of the Ministry of Taxes and Duties of the Russian Federation No. 46 on December 16, 2004, certificate: series 77 No. 006387601.

The registration entry was made in the Uniform State Register of Legal Entities on December 16, 2004 under primary state registration number 10477969740952.

Auditor

Name:

FBK, LLC.

Address of the legal entity within its location:

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

State registration:

Registered by the Moscow Registration Chamber on 15 November 1993, registration number 484.583.

The registration entry was made in the Unified State Register of Legal Entities on 24 July 2002 under primary state registration number 1027700058286.

Membership in a self-regulatory organization of auditors:

Member of the Self-regulatory organization of auditors Association "Sodruzhestvo".

Primary 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 2019

(in millions of Russian Rubles)

	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	7	203,022	181,375
Advances for capital construction		2,018	2,661
Intangible assets	9	2,012	1,759
Financial assets	11	864	741
Accounts receivable and prepayments	12	6,804	2,584
Deferred tax assets	23	1,620	2,097
Total non-current assets		**216,340**	**191,217**
Current assets			
Inventories	10	1,005	940
Accounts receivable and prepayments	12	40,165	43,557
Subsidies receivable	13	690	263
Income tax prepayments		581	78
Cash and cash equivalents	14	922	4,850
Financial assets	11	5,150	353
Other current assets		61	76
Total current assets		**48,574**	**50,117**
Assets classified as held for sale	8	214	159
Total assets		**265,128**	**241,493**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	25,628	24,947
Share premium		139,680	139,102
Treasury shares	15	(16,971)	(16,964)
Accumulated loss and other reserves		(3,281)	(13,645)
Equity attributable to the shareholders of PJSC MIPC		**145,056**	**133,440**
Non-controlling interest	15	285	60
Total equity		**145,341**	**133,500**
Non-current liabilities			
Borrowings	16	16,244	8,930
Provision for employee benefits	17	218	215
Accounts payable and liabilities	18	13,699	4,918
Deferred tax liabilities	23	8,693	8,899
Total non-current liabilities		**38,854**	**22,962**
Current liabilities			
Borrowings	16	11,445	16,981
Accounts payable and liabilities	18	68,043	67,498
Deferred income		1,419	67
Income tax payable		3	455
Advances received on subsidies	13	23	30
Total current liabilities		**80,933**	**85,031**
Total liabilities		**119,787**	**107,993**
Total equity and liabilities		**265,128**	**241,493**

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

Chief Accountant A.N. Zalyalieva

10 March 2020

PJSC MIPC

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2019

(in millions of Russian Rubles)

	Note	For the year ended 31 December 2019	For the year ended 31 December 2018
Revenue	19	159,378	162,841
Operating expenses	20	(146,109)	(144,730)
Reversal of impairment loss/(impairment loss) on financial assets		959	(6,193)
Result from operating activities		**14,228**	**11,918**
Finance income	22	523	618
Finance expense	22	(2,002)	(355)
Net finance (expense)/income	22	**(1,479)**	**263**
Profit before tax		**12,749**	**12,181**
Income tax expense	23	(1,601)	(2,971)
Profit for the period		**11,148**	**9,210**
Comprehensive income for the period		**11,148**	**9,210**
Profit/(loss) attributable to:			
Shareholders of PJSC MIPC		10,940	9,842
Non-controlling interest		208	(632)
Profit for the period		**11,148**	**9,210**
Comprehensive income/(loss) attributable to:			
Shareholders of PJSC MIPC		10,940	9,842
Non-controlling interest		208	(632)
Comprehensive income for the period		**11,148**	**9,210**
Basic and diluted earnings per share attributable to the shareholders of PJSC MIPC (in Russian Rubles)	24	**48.1**	**43.8**

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

Chief Accountant A.N. Zalyalieva

10 March 2020

PJSC MIPC

Consolidated Statement of Cash Flows for the Year Ended 31 December 2019

(in millions of Russian Rubles)

	Note	For the year ended 31 December 2019	For the year ended 31 December 2018
Cash flows from operating activities			
Profit before tax		**12,749**	**12,181**
Adjustments for:			
Amortisation and depreciation	20	16,174	14,661
(Reversal of impairment loss)/impairment loss on financial assets		(959)	6,193
Impairment loss/(reversal of impairment loss) on non-financial assets	20	4,611	(90)
Loss on disposal of subsidiaries	20	365	-
Change in provisions for litigation claims	20	30	189
Gain on disposal of property, plant and equipment and other assets	20	(7,476)	(4,957)
Net finance expense/(income)	22	1,479	(263)
Operating cash flows before changes in working capital		**26,973**	**27,914**
Change in inventories		204	18
Change in accounts receivable and prepayments		5,127	(8,653)
Change in provision for employee benefits		3	(33)
Change in accounts payable and liabilities		(587)	5,645
Changes in subsidies		(434)	837
Change in deferred income		1,352	(1,322)
Cash flows from operating activities before income tax and interest paid		**32,638**	**24,406**
Interest received		264	251
Interest paid	25	(1,044)	(31)
Income tax paid		(2,005)	(526)
Net cash flows from operating activities		**29,851**	**24,100**
Cash flows from investing activities			
Purchase of property, plant and equipment		(30,924)	(26,252)
Proceeds from disposal of property, plant and equipment		4,438	4,086
Purchase of intangible assets		(1,065)	(709)
Acquisition of subsidiaries including cash acquired	27	45	4
Disposal of subsidiaries, net of cash disposed	27	(225)	-
Provision of loans issued		(5,150)	-
Repayment of loans issued		-	20
Interest paid and capitalised	25	(1,743)	(1,679)
Dividends and interest received		105	94
Net cash flows used in investing activities		**(34,518)**	**(24,436)**
Cash flows from financing activities			
Proceeds from borrowings	25	26,459	25,445
Repayment of borrowings	25	(24,601)	(24,390)
Repurchase of treasury shares	15	-	(7)
Repayment of lease liabilities	25	(1,119)	-
Net cash flows from financing activities		**739**	**1,048**
Net (decrease)/increase in cash and cash equivalents		**(3,928)**	**712**
Cash and cash equivalents at the beginning of the period	14	4,850	4,138
Cash and cash equivalents at the end of the period	14	**922**	**4,850**

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

Chief Accountant A.N. Zalyalieva

10 March 2020

PJSC MIPC

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2019

(in million of Russian Rubles)

		Equity, attributable to the shareholders of PJSC MIPC						
	Note	Share capital	Share premium	Treasury shares	Accumulated loss and other reserves	Total	Non-controlling interest	Total equity
Balance as at 1 January 2018		**24,414**	**138,596**	**(16,964)**	**(20,143)**	**125,903**	**26**	**125,929**
Effect of initial application of new standards, net of income tax		-	-	-	(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		-	-	-	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		-	-	-	(888)	**(888)**	-	**(888)**
Issue of ordinary shares		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**
Balance as at 1 January 2019		**24,947**	**139,102**	**(16,964)**	**(13,645)**	**133,440**	**60**	**133,500**
Effect of initial application of new standards, net of income tax	3.19	-	-	-	(854)	(854)	(235)	(1,089)
Adjusted balance as at 1 January 2019		**24,947**	**139,102**	**(16,964)**	**(14,499)**	**132,586**	**(175)**	**132,411**
Profit for the period		-	-	-	10,940	10,940	208	11,148
Comprehensive income for the period		-	-	-	**10,940**	**10,940**	**208**	**11,148**
Transactions with the shareholders presented directly in equity								
Issue of ordinary shares	15	681	578	-	-	**1,259**	-	**1,259**
Repurchase of treasury shares	15	-	-	(7)	-	**(7)**	-	**(7)**
Shareholders contribution		-	-	-	277	**277**	-	**277**
Effect of acquisitions under common control	27	-	-	-	1	**1**	-	**1**
Change of non-controlling interest in subsidiaries		-	-	-	-	-	**252**	**252**
Balance as at 31 December 2019		**25,628**	**139,680**	**(16,971)**	**(3,281)**	**145,056**	**285**	**145,341**

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

Chief Accountant A.N. Zalyalieva

10 March 2020

ПАО «МОЭК» Публичное акционерное общество «Московская объединенная энергетическая компания» ПАО «МОЭК» 2 ОГРН 1047796974092 *МОСКВА*

1 The Group and its operations

1.1 Organisational structure and operations

Public Joint Stock Company "Moscow Integrated Power Company" (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 organisations and for domestic needs of residents in Moscow and the Moscow region.

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

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

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 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 minority shareholders (under offer), increasing its ownership interest up to 90.05%. Due to consolidation of assets of LLC MIPC-Finance the actual ownership interest of LLC Gazprom energoholding amounted to 98.86% as a result of this transaction.

In August 2017 PJSC MIPC repurchased its own treasury shares from shareholders who claimed for redemption in connection with the planned 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.

On 23 January 2019 the Group repurchased its own shares from shareholders who claimed for redemption in connection with the reorganisation of PJSC MIPC in the form of merger with its subsidiary LLC TSK Novaya Moskva.

On 25 April 2019 LLC Gazprom energoholding made a contribution to the share capital of PJSC MIPC by contributing property amounted to RUB 1,259 million, as a result of which the share capital of PJSC MIPC was increased by offering 6,810,811 additional ordinary shares of PJSC MIPC with a nominal value of 100 rubles per a share and amounted to 256,271,317 ordinary shares. Taking into account this operation, the actual ownership percentage of LLC Gazprom energoholding amounted to 99.45%.

As at 31 December 2019 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. 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.

(in millions of Russian Rubles)

As a result during 2019:

- the Central Bank of the Russian Federation (further on – "CBRF") exchange rate fluctuated from 61.7164 Russian Rubles (further on – "ruble" or "RUB") to RUB 67.192 per US Dollar;
- the CBRF key refinancing interest decreased from 7.75% to 6.25% p.a.;
- access to international financial markets to raise funding was limited for certain entities.

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

Subsequent to 31 December 2019:

- the CBRF exchange rate fluctuated from RUB 60.9474 to RUB 67.5175 per USD;
- Credit rating of Russian Federation per Moody's and Fitch Ratings is still in line with the investment level;
- the CBRF key refinancing interest rate decreased to 6.00% 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 of the Russian Federation directly affects the Group's operations through regulations of heat energy market, wholesale and retail sales of 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.

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 2019	31 December 2018
OJSC Mosgorenergo	Energy distribution services	100.00%	100.00%
LLC MIPC-Finance	Operations on securities market	100.00%	100.00%
LLC TSK MIPC	Production, transmission and distribution of steam and hot water (heat energy)	100.00%	100.00%
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)	74.64%	77.49%
LLC Razvitiye teplosetevogo kompleksa	Heating network and associated equipment development	-	100.00%
LLC TSK Novaya Moskva	Production, transmission and distribution of steam and hot water (heat energy)	-	100.00%

On 14 February 2019 share capital of LLC TSK Mosenergo was increased by contribution of property owned PJSC Mosenergo. As a result of this operation the share of PJSC MIPC in the share capital of LLC TSK Mosenergo decreased to 74.64%.

On 8 May 2019 LLC TSK Novaya Moskva ceased its operation by means of reorganization by merging with PJSC MIPC.

On 6 September 2019 the activity of LLC Razvitiye teplosetevogo kompleksa was terminated by liquidation of the company.

As of 1 July 2019 as a result of presenting its share for repayment by the second participant, the Group gained control over LLC TSK Metrologiya (previously 99% of the share belonged to LLC TEK-Inform, a subsidiary of LLC Gazprom energoholding). On 26 December 2019 LLC TSK Metrologiya sold its own 99% share to LLC Gazpromenergoremont, as a result of which the Group lost control over LLC TSK Metrologiya.

As at 31 December 2019 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 Seasonal nature of activities

The time of year and weather conditions influence the demand for heat energy. The main volume of income from the sale of heat energy falls from October to March. The seasonal nature of the heat energy production has the corresponding effect on the purchase of heat energy, fuel consumption and other resources. The seasonal nature of the activity does not affect the Group's recognition of income or expenses.

2.3 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 and non-current assets held for sale.

2.4 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 businesses under common control is a business combination in which all of the combining 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 consolidated financial statements of the immediate 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 and lease liabilities.

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, lease liabilities, 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 or from accumulated losses.

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 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 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 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 Right-of-use asset

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date, the date on which the asset is available for use.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and are subsequently valued at amortized cost with recognition of the interest expenses as part of the financial expenses of the consolidated statement of comprehensive income.

Lease payments shall be discounted using the interest rate of additional borrowing by the Group, which is the rate at which, at the date of commencement of the lease relationship, the Group could raise, for a similar period and with a similar security, the loan necessary to obtain a right-of-use asset with a similar value under similar economic conditions.

The Group does not recognize the right-of-use asset and lease liability for short-term leases that do not exceed 12 months and for low-value leased assets.

Right-of-use assets are initially valued at acquisition cost and amortized on a straight-line basis until an earlier date, the end of useful life of the asset of a right-of-use asset or the end of lease date.

Depreciation of right-of-use assets is reflected in the “Amortisation and depreciation” of operating expenses.

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

Financial income includes interest income on financial assets at amortized cost, income from participation in other organizations, as well as profit from changes in the fair value of financial assets. Interest income is recognised in the consolidated statement of 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 and lease liabilities, amortisation of discount on long-term accounts payable and any loss 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.

(in millions of Russian Rubles)

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 28).

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 2018 and 31 December 2019.

3.19 New standards and interpretations

A new standard IFRS 16 Leases became effective after1 January 2019 . The changes were applied by the Group while preparing current consolidated financial statements. The standard defines the principles of recognition, valuation, presentation and disclosure of information in the financial statements regarding lease agreements and obliges lessees to recognise right-of-use assets and lease liabilities under most lease agreements.

In accordance with the transitional provisions of IFRS 16 Leases, the Group applied the new rules retrospectively, recognising the cumulative effect of the initial application of the standard as of 1 January 2019. Therefore, the comparative information as at 31 December 2018 and for the year ended 31 December 2018, presented in current consolidated financial statements, does not reflect the requirements of IFRS 16 Leases and is prepared on the basis of requirements of IAS 17 Leases.

In accordance with IFRS 16 Leases the Group decided not to apply the standard to the short-term lease agreements and lease agreements with underlying asset of low value.

The Group used the following allowed practical simplifications:

- The standard is applied to contracts that were previously identified as leases using IAS 17 Leases and IFRIC 4 Determination of the Sign of Leases in the Agreement and are not applied to contracts that were not previously identified as containing signs of a lease using IAS 17 Leases and IFRIC 4 Determination of the Sign of Leases in the Agreement;
- The Group did not apply the new standard to leases that expired within twelve months from the date of transition;
- Initial direct costs are excluded from the valuation of assets in the form of right of use at the date of initial recognition;
- The Group applied a single discount rate for a portfolio of contracts with relatively similar characteristics.

The effect of initial application of IFRS 16 Leases on the consolidated statement of financial position as at 1 January 2019 is presented in the table below:

	Balance as at 1 January 2019	**The effect of initial application of IFRS 16 Leases**	**Adjusted balance as at 1 January 2019**
Property, plant and equipment	181,375	8,569	189,944
Accounts receivable and prepayments	2,584	(28)	2,556
Deferred tax assets	2,097	272	2,369
Total non-current assets	**191,217**	**8,813**	**200,030**
Accounts receivable and prepayments	43,557	(15)	43,542
Total current assets	**50,117**	**(15)**	**50,102**
Total assets	**241,493**	**8,798**	**250,291**
Accumulated loss	(13,645)	(854)	(14,499)
Non-controlling interest	60	(235)	(175)
Total equity	**133,500**	**(1,089)**	**132,411**
Accounts payable and liabilities	4,918	7,779	12,697
Total non-current liabilities	**22,962**	**7,779**	**30,741**
Accounts payable and liabilities	67,498	2,108	69,606
Total current liabilities	**85,031**	**2,108**	**87,139**
Total liabilities	**107,993**	**9,887**	**117,880**
Total equity and liabilities	**241,493**	**8,798**	**250,291**

(in millions of Russian Rubles)

The reconciliation of operating lease contractual obligations as at 31 December 2018 with recognised lease liabilities as at 1 January 2019 is presented below:

Operating lease liability as at 31 December 2018 disclosed applying IFRS (IAS) 17 Leases	**8,220**
Exemption from recognition of short-term lease liability	(56)
Effect of applying judgement on the prolongation/indexation of lease agreements as at 1 January 2019	17,854
Undiscounted liabilities additionally recognised based on the initial application of IFRS 16 Leases as at 1 January 2019	**26,018**
Effect of discount of lease liabilities as at 1 January 2019	(16,131)
Lease liabilities in accordance with IFRS 16 Leases as at 1 January 2019	**9,887**

The weighted average borrowing rate applied by the Group in respect of lease liabilities at the date of initial application amounted to 11.5%.

A new interpretation and some amendments to standards became effective starting from 1 January 2019:

- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax 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 interests in an associate or joint venture that form part of the net investment in the associate or joint venture should be accounted 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). These amendments enable to measure at amortised cost some prepayable financial assets with negative compensation.
- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify which borrowing costs are eligible for capitalisation in particular circumstances.
- 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 changes specify how control (or joint control) should be taken into account for a business, that is a joint arrangement, if the organization already participates in this 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.
- The amendments to IAS 19 Employee benefits (issued in February 2018 and effective for annual periods beginning on or after 1 January 2019). These amendments specify the accounting procedure in case of change of the plan, its reduction or full repayment of obligations under the plan.

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

Some amendments to standards become effective effect for annual periods beginning on or after 1 January 2020. In particular the following amendments to standards were not early adopted by the Group:

- Amendments to IFRS 3 Business Combinations (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020). The changes clarify the definition of business and make it easier to assess whether the acquired set of activities and assets is an asset group or business.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policy, Changes in Accounting Estimates and Errors (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020). The changes clarify and settle the definition of materiality and also make recommendations to improve consistency in its application when referred to in IFRS standards.
- Amendments to the Financial Reporting Framework (issued in March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Valuation and IFRS 7 Financial Instruments: Disclosure (issued in September 2019 and effective for annual periods beginning on or after 1 January 2020). The changes are related to the reform of the base interest rates and clarify the requirements for hedge accounting.
- Amendments to IAS 1 Presentation of Financial Statements (issued in January 2020 and effective for annual periods beginning on or after 1 January 2022). The changes clarify the criteria for classification of liabilities as short-term or long-term.

4 Use of critical judgments, estimates and assumptions

4.1 Professional judgments, estimates and assumptions

In preparing these consolidated financial statements 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, reflected in consolidated financial statements. 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) *Valuation of right-of-use assets*. For indefinite leases, the Group evaluates the term of the contract as equal to the useful life of non-current assets held in and physically related to the leased space. The same useful life is applied to determine the rate of depreciation of right-of-use assets.

The present value of the rental payment is determined using the discount rate, which is the rate of non-cash government bond yields, taking into account the risk premium adjusted by the correction factor, which takes into account the actual assessment of the credit rating based of the Group based on past experience of borrowing. The effect of this accounting valuation and judgment is presented in Note 25.

(v) *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.

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.

(in millions of Russian Rubles)

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 PJSC MIPC 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, attributable to shareholders of PJSC MIPC, as shown in the consolidated statement of financial position, plus net debt amount.

The gearing ratios as at 31 December 2019 and 31 December 2018 were as follows:

	31 December 2019	31 December 2018
Borrowings (Note 16)	(27,689)	(25,911)
Cash and cash equivalents (Note 14)	922	4,850
Net debt (borrowed capital)	**(26,767)**	**(21,061)**
Equity attributable to the Group's shareholders	(145,056)	(133,440)
Total equity	**(171,823)**	**(154,501)**
Gearing ratio	**15.58%**	**13.63%**

(i) Borrowing covenants

The Group maintains an optimal capital structure by monitoring some credit covenants. As at 31 December 2019 and 31 December 2018 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, verified by 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 2019 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 ruA- Positive 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 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).

6 Related parties transactions

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

The nature of the relationship with those related parties with which the Group entered into significant transactions or has significant outstanding balances is detailed below.

(in millions of Russian Rubles)

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 is presented below:

Revenue

	For the year ended 31 December 2019	For the year ended 31 December 2018
Revenue from heat energy transmission services	514	724
Revenue from heat energy sales	164	174
Revenue from hot water supply services	10	10
Other revenue	3,283	887
Total	**3,971**	**1,795**

Operating expenses

	For the year ended 31 December 2019	For the year ended 31 December 2018
Purchased heat energy	73,296	76,757
Fuel expenses	6,758	7,400
Water expenses	1,111	1,086
Repair and maintenance	849	569
Production services	234	213
Rent	69	1,181
Purchased electricity	50	92
Other (income)/expenses	(1,281)	1,474
Total	**81,086**	**88,772**

PJSC Mosenergo, a subsidiary of PJSC Gazprom, is the main supplier of heat energy for the Group. For the year ended 31 December 2019 the Group's purchases of heat energy from PJSC Mosenergo amounted to RUB 73,246 million (for the year ended 31 December 2018: RUB 76,700 million).

reversal of impairment loss of financial assets for the year ended 31 December 2019 amounted to RUB 8 million (for the year ended 31 December 2018 impairment loss amounted to RUB 1 million).

Finance income and expenses

	For the year ended 31 December 2019	For the year ended 31 December 2018
Interest income	17	31
Interest on finance lease	13	14
Total finance income	**30**	**45**
Interest expenses on long-term accounts payable	(887)	(272)
Interest expenses on lease agreements	(491)	-
Interest expense	(153)	(37)
Other finance expense	(20)	-
Total finance expenses	**(1,551)**	**(309)**
Net finance expenses	**(1,521)**	**(264)**

Outstanding balances

	Outstanding balances as at 31 December 2019	Outstanding balances as at 31 December 2018
Short-term financial assets	5,150	-
Advances for capital construction	1,697	1,494
Long-term trade and other receivables	46	52
Short-term trade and other receivables	221	410
Allowance for expected credit losses on receivables	-	(8)
Cash and cash equivalents	55	50
Short-term advances to suppliers and prepaid expenses	6	46
Total assets	**7,175**	**2,044**
Long-term borrowings	1,275	1,330
Short-term borrowings	10,007	404
Long-term trade and other payables	771	1,343
Short-term trade and other payables	26,130	31,440
Long-term lease liabilities	3,994	-
Short-term lease liabilities	1,046	-
Short-term advances received from customers	16	11
Total liabilities	**43,239**	**34,528**

(in millions of Russian Rubles)

As at 31 December 2019 the Group's trade payables to PJSC Mosenergo amounted to RUB 23,409 million(as at 31 December 2018: RUB 26,212 million).

Acquisition and construction of non-current and current assets

The Group enters into capital transactions with Gazprom Group and its associates. The summary of such transactions for the year ended 31 December 2019 and for the year ended 31 December 2018 as well as the amount of contractual obligations as at 31 December 2019 and 31 December 2018 are presented below:

	For the year ended 31 December 2019	For the year ended 31 December 2018
Acquisition of non-current and current assets	8,099	8,089
incl. capitalised borrowing expenses	*76*	-

Addition of fixed assets in the amount of RUB 1,259 million was added to acquisition of non-current and current assets in the year ended 31 December 2019, which were received from LLC Gazprom energoholding as input in share capital of PJSC MIPC in April 2019.

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 2019 is RUB 13,711 million, including VAT (as at 31 December 2018: RUB 16,029 million, including VAT).

b) Transactions with other state-controlled entities

Revenue

	For the year ended 31 December 2019	For the year ended 31 December 2018
Revenue from heat energy sales	65,815	70,720
Revenue from hot water supply services	25,351	25,127
Revenue from connection services to heat and hot water supply system	2,310	3,808
Revenue from transfer of water	2,140	2,073
Other revenue	324	542
Total	**95,940**	**102,270**

Operating expenses

	For the year ended 31 December 2019	For the year ended 31 December 2018
Water expenses	7,129	6,887
Measurement units maintenance expenses	2,954	2,903
Taxes other than income tax	2,627	2,109
Production services	2,277	2,294
Income tax expenses	1,050	969
Purchased heat energy	1,551	1,584
Purchased electricity	932	1,393
Rent	-	475
Income from disposal of property, plant and equipment and other assets	(6,047)	(3,841)
Other income	(221)	(1,693)
Total	**12,252**	**13,080**

Reverse of impairment loss on financial assets for the year ended 31 December 2019 amounted to RUB 2,304 million (for the year ended 31 December 2018 impairment loss amounted to RUB 3,705 million).

Finance income and expenses

	For the year ended 31 December 2019	For the year ended 31 December 2018
Interest income	119	149
Other finance income	-	210
Total finance income	**119**	**359**
Interest expense on lease agreements	(188)	-
Total finance expense	**(69)**	**-**
Net finance (expenses)/income	**(69)**	**359**

(in millions of Russian Rubles)

Outstanding balances

	Outstanding balances as at 31 December 2019	Outstanding balances as at 31 December 2018
Long-term trade and other receivables	5,950	2,162
Allowance for expected credit losses of long-term receivables	(1)	-
Short-term trade and other receivables	31,313	34,869
Allowance for expected credit losses of short-term receivables	(6,648)	(9,434)
Subsidies receivable	690	263
Income tax prepayments	581	78
Cash and cash equivalents	412	1 229
Short-term financial assets	353	353
Allowance for expected credit losses of short-term financial assets	(353)	-
Tax prepayments	200	512
Advances for capital construction	29	95
Short-term advances to suppliers and prepaid expenses	9	21
Allowance for impairment of advances to suppliers and prepaid expenses	(1)	(3)
Total	**32,534**	**30,145**
Long-term borrowings	-	7,600
Short-term borrowings	1,176	16,577
Short-term trade and other payables	1,956	2,368
Long-term lease liabilities	1,201	-
Short-term lease liabilities	415	-
Long-term advances received from customers	3,251	1,089
Short-term advances received from customers	10,479	8,779
Deferred income	1,419	67
Taxes payable	973	1,111
Advances received on subsidies	23	30
Income tax payable	3	455
Total	**20,896**	**38,076**

Acquisition and construction of non-current and current assets

The Group enters into capital transactions with state-controlled entities. The summary of such transactions for the year ended 31 December 2019 and for the year ended 31 December 2018 is presented below:

	For the year ended 31 December 2019	For the year ended 31 December 2018
Acquisition of non-current and current assets	2,110	3,792
incl. capitalised borrowing expenses	*1,234*	*1,703*

The outstanding amount of contractual obligations on acquisition and construction of property, plant and equipment to state-controlled entities as at 31 December 2019 is RUB 348 million, including VAT (as at 31 December 2018: RUB 269 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 details of main transactions between the Group and JSC FSC are presented below:

	For the year ended 31 December 2019	For the year ended 31 December 2018
Revenue	**3**	**6**
Other revenue	3	6
Operating expenses	**(262)**	**(445)**
Purchased electricity	(262)	(445)

	Outstanding balances as at 31 December 2019	Outstanding balances as at 31 December 2018
Trade and other receivables	-	1
Total assets	**-**	**1**
Trade and other payables	(8)	(18)
Total liabilities	**(8)**	**(18)**

(in millions of Russian Rubles)

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 2019	For the year ended 31 December 2018
Wages and bonuses	313	315
Social contributions	56	54
Remuneration for membership in the Board of Directors	6	7
Termination benefits	10	3
Total	**385**	**379**

	Outstanding balances as at 31 December 2019	Outstanding balances as at 31 December 2018
Wages payable	10	12
Total	**10**	**12**

The management fee to LLC Gazprom energoholding for the year ended 31 December 2019 amounted to RUB 126 million (for the year ended 31 December 2018: RUB 121 million).

7 Property, plant and equipment

	Right-of-use asset	Heating networks	Building and facilities	Machinery and equipment	Transport and other	Construction in progress	Total
Book value							
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
Acquisition of subsidiaries	-	-	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**
Initial recognition as at 1 January 2019	9,930	-	-	-	-	-	9,930
Additions	672	97	-	2	9	37,187	37,967
Change in lease agreements terms	(881)	-	-	-	-	-	(881)
Disposals	(181)	(3,565)	(1,962)	(1,241)	(202)	(1,206)	(8,357)
Acquisition of subsidiaries	-	-	-	10	8	-	18
Disposals of subsidiaries	-	(22)	-	(15)	(8)	(17)	(62)
Transfers	-	36,378	471	2,264	521	(39,634)	-
Reclassification to assets held for sale	-	(3)	(140)	(11)	(56)	-	(210)
Balance as at 31 December 2019	**9,540**	**276,397**	**24,770**	**47,473**	**8,508**	**33,545**	**400,233**

(in millions of Russian Rubles)

	Right-of-use asset	Heating networks	Building and facilities	Machinery and equipment	Transport and other	Construction in progress	Total
Accumulated depreciation and impairment							
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)**
Initial recognition as at 1 January 2019	(1,361)	-	-	-	-	-	(1,361)
Depreciation charge	(1,340)	(9,188)	(646)	(3,269)	(921)	-	(15,364)
Disposals	93	1,161	602	1,214	568	634	4,271
Acquisition of subsidiaries	-	-	-	(6)	(7)	-	(13)
Disposals of subsidiaries	-	-	-	7	8	-	15
Impairment loss accrual	(487)	(9,924)	(656)	(1,025)	(107)	(1,578)	(13,777)
Impairment loss reversal	459	6,536	619	849	464	463	9,390
Transfer of impairment loss	-	(1,504)	(93)	(327)	(35)	1,959	-
Reclassification to assets held for sale	-	1	22	5	53	-	81
Balance as at 31 December 2019	**(2,636)**	**(140,419)**	**(11,975)**	**(30,824)**	**(5,843)**	**(5,514)**	**(197,211)**
Net book value							
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**
Balance as at 31 December 2019	**6,904**	**135,978**	**12,795**	**16,650**	**2,664**	**28,031**	**203,022**

Right-of-use assets mainly relate to land, buildings and facilities.

Capitalised borrowing costs

Capitalised borrowing costs for the year ended 31 December 2019 amounted to RUB 1,998 million (for the year ended 31 December 2018: RUB 1,703 million) with the capitalisation rate 7.9% (for the year ended 31 December 2018: 7.0%). 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 2019 the Group determined the recoverable amount of its property, plant and equipment, construction in progress and right-of0use assets. As a result of valuation the impairment loss in the amount of RUB 13,777 million was accrued and the impairment loss in the amount of RUB 9,390 million for previously impaired items was reversed. The result of the Group's impairment test of property, plant and equipment, construction in progress and right-of-use assets is impairment loss in the amount of RUB 4,387 million.

The following assumptions were used in determining the recoverable amount of property, plant and equipment as at 31 December 2019:

- cash flows are projected based on the actual experience and operational results for the previous years, and the Groups business plan for 2020;
- for the purposes of the analysis 69 CGU have been considered as at 31 December 2019 (as at 31 December 2018: 71 CGU): these CGU were allocated at the level of each production chain from the source to the customer;
- discount rate reflects all relevant risks. As at 31 December 2019 the discount rate amounted to 10.47% (as at 31 December 2018: 11.02%).

With the increase/decrease in the discount rate of 0.5% the amount of impairment loss as at 31 December 2019 would increase/decrease by RUB 3,931 million.

(in millions of Russian Rubles)

For the year ended 31 December 2019:

- reversed impairment loss for non-functional capital investments amounted to RUB 3 million;
- disposed impairment loss for non-functional capita l investments amounted to RUB 52 million due to disposal non-functional capital investments.

8 Assets classified as held for sale

As at 31 December 2019 the Group was in the process of disposing of non-core assets in the amount of RUB 214 million (as at 31 December 2018: RUB 159 million). The Group plans to sell these assets during 2020.

9 Intangible assets

	Software	Other	Total
Book value			
Balance as at 31 December 2017	**8,204**	**-**	**8,204**
Acquisitions	685	24	709
Disposals	(627)	-	(627)
Balance as at 31 December 2018	**8,262**	**24**	**8,286**
Acquisitions	1,052	12	1,064
Disposals	(3,944)	-	(3,944)
Balance as at 31 December 2019	**5,370**	**36**	**5,406**
Accumulated amortisation			
Balance as at 31 December 2017	(5,641)	**-**	**(5,641)**
Amortisation for the period	(1,509)	(4)	(1,513)
Disposals	627	-	627
Balance as at 31 December 2018	**(6,523)**	**(4)**	**(6,527)**
Amortisation for the period	(805)	(6)	(811)
Disposals	3,944	-	3,944
Balance as at 31 December 2019	**(3,384)**	**(10)**	**(3,394)**
Net book value			
Balance as at 31 December 2017	**2,563**	**-**	**2,563**
Balance as at 31 December 2018	**1,739**	**20**	**1,759**
Balance as at 31 December 2019	**1,986**	**26**	**2,012**

10 Inventories

	31 December 2019	31 December 2018
Materials	449	383
Spare parts	241	247
Other inventories	315	310
Total	**1,005**	**940**

Allowance for impairment of inventories amounted to RUB 226 million as at 31 December 2019 (as at 31 December 2018: RUB 267 million).

The Group's inventories are not pledged as collateral as at 31 December 2019 and 31 December 2018.

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.

(in millions of Russian Rubles)

	% share		Carrying value	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Mutual Investment Fund Perlovsky	55.78%	55.78%	864	741
Total			**864**	**741**

Increase in fair value of financial assets measured through profit or loss for the year ended 31 December 2019 amounted to RUB 123 million due to increase of Mutual Investment Fund Perlovsky net assets and was recognised in profit or loss (for the year ended 31 December 2018: loss in the amount of RUB 28 million).

As at 31 December 2019 short-term financial assets include a loan with a variable interest rate issued to PJSC Gazprom in the amount of RUB 5,150 million, organized as part intra-group financing (cash pooling) of PJSC Gazprom (as at 31 December 2019: RUB nil million).

12 Accounts receivable and prepayments

	31 December 2019	**31 December 2018**
Financial assets		
Trade receivables	42,609	49,692
Other receivables	1,083	1,014
Allowance for expected credit losses of trade receivables	(14,914)	(17,066)
Allowance for expected credit losses of other receivables	(174)	(38)
Total financial assets	**28,604**	**33,602**
Non-financial assets		
Other non-financial receivables	18,593	12,189
VAT recoverable	111	399
Prepaid taxes, other than income tax	89	113
Advances to suppliers and prepaid expenses	82	143
Allowance for impairment of other non-financial receivables	(502)	(293)
Allowance for impairment of advances to suppliers and prepaid expenses	(8)	(12)
Total non-financial assets	**18,365**	**12,539**
Non-current assets	6,804	2,584
Current assets	40,165	43,557
Total trade and other receivables	**46,969**	**46,141**

Long-term accounts receivable as at 31 December 2019 include advances to suppliers in the amount of RUB 29 million (as at 31 December 2018: RUB 29 million), trade receivables in the amount of RUB 77 million (as at 31 December 2018: RUB 52 million) and other non-financial receivables in the amount of RUB 6,698 million (as at 31 December 2018: RUB 2,503 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 2019		**31 December 2018**	
	Subsidies receivable	**Advances received on subsidies**	**Subsidies receivable**	**Advances received on subsidies**
Subsidies from the State Center of Household Subsidies	622	-	-	-
Subsidies from the Moscow Government	68	23	263	30
Total	**690**	**23**	**263**	**30**

14 Cash and cash equivalents

	31 December 2019	**31 December 2018**
Bank balances	679	1,446
Deposits with maturity of less than three months	243	3,404
Total	**922**	**4,850**

(in millions of Russian Rubles)

As at 31 December 2019 restricted cash includes the minimum balance on settlement accounts in the amount of RUB 413 million (as at 31 December 2018: RUB 702 million). As at 31 December 2019 there arrested cash amounted to RUB 2 million (as at 31 December 2018: RUB 1 million).

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

	31 December 2019		31 December 2018	
	Currency	**Balances**	**Currency**	**Balances**
PJSC Sberbank of Russia	Russian Ruble	190	Russian Ruble	-
Gazprombank (Joint-stock Company)	Russian Ruble	41	Russian Ruble	28
PJSC Bank VTB	Russian Ruble	12	Russian Ruble	46
JSC BANK ROSSYIA	Russian Ruble	-	Russian Ruble	3,330
Total		**243**		**3,404**

15 Equity and reserves

Share capital and share premium

On 25 April 2019 LLC Gazprom energoholding transferred to PJSC MIPC property in the total amount of RUB 1,259 million as a contribution to the share capital. After the state registration of the transferred property in October 2019, the share capital of PJSC MIPC was increased by placing 6,810,811 additional ordinary shares with a nominal value of 100 rubles per a share for a total amount of RUB 681 million, share premium amounted to RUB 578 million. As at 31 December 2019 the share capital of Group consists of 256,271,317 ordinary shares with a total cost of RUB 25,628 million (as at 31 December 2018: 249,460,465 shares with a total cost of RUB 24,947 million).

Treasury shares

On 23 January 2019 the Group repurchased its own shares from shareholders who claimed for redemption in connection with the reorganisation of PJSC MIPC in the form of merger with its subsidiary LLC TSK Novaya Moskva. The total amount of redeemed ordinary shares is 38,054 with the total value of RUB 7 million.

As at 31 December 2019 treasury shares comprised 23,298,456 ordinary shares with total value of RUB 16,971 million (as at 31 December 2018: 23,260,402 ordinary shares with total value of RUB 16,964 million).

Non-controlling interest

As at 1 January 2019 the opening balance of the non-controlling interest was adjusted for the amount of the impairment loss on right-of-use assets in accordance with the initial application of the new standard IFRS 16 Leases for the amount of RUB 235 million (Note 3.19).

For the year ended 31 December 2019 profit of LLC TSK Mosenergo amounted to RUB 833 million, from which RUB 208 million was allocated to a non-controlling interest in accordance with the percentage of ownership.

In February 2019 the share capital of LLC TSK Mosenergo was increased by means of contribution of property owned by PJSC Mosenergo.

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.

(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 2019	31 December 2018
Short-term borrowings with fixed interest rate				
Short-term part of long-term bonds				
Bonds series 001P-01	8.65	2019	140	-
Bonds series 001P-02	8.45	2019	80	-
Bonds series 001P-03	6.80	2019	43	-
Borrowings				
PJSC Sberbank	7.30-8.65	2019	-	16,574
Short-term part of long-term borrowings				
PJSC Bank VTB	7.90	2020	-	3
Short-term borrowings with variable interest rate				
Borrowings				
PJSC Bank VTB	7,98	2020	10,000	-
PJSC Sberbank	7,74	2020	1,175	-
Short-term part of long-term borrowings				
PJSC Mosenergo	7,42	2019	7	-
Borrowing				
PJSC Mosenergo	6,30-7,70	2019	-	404
Total short-term borrowings			**11,445**	**16,981**
Long-term borrowings with fixed interest rate				
Long-term bonds				
Bonds series 001P-01	8,65	2025	4,993	-
Bonds series 001P-02	8,45	2025	4,988	-
Bonds series 001P-03	6,80	2025	4,988	-
Borrowings				
PJSC Bank VTB	7,90	2020	-	7,600
Long-term borrowings with variable interest rate				
Borrowings				
PJSC Mosenergo	7,95-8,25	2020-2023	1,275	1,330
Total long-term borrowings			**16,244**	**8,930**
Total			**27,689**	**25,911**

All borrowings are denominated in RUB. There is no pledge of property rights under borrowings agreements as at 31 December 2019 (as at 31 December 2018: RUB 682 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 5,000 million under the program of exchanged bonds 4-55039-E-001P-02E from 18 October 2018. The annual interest rate is 8.65%. The maturity period of the bonds is 6 years, the holders can exercise the right of early redemption after 3 years from the placement date at par value plus accrued interest.

On 24 April 2019 PJSC MIPC placed on the Moscow Exchange the issue of exchange bonds of the 001P-02 series with a nominal value of RUB 5,000 million under the program of exchanged bonds 4-55039-E-001P-02E from 18 October 2018. The annual interest rate is 8.45%. The maturity period of the bonds is 6 years, the holders can exercise the right of early redemption after 2 years from the placement date at par value plus accrued interest.

On 15 November 2019 PJSC MIPC placed on the Moscow Exchange the issue of exchange bonds of the 001P-03 series with a nominal value of RUB 5,000 million under the program of exchanged bonds 4-55039-E-001P-02E from 18 October 2018. The annual interest rate is 6.8%. The maturity period of the bonds is 6 years, the holders can exercise the right of early redemption after 2 years from the placement date at par value plus accrued interest.

17 Provision for 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 2019 amounted to RUB 218 million (as at 31 December 2018: RUB 215 million).

(in millions of Russian Rubles)

18 Accounts payable and liabilities

	31 December 2019	31 December 2018
Financial liabilities		
Trade payables	27,058	29,066
Payables for the acquisition and construction of property, plant and equipment	10,164	14,040
Lease liabilities	8,565	-
Other payables	21	46
Total financial liabilities	**45,808**	**43,152**
Non-financial liabilities		
Advances received from customers	33,130	26,457
Taxes payable	973	1,111
Other payables and provisions	1,831	1,696
Total non-financial liabilities	**35,934**	**29,264**
Short-term liabilities	68,043	67,498
Long-term liabilities	13,699	4,918
Total trade and other payables	**81,742**	**72,416**

Other payables of the Group include the amount of provision for litigation claims. For the year ended 31 December 2019 and for the year ended 31 December 2018 the movement of provision for litigation claims was the following:

	2019	2018
Balance as at 1 January	**329**	**171**
Accrual	244	287
Utilisation	(184)	(31)
Reversal	(214)	(98)
Balance as at 31 December	**175**	**329**

Taxes payable are represented by the following items:

	31 December 2019	31 December 2018
Property tax	493	413
Social contributions	289	379
VAT payable	60	196
Other taxes payable	131	123
Total	**973**	**1,111**

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

19 Revenue

	For the year ended 31 December 2019	For the year ended 31 December 2018
Revenue from heat energy sales	108,281	114,615
Revenue from hot water supply services	34,311	34,024
Revenue from connection services to heat and hot water supply system	9,829	9,435
Revenue from transfer of water	2,140	2,073
Revenue from heat energy transmission services	514	724
Other revenue	4,303	1,970
Total	**159,378**	**162,841**

For the year ended 31 December 2019 and 31 December 2018, advances received from customers as at the beginning of the relevant period were recognised as revenue in the amount of RUB 8,805 million and RUB 8,508 million, respectively.

Revenue from services rendered to PJSC Mosenergo, the subsidiary of PJSC Gazprom, for the year ended 31 December 2019 in the amount of RUB 565 million was settled by offset of mutual claims (for the year ended 31 December 2018: RUB 832 million).

(in millions of Russian Rubles)

20 Operating expenses

	For the year ended 31 December 2019	For the year ended 31 December 2018
Purchased heat energy	75,446	78,880
Staff costs	16,938	17,069
Amortisation and depreciation	16,174	14,661
Water expenses	8,303	8,123
Fuel expenses	6,881	7,602
Purchased electricity	5,815	5,672
Repair and maintenance	4,838	4,586
Impairment loss/(reversal of impairment loss) on non-financial assets	4,611	(90)
Measurement units maintenance expenses	2,955	2,903
Production services	2,628	2,802
Taxes other than income tax	2,627	2,109
Material expenses	2,167	1,265
Software services	1,070	1,091
Security services	830	658
Bank services	399	361
Utilities expenses	387	338
Professional and consulting services	386	347
Loss on disposal of a subsidiary	365	-
Rent	173	2,215
Communication services	132	121
Occupational safety and health expenses	59	181
Change in the provision for litigation claims	30	189
Gain on disposal of property, plant and equipment and other assets	(7,476)	(4,957)
Other expenses/(income)	371	(1,396)
Total	**146,109**	**144,730**

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

	For the year ended 31 December 2019	For the year ended 31 December 2018
Impairment loss/(reversal of impairment loss) on property, plant and equipment	4,387	(392)
Impairment loss on non-financial receivables	234	172
Impairment loss on assets classified as held for sale	21	90
(Reversal of impairment loss)/impairment loss on inventories	(31)	40
Total	**4,611**	**(90)**

21 Staff costs

	For the year ended 31 December 2019	For the year ended 31 December 2018
Wages and bonuses	11,283	11,772
Social contributions for wages and bonuses	3,335	3,363
Liabilities for unused vacation and rewards	1,234	1,024
Social contributions for unused vacation and rewards	354	283
Other personnel expenses	732	627
Total	**16,938**	**17,069**

For the year ended 31 December 2019 total pension contributions amounted to RUB 2,728 million (for the year ended 31 December 2018: RUB 2,789 million).

(in millions of Russian Rubles)

22 Finance income and expenses

	For the year ended 31 December 2019	For the year ended 31 December 2018
Finance income		
Interest income	303	301
Income from changes of fair value of financial assets	123	-
Dividend income	84	72
Interest income on lease agreements	13	14
Other finance income	-	231
Total	**523**	**618**
Finance expenses		
Interest expense	(2,191)	(1,758)
Interest expense on lease agreements	(902)	-
Interest expense on long-term accounts payable	(887)	(272)
Loss from changes of fair value of financial assets	-	(28)
Other finance expenses	(20)	-
Total	**(4,000)**	**(2,058)**
Incl. capitalised interest expenses on borrowings relating to qualifying assets	1,998	1,703
Net finance (expense)/income recognised in profit or loss	**(1,479)**	**263**

Total amount of interest paid for the year ended 31 December 2019 and for the year ended 31 December 2018 was RUB 2,787 million and RUB 1,710 million, respectively.

23 Income tax

	For the year ended 31 December 2019	For the year ended 31 December 2018
Current income tax expense		
Current period	(1,039)	(970)
Over-accrued in prior periods	(11)	1
Origination and reversal of temporary differences	(551)	(2,002)
Total	**(1,601)**	**(2,971)**

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 2019	For the year ended 31 December 2018
Profit before tax	**12,749**	**12,181**
Income tax at applicable tax rate of 20%	(2,550)	(2,436)
Non-deductible/non-taxable differences	960	(536)
Over-accrued in prior periods	(11)	1
Total income tax	**(1,601)**	**(2,971)**
Profit for the reporting period	**11,148**	**9,210**

(in millions of Russian Rubles)

Deferred tax

Tax effect of temporary differences for the year ended 31 December 2019 is presented in the table below:

	1 January 2019	Recognised in profit or loss	Effect of the initial application of IFRS 16	Acquired	31 December 2019
Property, plant and equipment	(9,665)	607	(1,705)	(1)	(10,764)
Intangible assets	16	(7)	-	-	9
Financial investments	4	16	-	-	20
Inventory	(93)	(19)	-	-	(112)
Trade and other receivables	123	(271)	-	-	(148)
Borrowings	-	(6)	-	-	(6)
Accounts payable and liabilities	356	(333)	1,977	-	2,000
Other items	181	66	-	1	248
Tax loss carried forward	2,276	(604)	-	8	1,680
Total	**(6,802)**	**(551)**	**272**	**8**	**(7,073)**

Tax effect of temporary differences for the year ended 31 December 2018 is presented in the table below:

	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 and liabilities	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)**

Tax effect of temporary differences resulted is accounted with the application of 20% rate, settled by the legislation of the Russian Federation

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 2019	31 December 2018
Deferred tax assets	1,620	2,097
Deferred tax liabilities	(8,693)	(8,899)
Deferred tax liabilities, net	**(7,073)**	**(6,802)**

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 2019	For the year ended 31 December 2018
Outstanding shares (weighted average number)	250,617,377	248,176,279
Treasury shares (weighted average number)	(23,296,162)	(23,260,402)
Weighted average number of outstanding shares	**227,321,215**	**224,915,877**

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

	For the year ended 31 December 2019	For the year ended 31 December 2018
Weighted average number of outstanding shares	227,321,215	224,915,877
Profit attributable to the shareholders of PJSC MIPC for the period	10,940	9,842
Earnings per share (basic and diluted) (in Russian Rubles) attributable to the shareholders of PJSC MIPC	**48.1**	**43.8**

There are no instruments with dilutive effect as at 31 December 2019 and 31 December 2018.

(in millions of Russian Rubles)

25 Financial instruments

(a) Borrowing covenants

The Group must comply with certain covenants related to borrowings. As at 31 December 2019 and 31 December 2018 the Group was in compliance with these covenants.

(b) Classification and fair value

As at 31 December 2019 and 31 December 2018 the following assets and liabilities measured at fair value were recognised in the Group's consolidated balance sheet:

		Fair value			
	Carrying amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Balance as at 31 December 2019					
Financial assets measured at fair value through profit or loss	864	-	-	864	**864**
Balance as at 31 December 2018					
Financial assets measured at fair value through profit or loss	741	-	-	741	**741**

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 2019 and 31 December 2018 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 and is not disclosed.

(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 2019**	**31 December 2018**
Accounts receivable and prepayments	12	28,604	33,602
Short-term financial assets	11	5,150	353
Cash and cash equivalents	14	922	4,850
Long-term financial assets	11	864	741
Subsidies receivable	13	690	263
Total		**36,230**	**39,809**

(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 2019	**31 December 2018**
Revenue from heat energy sales, hot water supply and transmission services	25,143	30,804
Other revenue	2,552	1,822
Total	**27,695**	**32,626**

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

Each of the Group's customers contributes less than 3% 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 PIK-Komfort, GBU Gilichnik Krykovo and DMUP EKPO, accounts receivable attributable to these customers as at 31 December 2019 amounted to RUB 614 million, RUB 581 million, RUB 534 million respectively (as at 31 December 2018: RUB 466 million, RUB 163 million, RUB 466 million respectively).

(in millions of Russian Rubles)

As at 31 December 2019 and 31 December 2018, the aging of accounts receivable was as follows:

	31 December 2019		**31 December 2018**	
	Gross book value	**Impairment**	**Gross book value**	**Impairment**
Not overdue	10,870	(351)	16,692	(1,301)
0-181 days overdue	8,723	(905)	9,218	(2,056)
181-365 days overdue	5,350	(1,690)	8,143	(2,781)
Overdue for more than 2 years	18,749	(12,142)	16,653	(10,966)
	43,692	**(15,088)**	**50,706**	**(17,104)**

The movement in the expected credit loss allowance for accounts receivable and financial assets and the impairment allowance for non-financial accounts receivable for the year ended 31 December 2019 and for the year ended 31 December 2018 was as follows:

	2019	**2018**
Balance as at 1 January	**17,419**	**9,399**
Effect of the initial application of IFRS 9	-	2,238
Adjusted balance as at 1 January	**17,419**	**11,637**
Accrual	4,728	11,420
Write-off of receivables against previously accrued allowance	(709)	(612)
(Disposa)l/addition upon acquisition of entity under common control	(10)	29
Reversal	(5,452)	(5,055)
Balance as at 31 December	**15,976**	**17,419**

As at 31 December 2019 the impairment allowance for advances for capital construction was accrued in the amount of RUB 33 million (as at 31 December 2018: RUB 22 million), the impairment allowance for other non-financial receivables amounted to RUB 502 million (as of 31 December 2018: RUB 293 million), the allowance for expected credit losses for loans issued amounted to RUB 353 million (as at 31 December 2018: no). 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 2019**	**31 December 2018**
ruAA stable	326	3,571
ruAAA stable	197	978
ruA- positive	159	-
ruAA+ stable	55	50
No credit rating	185	251
	922	**4,850**

(c) Liquidity risk

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

(in millions of Russian Rubles)

As at 31 December 2019:

	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	over 5 years
Non-derivative financial liabilities							
Unsecured borrowings	27,689	34,858	2,371	10,742	1,277	5,021	15,447
Accounts payable and liabilities	45,808	59,194	37,042	2,092	4,896	4,638	10,526
Total	**73,497**	**94,052**	**39,413**	**12,834**	**6,173**	**9,659**	**25,973**

As at 31 December 2018:

	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-3 years	over 5 years
Non-derivative financial liabilities							
Unsecured borrowings	25,911	27,703	12,390	5,909	7,827	1,577	-
Accounts payable and liabilities	43,152	44,060	41,485	984	664	927	-
Total	**69,063**	**71,763**	**53,875**	**6,893**	**8,491**	**2,504**	**-**

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) Reconciliation of movements for finance liabilities

Reconciliation of movements for liabilities arising from financing activities of the Group for the year ended 31 December 2019 and 31 December 2018 is presented in the table below:

	Liabilities arising from financing activities		
Index	**Borrowings**	**Lease liabilities**	**Total**
Liabilities arising from financing activities as at 1 January 2018	**24,830**	**-**	**24,830**
Cash flows from financing activities			
Proceeds from borrowings	25,445	-	25,445
Repayment of borrowings	(24,390)	-	(24,390)
Total cash flows from financing activities	**1,055**	**-**	**1,055**
Cash flows from other activities			
Interest paid and capitalized	(1,679)	-	(1,679)
Interest paid	(31)	-	(31)
Total cash flows from other activities	**(1,710)**	**-**	**(1,710)**
Other changes			
Interest expense accrual	1,758	-	1,758
Non-cash liabilities set-off	(22)	-	(22)
Total other changes	**1,736**	**-**	**1,736**
Liabilities arising from financing activities as at 31 December 2018	**25,911**	**-**	**25,911**

(in millions of Russian Rubles)

	Liabilities arising from financing activities		
Index	**Borrowings**	**Lease liabilities**	**Total**
Liabilities arising from financing activities as at 1 January 2018	**25,911**	**-**	**25,911**
Cash flows from financing activities			
Proceeds from borrowings	26,459	-	26,459
Repayment of borrowings	(24,601)	-	(24,601)
Repayment of lease liabilities	-	(1,119)	(1,119)
Total cash flows from financing activities	**1,858**	**(1,119)**	**739**
Cash flows from other activities			
Interest paid and capitalised	(1,743)	-	(1,743)
Interest paid	(201)	(843)	(1,044)
Total cash flows from other activities	**(1,944)**	**(843)**	**(2,787)**
Other changes			
Effect of modification of lease agreement / changes of estimates	-	9,148	9,148
New lease agreements	-	477	477
Acquisition of subsidiary	1,252	-	1,252
Disposal of subsidiary	(1,566)	-	(1,566)
Interest expense accrual	2,192	902	3,094
Non-cash liabilities set-off	(14)	-	(14)
Total other changes	**1,864**	**10,527**	**12,391**
Liabilities arising from financing activities as at 31 December 2019	**27,689**	**8,565**	**36,254**

26 Capital commitments

As at 31 December 2019 the Group was involved in a number of contingent contracts for construction and purchase of property, plant and equipment amounting to RUB 47,134 million, including VAT (as at 31 December 2018: RUB 44,513 million, including VAT), including:

- RUB 4,487 million for upgrading the Group’s technological equipment (as at 31 December 2018: RUB 10,825 million);
- RUB 42,647 million for new construction and purchase of equipment (as at 31 December 2018: RUB 33,688 million).

27 Acquisition of subsidiaries

As of 1 July 2019 as a result of presenting its share for repayment by the second participant, the Group gained control over LLC TSK Metrologiya (previously 99% of the share belonged to LLC TEK-Inform, a subsidiary of LLC Gazprom energoholding).

(in millions of Russian Rubles)

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

	Carrying amount at acquisition date
Assets	
Non-current assets	
Property, plant and equipment	5
Intangible assets	1
Deferred tax assets	9
Other non-current assets	3
Total non-current assets	**18**
Current assets	
Inventories	168
Accounts receivable and prepayments	2,152
Cash and cash equivalents	45
Other current assets	2
Total current assets	**2,367**
Total assets	**2,385**
Non-current liabilities	
Borrowings	1,057
Total non-current liabilities	**1,057**
Current liabilities	
Borrowings	195
Accounts payable and liabilities	1,132
Total current liabilities	**1,327**
Total liabilities	**2,384**
Net assets at acquisition date	**1**

This transaction is classified as a business combination under common control, so the effect of joining in the amount of RUB 1 million was recognized directly in the equity.

On 26 December 2019 LLC TSK Metrologiya sold its own 99% share to LLC Gazpromenergoremont, as a result of which the Group lost control over LLC TSK Metrologiya.

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

	Carrying amount at acquisition date
Assets	
Non-current assets	
Property, plant and equipment	47
Intangible assets	1
Other non-current assets	33
Total non-current assets	**81**
Current assets	
Inventories	18
Accounts receivable and prepayments	4,421
Cash and cash equivalents	225
Total current assets	**4,664**
Total assets	**4,745**
Non-current liabilities	
Borrowings	1,524
Deferred tax liabilities	1
Total non-current liabilities	**1,525**
Current liabilities	
Borrowings	42
Accounts payable and liabilities	2,814
Total current liabilities	**2,856**
Total liabilities	**4,381**
Net assets at acquisition date	**365**

The loss on disposal in the amount of RUB 365 million was reflected in the consolidated statement of comprehensive income for the year ended 31 December 2019 (Note 20).

(in millions of Russian Rubles)

28 Segment information

Segment information for the year ended 31 December 2019 and the year ended 31 December 2018 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 2019							
Revenue		**144,883**	**10,231**	**8,466**	**163,580**	**(4,202)**	**159,378**
External revenue	19	143,106	9,829	6,443	159,378	-	159,378
Intergroup revenue		1,777	402	2,023	4,202	(4,202)	-
Financial result by segments		**689**	**9,548**	**(2,655)**	**7,582**	**-**	**7,582**
Amortisation and depreciation	20	(15,913)	(19)	(243)	(16,174)	-	(16,174)
Reversal of impairment loss/(impairment loss) on accounts receivable		800	398	(473)	725	-	725
For the year ended 31 December 2018							
Revenue		**151,752**	**9,836**	**5,421**	**167,009**	**(4,168)**	**162,841**
External revenue	19	149,363	9,435	4,043	162,841	-	162,841
Intergroup revenue		2,389	401	1,378	4,168	(4,168)	-
Financial result by segments		**4,511**	**8,307**	**(5,885)**	**6,933**	**-**	**6,933**
Amortisation and depreciation	20	(13,999)	(34)	(628)	(14,661)	-	(14,661)
Impairment loss on accounts receivable		(5,619)	(436)	(310)	(6,365)	-	(6,365)

Revenue of “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.

In the current period, the principles for the valuation of financial results by segment were revised compared to the consolidated financial statements for the year ended 31 December 2018 by excluding profit or loss from the compensation of losses in the liquidation of property from the valuation.

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

	Note	For the year ended 31 December 2019	For the year ended 31 December 2018
Financial result for reportable segments		10,273	12,817
Financial result for other segments		(2,655)	(5,884)
Financial result by segments		**7,582**	**6,933**
Net finance (expense)/income	20	(1,479)	263
Loss on disposal of a subsidiary	22	(365)	-
Compensation of losses from liquidation of property		7,011	4,985
Profit before tax		**12,749**	**12,181**

29 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 interpretations, 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 2019 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.

30 Subsequent events

On 23 January 2020 the Group concluded a loan agreement with PJSC Mosenergo for a total amount of RUB 15,000 million for five years term.

On 28 January 2020 the Group concluded a loan agreement with PJSC Gazprom for a total amount of RUB 20,000 million within framework of the cash pooling agreement.

On 5 February 2020 the EGRUL recorded the beginning of the liquidation procedure of LLC TSK MIPC.

On 10 March 2020 the Group concluded a loan agreement with Gazprombank (Joint-stock Company) for a total amount of RUB 15,000 million for five years term.