Consolidated financial statements and independent auditor's report

CCS-Group

31 December 2016

Contents

BAKER TILLY
RUSSIA

Baker Tilly Rus AO
32 A Khoroshevskoye Shosse,
123007 Moscow
Russia

T: +7 495 258 99 90
F: +7 495 580 91 96

info@bakertilly.ru
www.bakertilly.ru

AUDITOR'S REPORT

To the Shareholders and Board of directors of PJSC "CCS-Group"

Details of auditor

Name: Baker Tilly Rus JSC

State Registration number: 1027700115409

Address: Russia, 123007, Moscow, Khoroshevskoye Shosse 32A

Baker Tilly Rus JSC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Baker Tilly Rus JSC is included in the control copy of the register of auditors and audit organizations, main registration number 11603076265.

Details of the audited entity

"CCS-Group" PJSC

300028, Russian Federation, Tula, Boldina str., 106

State Registration number: 1097154022547

BAKER TILLY RUSSIA

Baker Tilly Rus AO
32 A Khoroshevskoye Shosse,
123007 Moscow
Russia

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AUDITOR'S REPORT

To Shareholders and Board of directors of PJSC "CCS-Group"

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of "CCS-Group" PJSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

.

Key Audit matters

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

Allowance for doubtful accounts receivable

The Group focused on this matter due to significant overdue balances of accounts receivable as at 31 December 2016 and importance of professional judgments and estimates used for calculation of allowance. Allowance represents the best management's estimation with regards to losses, incurred for accounts receivable as at the reporting date. More detailed information is disclosed in Note 9 "Trade and other receivables" to the consolidated financial statements.

We reviewed main assumptions used by management for calculation of allowance to assure their compliance with IFRS.

We tested accounts receivable, assessed by management as not overdue, on a sample basis and formed our judgment with regards of these receivables being classified correctly.

We tested accounts receivable, which are individually impaired, on a sample basis. We tested whether impairment of receivables was detected in a timely manner and, when possible, reconciled information to external sources.

We tested approach for collective allowances on a sample basis. Our procedures comprised comparison of assumptions used with our own knowledge and experience, and other analytical and substantive procedures.

Covenants compliance analysis

The Group has significant amount of outstanding loans and borrowings at year end for financing it's operational activities. Amount of loans outstanding is RUB 587 309 thousand as at 31 December 2016. Terms and conditions of loan agreements contain several financial and non-financial covenants. More detailed information is disclosed in the Notes 14 "Loans and borrowings" and 27 "Capital risk management" to the consolidated financial statements.

We conducted the following procedures with respect to compliance with terms and conditions of loan agreements:

- calculated financial covenants;

- reviewed compliance with non-financial covenants.

Other information

Supplementary information provided in Appendix A to the consolidated financial statements is presented by management to provide additional analysis and is not required by IFRS. Management is responsible for this supplementary information. During our audit of the consolidated financial statements we did not perform any audit procedures with respect to this supplementary information, therefore we do not express an opinion on this supplementary information.

Responsibilities of Management and the Board of Directors for the consolidated financial statements

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

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

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

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

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

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

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.

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

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

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

The engagement partner on the audit resulting in this auditor's report is Alexander Malkov

Moscow, Russian Federation

21 April 2017

Consolidated Statement of Financial Position

	Notes	31 December 2016 RUB'000	31 December 2015 RUB'000
ASSETS			
Non-current			
Property, plant and equipment	5	1 281 284	594 573
Intangible assets and goodwill	6	12 677	13 008
Long-term investments	7	14 492	13 689
Deferred tax assets	15	39 771	21 053
		1 348 224	**642 323**
Current			
Inventories	8	51 750	52 719
Trade and other receivables	9	525 655	476 289
Subsidies receivable	10	46 283	48 777
Other assets	11	70 501	49 799
Cash and cash equivalents	12	376 896	396 151
		1 071 085	**1023 735**
Total Assets		**2 419 309**	**1666 058**
Equity			
Share capital	13	23 714	23 714
Treasury shares	13	(2 592)	(2 592)
Share premium	13	333 846	333 846
Revaluation reserve		643 584	299 866
Retained earnings		149 925	143 211
Total Equity		**1 148 477**	**798 045**
LIABILITIES			
Non-current			
Loans and borrowings	14	575 388	243 348
Deferred tax liabilities	15	185 329	102 269
		760 717	**345 617**
Current			
Loans and borrowings	14	11 921	76 852
Trade and other payables	16	416 727	380 643
Other liabilities	17	81 467	64 901
		510 115	**522 396**
Total Liabilities		**1 270 832**	**868 013**
Total Equity and Liabilities		**2 419 309**	**1 666 058**

The consolidated financial statements were approved by the Management and signed on 21 April 2017.

General Director
CCS-Group

Finance Director
CCS-Group

Consolidated Statement of Comprehensive Income

	Notes	**2016 RUB'000**	**2015 RUB'000**
Sales revenue	18	2 521 366	2 209 416
Government subsidies	18	134 116	123 308
Cost of sales	19	(2 204 775)	(2 034 960)
Gross profit		**450 707**	**297 764**
Selling and marketing expenses	20	(5 692)	(7 416)
Administrative expenses	21	(185 022)	(170 835)
Wages and salaries under option scheme	13	(5 251)	(3 945)
Other operating expenses, net	22	(14 108)	(25 525)
Operating profit		**240 634**	**90 043**
Net finance income / (costs)	23	(94 244)	44 538
Other expenses, net	24	(115 506)	(62 286)
Impairment loss	7	-	(6 045)
Profit before income tax		**30 884**	**66 250**
Income tax expense	15,25	(29 421)	(54 683)
Profit for the period		**1 463**	**11 567**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Changes in asset revaluation reserve		343 718	-
Deferred tax write-off due to disposal of revalued assets		-	(117)
Other comprehensive income for the period, net of tax		**343 718**	**(117)**
Total comprehensive income for the period		**345 181**	**11 450**

Consolidated Statement of Cash Flows

	Notes	2016 RUB'000	2015 RUB'000
Cash flows from operating activities			
Profit for the period before taxation		**30 884**	**66 250**
Adjustments for:			
Depreciation and amortization	19,21	82 677	96 261
Net foreign exchange (gain) / loss	23	51 472	(54 422)
Impairment of doubtful trade and other receivables and prepayments	24	99 274	47 576
Impairment losses		-	6 045
Share-based payment reserve	13	5 251	3 945
Interest income	23	(11 208)	(36 747)
Interest expense	23	52 090	45 740
Loss from disposal of property, plant and equipment		(828)	(532)
VAT non-deductible	22	1 900	15 416
Provision for unused vacation		1 044	498
		312 556	**190 030**
Adjustments for:			
Change in inventories in course of operational activities		970	(12 442)
Change in trade and other receivables in course of operational activities		(171 632)	(126 232)
Change in subsidies receivable		2 494	(23 158)
Change in trade and other payables in course of operational activities		51 605	(6 502)
Interest paid		(50 784)	(42 347)
Interest received		11 208	36 747
Income taxes paid		(50 617)	(65 818)
Net cash used in operating activities		**105 800**	**(49 722)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(338 584)	(117 076)
Purchase of investments		(803)	(161)
Net cash used in investing activities		**(339 387)**	**(117 237)**
Cash flows from financing activities			
Proceeds from loans and borrowings		285 000	152 400
Repayment of loans and borrowings		(19 196)	(228 444)
Purchase of treasury shares		-	-
Net cash used in financing activities		**265 804**	**(76 044)**
Effect of exchange rate changes on cash and cash equivalents		**(51 472)**	**54 422**
Net change in cash and cash equivalents		**(19 255)**	**(188 581)**
Cash and cash equivalents at beginning of the period	12	396 151	584 732
Cash and cash equivalents at end of the period	**12**	**376 896**	**396 151**

Consolidated Statement of Changes in Equity

	Share capital RUB'000	Treasury shares RUB'000	Share premium RUB'000	Asset revaluation reserve RUB'000	Retained earnings RUB'000	**Total RUB'000**
Balance at 1 January 2015	**25 109**	**(46 145)**	**333 846**	**299 398**	**170 442**	**782 650**
Cancellation of treasure shares	(1 395)	43 553	-	-	(42 158)	-
Share-based compensation (refer to Note 14 "Share capital")	-	-	-	-	3 945	3 945
Total transactions with shareholders	(1 395)	43 553	-	-	(38 213)	3 945
Profit/loss for the period	-	-	-	-	11 567	11 567
Other comprehensive income / (loss)						
Asset revaluation reserve	-	-	-	468	(468)	-
Deferred tax write-off due to revalued assets disposal	-	-	-	-	(117)	(117)
Total comprehensive income / (loss) for the period	**-**	**-**	**-**	**468**	**10 982**	**11 450**
Balance at 31 December 2015	**23 714**	**(2 592)**	**333 846**	**299 866**	**143 211**	**798 045**
Balance at 1 January 2016	**23 714**	**(2 592)**	**333 846**	**299 866**	**143 211**	**798 045**
Share-based compensation (refer to Note 14 "Share capital")	-	-	-	-	5 251	5 251
Total transactions with shareholders	**-**	**-**	**-**	**-**	**5 251**	**5 251**
Profit/loss for the period	-	-	-	-	1 463	1 463
Other comprehensive income / (loss)						
Asset revaluation reserve recognised during revaluation of property, plant and equipment (net of deferred taxes)	-	-	-	343 718	-	343 718
Total comprehensive income / (loss) for the period	**-**	**-**	**-**	**343 718**	**1 463**	**345 181**
Balance at 31 December 2016	**23 714**	**(2 592)**	**333 846**	**643 584**	**149 925**	**1 148 477**

1. Background

1.1 Principal activities

The primary activities of PJSC "CCS-Group" ("the Company") and its subsidiaries (together referred to as "the Group") are production and distribution of heat energy to population and commercial customers as well as providing other communal services. In 2014 the Group started production and distribution of electricity as a result of acquisition of Klintsovskaya TEC in 4th quarter 2014. The production and distribution facilities of the Group for production and distribution are located mostly in Tula, Bryansk and Kemerovo regions of Russia.

The Group's total headcount as at 31 December 2016 was 1,423 (31 December 2015: 1,421).

PJSC "CCS-Group" permanently domiciled in Russian Federation since 1 October 2009. The Company's registered office is located at 106, Boldina street, Tula, 300028, Russian Federation.

The Company is owned 19.43% by the fund Magna Carta Capital Limited, 19.09% by IFC, 19.09% by EBRD and 19.74% by the fund Specialised Power Limited. From its formation, the Group has expanded substantially through acquisition of assets and incorporation of subsidiaries. A list of subsidiaries is presented in Note 34 "Subsidiaries".

1.2 Operating environment of the Group

Business of the Group is concentrated in the Russian Federation. While the world economy recovers after crisis, Russia is exposed to difficulties related to fall of oil prices and sanctions imposed by the United States, the European Union and some other countries in connection with crisis in Ukraine.

The accompanying consolidated financial statements reflect current management's assessment of the impact of the current business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted and published by the International Accounting Standards Board ("the IASB).

2.2 Basis of measurement

The consolidated financial statements are prepared on the historical or amortised cost basis except that property, plant and equipment are revalued periodically.

2.3 Functional and presentation currency

The presentation currency used in the preparation of these consolidated financial statements is Russian Rubles ("RUB"). Management has used the RUB to manage most financial risks and exposures and to manage performance of the Group.

The functional currencies of the Group subsidiaries are chosen to reflect the economic substance of the underlying events and circumstances relevant for the given entity. The functional currency of the Group is Russian Rouble ("RUB").

Financial information has been rounded to the nearest thousand RUB.

2.4 Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

- Trade and other receivables as described in Note 9 "Trade and other receivables";
- Impairment of other assets as described in Note 3.7 "Impairment";
- Revaluation of property, plant and equipment as described in Note 5 "Property, plant and equipment";
- Tax contingencies as described in Note 29.3 "Contingencies".

2.5 Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes the realisation of assets and the settlement of liabilities in the normal course of business.

3. Summary of significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the consolidated financial statements.

3.1 Subsidiaries

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2016. Subsidiaries are those enterprises and businesses controlled by the Group. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised gains and losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the consolidated financial statements have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Acquired subsidiaries are consolidated using the purchase method of accounting. This involves the revaluation at fair value of all identifiable assets and liabilities including contingent liabilities of the subsidiary as at the acquisition date regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their revalued amounts which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. The cost of acquisition is measured at fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange including costs directly attributable to the acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

If the cost of acquisition is less than the fair value of the identifiable net assets of the subsidiary acquired the difference is recognised directly in the consolidated statement of comprehensive income.

3.2 Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

3.3 Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, at least every five years, valuations by external independent appraisers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

3. Summary of significant accounting policies (continued)

3.3 Property, plant and equipment (continued)

A revaluation increase on an item of property, plant and equipment is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the consolidated statement of comprehensive income. A revaluation decrease on an item of property, plant and equipment is recognised in the consolidated statement of comprehensive income except to the extent that it reverses a previous revaluation increase recognised directly in equity.

Items of property, plant and equipment acquired after periodic revaluation are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of self-constructed assets includes cost of materials, direct labour and an appropriate portion of production overheads. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure is recognised in the consolidated statement of comprehensive income as an expense as incurred.

Property, plant and equipment, other than land and buildings are accounted for using historical cost model.

Depreciation is charged to the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of the individual assets. Land is not depreciated. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Buildings	15 – 100 years
Modular boiler-houses	7 – 20 years
Machinery and equipment	3 – 15 years
Vehicles	5 – 7 years
Furniture, fixture and fittings	2 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

3.4 Intangible assets

Lease rights are shown at historical cost. Lease rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of lease rights over their estimated useful lives, which is 10 years.

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 to 5 years). Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding 3 years). Costs associated with maintaining computer software are expensed as incurred.

3. Summary of significant accounting policies (continued)

3.4 Intangible assets (continued)

Amortisation is charged on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Such intangible assets are systematically tested for impairment at each reporting date. Other intangible assets are amortised from the date they are available for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains or losses arising from derecognition of an intangible asset are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

Goodwill
Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or Groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.5 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

3.6 Financial instruments

Recognition, initial measurement and derecognition
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets
For the purpose of subsequent measurement financial assets, other than those designated and effective as hedging instruments, are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss (FVTPL);
- held-to-maturity (HTM) investments;

3. Summary of significant accounting policies (continued)

3.6 Financial instruments (continued)

- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Financial assets at FVTPL
Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

HTM investments
HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Group has the intention and ability to hold them until maturity.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes in the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

AFS financial assets
AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

3. Summary of significant accounting policies (continued)

3.6 Financial instruments (continued)

AFS financial assets are measured at fair value. Gains and losses are recognized in other comprehensive income and reported within the AFS reserve within equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss.

Interest calculated using the effective interest method and dividends are recognised in profit or loss within finance income.

Reversals of impairment losses for AFS debt securities are recognised in profit or loss if the reversal can be objectively related to an event occurring after the impairment loss was recognised. For AFS equity investments impairment reversals are not recognised in profit loss and any subsequent increase in fair value is recognised in other comprehensive income.

Classification and subsequent measurement of financial liabilities
The Group's financial liabilities include borrowings, trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

3.7 Impairment

The carrying amounts of Group's financial assets carried at amortised cost/cost and non-financial assets, not including deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

Financial assets carried at amortised cost
The Group reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated. The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of loss is measured as difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivables original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

3. Summary of significant accounting policies (continued)

3.7 Impairment(continued)

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

Financial assets carried at cost
Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of loans and receivables are recognised in the consolidated statement of comprehensive income and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets
Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. 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 assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in the consolidated statement of comprehensive income and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.8 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted-average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less cost of completion and selling expenses.

3.9 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3. Summary of significant accounting policies (continued)

3.10 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.11 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in theconsolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

3.12 Equity

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

When share capital recognised as equity is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

3.13 Employee benefits

The Group provides remuneration package consisting of basic salary and bonuses. They are charged to cost of sales and operating expenses. In the normal course of business the Group contributes to the local state pension funds on behalf of its employees. The mandatory contributions to the governmental pension funds are expensed as incurred.

3. Summary of significant accounting policies (continued)

3.14 Taxation

Income tax on profit for the year comprises current and deferred tax. Income tax is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for the period using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the change in the amount of income taxes payable (recoverable) in future periods in respect of the temporary taxable (deductible) differences and carry-forward of unused tax losses. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability settled based on the tax rates that have been enacted or substantively enacted at the reporting date.

3.15 Revenue

Revenue from production and distribution of heat energy to population and commercial customers are recognised when heat are supplied to customers.

Revenue from other communal services is recognised in the consolidated statement of comprehensive income when services are rendered.

No revenue is recognised if there are significant uncertainties regarding recoverability of the consideration due and associated costs.

3.16 Government subsidies

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

3.17 Borrowing costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowing of funds. Interest expense is recognised in the consolidated statement of comprehensive income in the amount of change of the carrying amount of liability other than from cash payments or cash receipts. All interest costs incurred in connection with borrowings, which are not directly attributable to the acquisition, construction or production of qualifying assets, are expensed as incurred.

3.18 Finance income / costs

Finance income / costs comprise interest expense on borrowings, interest income on funds invested, dividend income, bank fees and foreign exchange gains and losses recognised in the consolidated statement of comprehensive income.

3. Summary of significant accounting policies (continued)

3.18 Share-based payment transactions

Share-based payment transactions of the Company
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 14.
The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.
Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

Share-based payment transactions of the acquiree in a business combination
When the share-based payment awards held by the employees of an acquiree (acquiree awards) are replaced by the Group's share-based payment awards (replacement awards), both the acquiree awards and the replacement awards are measured in accordance with IFRS 2 ("market-based measure") at the acquisition date. The portion of the replacement awards that is included in measuring the consideration transferred in a business combination equals the market-based measure of the acquiree awards multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The excess of the market-based measure of the replacement awards over the market-based measure of the acquiree awards included in measuring the consideration transferred is recognised as remuneration cost for post-combination service.

However, when the acquiree awards expire as a consequence of a business combination and the Group replaces those awards when it does not have an obligation to do so, the replacement awards are measured at their market-based measure in accordance with IFRS 2. All of the market-based measure of the replacement awards is recognised as remuneration cost for post-combination service.

At the acquisition date, when the outstanding equity-settled share-based payment transactions held by the employees of an acquiree are not exchanged by the Group for its share-based payment transactions, the acquiree share-based payment transactions are measured at their market-based measure at the acquisition date. If the share-based payment transactions have vested by the acquisition date, they are included as part of the non-controlling interest in the acquiree. However, if the share-based payment transactions have not vested by the acquisition date, the market-based measure of the unvested share-based payment transactions is allocated to the non-controlling interest in the acquiree based on the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the share-based payment transaction. The balance is recognised as remuneration cost for post-combination service

4. Application of new and revised International Financial Reporting Standards

4.1 New and revised standards that are effective for annual periods beginning on or after 1 January 2016

Following relevant revisions and amendments to existing standards were issued by the IASB, which are effective for the accounting period beginning on or after January 1, 2016 and have been adopted by the Group:

Standard number	Title	Effective date
IFRS 11	Joint Arrangements — Amendments	January 1, 2016
IAS 16	Property, Plant and Equipment — Amendments	January 1, 2016
IAS 38	Intangible Assets — Amendments	January 1, 2016
IAS 27	Consolidated and Separate Financial Statements - Amendments	January 1, 2016
IAS 1	Presentation of Financial Statements	January 1, 2016
IFRS 10	Consolidated Financial Statements - Amendments	January 1, 2016
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2016
IAS 28	Investments in Associates	January 1, 2016
	Annual Improvements 2012–2014	
IFRS 7	Financial Instruments: Disclosures — Amendments	January 1, 2016
IAS 34	Interim Financial Reporting — Amendments	January 1, 2016

The revisions and amendments have been applied in accordance with the transitional provisions and do not have a material impact on the Group's consolidated financial statements.

4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided on the next page. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

IFRS 9 "Financial Instruments" (2014)

The IASB released IFRS 9 "Financial Instruments" (2014), representing the completion of its project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

4. Application of new and revised International Financial Reporting Standards (continued)

4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 "Revenue", IAS 11 "Construction contracts", and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities

Amendments issued in April 2016 add guidance on (i) determining whether promised goods or services are distinct; (ii) principal versus agent considerations and (iii) licensing. The amendments also add two optional practical expedients and are effective 1 January 2018 with earlier application permitted.

The Group's management has not yet assessed the impact of IFRS 15 on these consolidated financial statements.

IFRS 16 "Leases"

IFRS 16 "Leases" brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 "Leases" and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 "Revenue from Contracts with Customers" has also been applied.The Group's management has not yet assessed the impact of IFRS 16 on these consolidated financial statements.

IAS 7 "Statement of Cash flows"

Amendments issued in January 2016 requiring an entity to provide disclosures of changes in liabilities arising from financing activities are effective 1 January 2017 with earlier application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

The Group's management has not yet assessed the impact of IAS 7 on these consolidated financial statements.

IAS 12 "Income Taxes"

Recognition of Deferred Tax Assets for Unrealised Losses was issued on 19 January 2016. The amendments clarify when tax asset should be recognised for unrealised losses and are effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted.

The Group's management has not yet assessed the impact of IAS 7 on these consolidated financial statements.

5. Property, plant and equipment

In thousands of RUB	Land and buildings	Machinery and equipment	Vehicles	Fixtures and fittings	Assets under construction	Prepayments for fixed assets	Total
Cost / revalued amount							
At 31 December 2015	**752 064**	**54 257**	**38 616**	**1 667**	**17 069**	**47 288**	**910 961**
Additions	193 099	39 695	2 964	148	76 311	158 483	470 700
Disposals	(44 690)	(833)	(3 581)	(27)	(86 778)	-	(135 909)
Revaluation	106 358	-	-	-	-	-	106 358
At 31 December 2016	**1 006 831**	**93 119**	**37 999**	**1 788**	**6 602**	**205 771**	**1 352 110**
Depreciation and impairment							
At 31December 2015	**278 716**	**18 263**	**18 027**	**1 382**	**-**	**-**	**316 388**
Depreciation charge	66 563	8 269	6 062	201	44	-	81 139
Disposals	(57)	(542)	(2 786)	(27)	-	-	(3 412)
Revaluation	(323 289)	-	-	-	-	-	(323 289)
At 31 December 2016	**21 933**	**25 990**	**21 303**	**1 556**	**44**	**-**	**70 826**
Revalued amounts at							
At 31 December 2016	**984 898**	**67 129**	**16 696**	**232**	**6 558**	**205 771**	**1 281 284**
At 31 December 2015	473 348	35 994	20 589	285	17 069	47 288	594 573

5. Property, plant and equipment (continued)

In thousands of RUB	Land and buildings	Machinery and equipment	Vehicles	Fixtures and fittings	Assets under construction	Prepayments for fixed assets	Total
Cost / revalued amount							
At 31 December 2014	678 958	45 903	31 380	1 450	34 932	-	792 623
Additions	119 972	21 153	8 438	217	16 901	47 288	213 969
Disposals	(46 866)	(12 799)	(1 202)	-	(34 764)	-	(95 631)
At 31 December 2015	**752 064**	**54 257**	**38 616**	**1 667**	**17 069**	**47 288**	**910 961**
Depreciation and impairment							
At 31 December 2014	195 802	11 830	12 770	1 130	-	-	221 532
Depreciation charge	84 464	6 458	6 063	252	-	-	97 237
Disposals	(1 550)	(25)	(806)	-	-	-	(2 381)
At 31 December 2015	**278 716**	**18 263**	**18 027**	**1 382**	**-**	**-**	**316 388**
Revalued amounts at							
At 31 December 2015	**473 348**	**35 994**	**20 589**	**285**	**17 069**	**47 288**	**594 573**
At 31 December 2014	483 156	34 073	18 610	320	34 932	-	571 091

5. Property, plant and equipment (continued)

Assets pledged as security
Land and buildings with a collateral amount of RUB 406,177 thousand(31 December 2015: RUB 406,177 thousand) are pledged to secure bank loans (refer to Note 15 "Loans and borrowings").

Revaluation
Management based their estimate of the fair value of the property, plant and equipment mostly on the results of the independent appraisals. The independent appraisals were performed by LLC Stremlenie, a member of the non-commercial partnership "Russian Board of appraisers". As at 30 June 2016 land and buildings owned by the Group were evaluated in course of periodic valuation in accordance with the adopted accounting policy (previous valuation was performed as at 31 December 2011).
Two methods were used during the valuation of assets: Income capitalization approach and Cost approach.

The test for adequate profitability of the assets and possible impairment was performed using discounted cash flow (DCF) method. DCF model included projections over 9.5 year period and was based on the following main assumptions:

- Revenue growth assumption — 3.6-4.7%;
- Macroeconomic assumptions per official government forecasts;
- Discount rate — WACC estimated at 19.21% applied to RUB cash flows;

Historical cost
The net book value of property, plant and equipment that would have been recognized under the historic cost method is RUB 717,658 thousand as at 31 December 2016 (31 December 2015: RUB 381,050 thousand).

6. Intangible assets and goodwill

In thousands of RUB	Goodwill	Acquired software licenses	Acquired lease rights	Technical documentation	Total
Cost					
Cost at 31 December 2015	6 045	1 481	4 311	11 657	23 494
Additions	-	252	-	955	1 207
At 31 December 2016	**6 045**	**1 733**	**4 311**	**12 612**	**24 701**
Amortisation and impairment					
At 31 December 2015	6 045	1 071	1 908	1 462	10 486
Amortisation charge	-	282	383	873	1 538
Transfers	-	-	261	(261)	-
Impairment loss	-	-	-	-	-
At 31 December 2016	**6 045**	**1 353**	**2 552**	**2 074**	**12 024**
Carrying value					
At 31 December 2016	**-**	**380**	**1 759**	**10 538**	**12 677**
At 31 December 2015	-	410	2 403	10 195	13 008

6. Intangible assets (continued)

In thousands of RUB	Goodwill	Acquired software licenses	Acquired lease rights	Technical documenta-tion	Prepayment for intangible assets	Total
Cost						
Cost at 31 December 2014	6 045	1 241	4 311	6 271	6 355	24 223
Additions	-	240	-	-	-	240
Transfers	-	-	-	5 386	(5 386)	-
Disposals	-	-	-	-	(969)	(969)
At 31 December 2015	**6 045**	**1 481**	**4 311**	**11 657**	**-**	**23 494**
Amortisation and impairment						
At 31 December 2014	-	675	1 786	575	-	3 036
Amortisation charge	-	396	122	887	-	1 405
Impairment loss	6 045	-	-	-	-	6 045
At 31 December 2015	**6 045**	**1 071**	**1 908**	**1 462**	**-**	**10 486**
Carrying value						
At 31 December 2015	**-**	**410**	**2 403**	**10 195**	**-**	**13 008**
At 31 December 2014	6 045	566	2 525	5 696	6 355	21 187

In October, 2014 the Group purchased 100% ownership in LLC "Klintsovskaya TEC" located in Bryansk region from the third party, OJSC "Quadra", whose principal activities are electricity production, heat production and distribution. The Group fully paid RUB 45,822 thousand as a total consideration.

The business combination was recorded under the acquisition method. The fair value of net assets acquired comprised RUB 39,777 thousand. The excess of acquisition cost of LLC "Klintsovskaya TEC" over the fair value of identifiable net assets amounted to RUB 6,045 thousand, was recorded as a goodwill. Goodwill refers to the staff, the effect of reducing operating costs in the business combination and the business relationship with clients. As at the date of acquisition, these assets did not meet the criteria necessary for recognition as separate intangible assets.

For the purposes of analysis for impairment the Group allocated goodwill to the cash-generating unit LLC "Klintsovkaya TEC". As at 31 December 2015 recoverable amount was determined on the basis of value in use and was determined on the basis of the results of external evaluations. The value in use was determined by discounting the estimated future cash flows that will be received as a result of the continued use of the company on the basis of the financial plans covering a twenty seven- year period. The cash flow beyond that twenty-seven year period has been extrapolated using a steady 5.75% per annum growth rate.

The key assumptions for the calculation of value in use included the discount rate and growth rate for terminal value calculation. The discount rate applied to forecasted cash flows is 20.10%.

The analysis showed that carrying value exceeds recoverable amount of the unit generating cash flows, therefore as at 31 December 2015 the impairment loss was recognized. The reason for decrease of recoverable amount in 2015 is worsening of economic conditions which resulted in decrease of collection.

The impairment loss was included in consolidated statements of comprehensive income in the "Impairment loss" line item in 2015.

7. Long-term investments

	31 December 2016 RUB'000	31 December 2015 RUB'000
Promissory notes	13 850	13 689
Other long-term investments	642	-
Total long-term investments	**14 492**	**13 689**

Promissory notes were issued by LLC "FinTrade" at maturity date on May 2018.

8. Inventories

	31 December 2016 RUB'000	31 December 2015 RUB'000
Raw materials other than coal	21 241	19 870
Heating oil	21 062	21 062
Coal	9 447	10 670
Consumables	-	1 117
Total inventories	**51 750**	**52 719**

9. Trade and other receivables

	31 December 2016 RUB'000	31 December 2015 RUB'000
Trade receivables	664 140	552 551
Allowance for doubtful trade receivables	(159 759)	(89 521)
Trade receivables, net	**504 381**	**463 030**
Other receivables	21 501	14 217
Allowance for doubtful other receivables	(227)	(958)
Other receivables, net	**21 274**	**13 259**
Total trade and other receivables	**525 655**	**476 289**

There is no significant concentration of credit risk, as the amounts recognized mostly relate to a large quantity of receivables from medium and small customers based in Russia.

The maximum exposure to credit risk at the reporting date is the carrying value of receivables mentioned above. The Group does not hold any collateral as security over these balances.

Trade receivables that are past due but less than 6 months are not considered impaired unless there is indication that such impairment exists.

9. Trade and other receivables (continued)

The aging analysis of overdue trade and other receivables are as follows:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Receivables not overdue	29 996	85 938
Receivables overdue	655 645	480 830
Not more than 1 month	196 642	96 936
More than 1 month but not more than 6 months	119 451	114 109
More than 6 months but not more than 9 months	87 417	106 158
More than 9 months but not more than 1 year	10 582	40 400
More than 1 year	241 553	123 227
Total	**685 641**	**566 768**

Trade and other receivables that are past due more than 6 months have been reviewed for indications of impairment. Certain trade and other receivables were found to be impaired and provision for impairment in the amount of RUB 159,986 thousand (31 December 2015: RUB 90,479 thousand) was created. The impaired receivables are mostly due from companies that are experiencing financial difficulties or went bankrupt and due from individuals based on percentage of collectability of this type of trade and other receivables. The aging of these receivables is as follows:

	31 December 2016 RUB'000	31 December 2015 RUB'000
More than 6 months but not more than 9 months	7 597	19 280
More than 9 months but not more than 1 year	13 596	27 343
More than 1 year	138 793	43 856
Balance at end of period	**159 986**	**90 479**

Movements in the allowance for doubtful trade and other receivables are as follows:

	2016 RUB'000	2015 RUB'000
Balance at the beginning of the period	90 479	42 973
Charge for the period, net	109 287	55 191
Recovered during the period	(9 624)	(7 685)
Write-offs during the period	(30 156)	-
Balance at end of period	**159 986**	**90 479**

10. Subsidies receivable

	31 December 2016 RUB'000	31 December 2015 RUB'000
Subsidies from Kiselevsk Government, Kemerovo Oblast	46 283	48 777
Total subsidies receivable	**46 283**	**48 777**

11. Other assets

	31 December 2016 RUB'000	31 December 2015 RUB'000
Prepayments for materials and supplies	3 868	12 389
VAT to be reclaimed	48 214	16 121
Income tax prepayment	17 586	20 824
Other tax prepayments	833	465
Total other assets	**70 501**	**49 799**

12. Cash and cash equivalents

	31 December 2016 RUB'000	31 December 2015 RUB'000
Short-term deposits	335 493	378 143
Cash at bank	41 004	17 603
Cash in hand	399	405
Total cash and cash equivalents	**376 896**	**396 151**

As of 31 December 2016 total cash and cash equivalents includes bank deposits in Rubles and foreign currency placed in Sberbank and Gazprombank on the following terms:

Deposit	Currency	Amount in currency	Annual interest rate,	Maturity date
Deposit 1	USD	2 072 521	0.62%	30.01.2017
Deposit 2	EURO	1 072 912	0.01%	30.01.2017
Deposit 3	RUB	50 000 000	9.00%	09.01.2017
Deposit 4	RUB	24 890 000	8.22%	06.02.2017
Deposit 5	RUB	4 800 000	6.89%	09.01.2017
Deposit 6	RUB	11 000 000	7.44%	09.01.2017
Deposit 7	RUB	11 000 000	6.97%	09.01.2017
Deposit 8	RUB	3 000 000	7.22%	10.01.2017
Deposit 9	RUB	30 000 000	5.00%	14.01.2018
Deposit 10	RUB	1 100 000	10.00%	11.01.2017
Deposit 11	RUB	525 000	7.22%	09.01.2017
Deposit 12	RUB	5 000 000	6.89%	13.01.2017

13. Share Capital

As at 31 December 2016 authorized and issued share capital of the Company consisted of 4,742,783,406 ordinary shares with the nominal value of 0.005 RUB each (4,742,783,406 ordinary shares as at 31 December 2015).

	2016	2015
As at 31 December		
Shares issued and fully paid	4 742 783 406	4 742 783 406
Total authorised and issued shares at 31 December	**4 742 783 406**	**4 742 783 406**

On October 15, 2015 there was a decrease in the Charter capital of PJSC "CCS-Group", registered respective changes to the Charter of PJSC "CCS-Group". The reduction of share capital related to redemption of 258,470,654 shares of PJSC "CCS-Group", previously hold by the Company and acquired by the Company as a result of two buy-backs from shareholders in accordance with article 75 of the Federal law "On joint stock companies".

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Group. The Company did not declare dividends for 2012 - 2015.

List of shareholders of the Company is presented below.

Shareholder's name	**The part of Share Capital as of 31 December 2016 %**	**31 December 2015 %**
Specialised Power Limited	19.74	19.74
Magna Carta Capital Limited	19.43	19.43
EBRD	19.09	19.09
IFC	19.09	19.09
Reserved shares issued by the Company and held by subsidiaries of the Group	9.46	9.46
Treasury shares	0.39	0.39
Halcyon Power Investment Company Limited	-	2.60
Other	12.80	10.20
Total	**100**	**100**

On 19.09.2013 Put and Call Option Agreement between Magna Carta Capital Limited, LLC "Kiselevskaya ob'edinennaya teplovaya kompaniya" (KOTK LLC), LLC "Novomoskovskaya teplovaya kompaniya" (NTK LLC), LLC "Regionalnye teplovye seti" (RTS LLC) , LLC "ResursPlavsk" (Resource Plavsk LLC) (the "Grantors") and European Bank for Reconstruction and Development ("EBRD") (the "Put and Call Option Agreement") and Amended and Restated Put and Call Option Agreement between Magna Carta Capital Limited, KOTK LLC, NTK LLC, RTS LLC, Resource Plavsk LLC and International Finance Corporation ("IFC") originally dated 20.12.2012 and amended and restated on 19.09.2013 (the "Amended and Restated Put and Call Option Agreement") were signed.

13. Share Capital (continued)

According to provisions of the Put and Call Option Agreement EBRD shall have a right, exercisable in its sole discretion, at any time during the Exit Put Period, to sell to the Grantors all but not less than all of the EBRD Shares held by EBRD on the relevant Option Settlement Date at the Exit Put Price determined as of such Option Settlement Date in accordance with Section 3.02 (Exit Put Price) of the Put and Call Option Agreement and the Grantors agreed, on a joint and several basis, to purchase and pay for such EBRD Shares.According to provisions of the Amended and Restated Put and Call Option Agreement IFC shall have the right (the "Exit Put Option"), exercisable in its sole discretion, at any time during the Exit Put Period, to sell to the Grantors all but not less than all of the IFC Shares held by IFC on the relevant Option Settlement Date at the Exit Put Price determined as of such Option Settlement Date in accordance with Section 3.02 (Exit Put Price) of the Amended and Restated Put and Call Option Agreement and the Grantors agreed, on a joint and several basis, to purchase and pay for such IFC Shares.

Based on confirmations received by the Company in case during the Exit Put Period EBRD will exercise the right to sell all but not less than all of the EBRD Shares held by EBRD on the relevant Option Settlement Date at the Exit Put Price determined as of such Option Settlement Date in accordance with Section 3.02 (Exit Put Price) of the Put and Call Option Agreement or in case during the Exit Put Period IFC will exercise the right to sell all but not less than all of the IFC Shares held by IFC on the relevant Option Settlement Date at the Exit Put Price determined as of such Option Settlement Date in accordance with Section 3.02 (Exit Put Price) of the Amended and Restated Put and Call Option Agreement, Magna Carta Capital Limited will pay for the shares in full. Due to mentioned above, exit put options owned by EBRD and IFC do not give rise to any liabilities for CCS-Group and management elected not to disclose these options in the financial statements of CCS-Group for the period ended 31 December 2016.

Share-Based compensation

In accordance with provisions of Section 3.05 of Amended and restated shareholders agreement between Magna Carta Capital Limited, Specialised Power Limited, HH Generation Inc., LLC CCS Capital, International Finance Corporation and European Bank for Reconstruction and Development originally dated 20 December 2012 and amended and restated on 19 September 2013, in order to attract and retain executive and senior employees for the Company, the Company shall be entitled to grant Shares and Share Equivalents to the Company's executive and senior employees in accordance with Approved ESP.

The purpose of the share-based compensation plan is to align the interest of management with those of the shareholders of the Company by providing additional incentives to improve the Company's performance on a long-term basis, thereby increasing shareholder value.

As at 20 March 2015 General meeting of shareholders approved sale of shares to qualifying executive and senior employees of the Company. Contracts stipulate that executive and senior employees of the Company will be granted the option for the acquisition of the fixed number of reserved shares in the Company at a price (the "Execution Price") equal to RUB 0.174243 per share. In order to be able to purchase the shares qualifying executives have to continue their employment in the Group.

Qualifying executives will be granted the right to execute options during 3 periods in the following manner:
(a) not more that 30% of the Options granted between 1 July 2016 and 31 December 2016;
(b) not more that 30% of the Options granted between I July 2019 and 31 December 2019; and
(c) the rest of the Options granted between 1 July 2022 and 31 December 2022.

The fair value of the share options granted equal RUB 39 307 thousand. Options were priced using binomial option pricing model. Expenses recognized in 2016 amounted to RUB 5,251 thousand (2015: RUB 3,945 thousand), which was credited to retained earnings.

13. Share capital (continued)

Inputs into the model:

Grant date share price	0,169034
Exercise price	0,174243
Expected volatility	15,3%
Option life	6,5 years
Dividend yield	0%
Risk-free interest rate	11,33%

14. Loans and borrowings

	31 December 2016 RUB'000	31 December 2015 RUB'000
Non-current		
Loans and borrowings	575 388	243 348
Current		
Secured bank loans	-	62 611
Interest payable	11 921	14 241
Total loans and borrowings	**587 309**	**320 200**

Terms and repayment schedule are as follows:

Loans outstanding as at 31 December 2016:

Lender	Currency	Outstandingpr incipalRUB'00 0	Nominal annual interest rate	Effective interest rate	Year of maturity
Sberbank	RUB	10 000	15.00%	15.00%	2018
IFC	RUB	250 000	11.195%	12.21%	2022
EBRD	RUB	63281	15.35%	18.39%	2023
EBRD	RUB	265 179	15.35%	18.39%	2023

Loans outstanding as at 31 December 2015:

Lender	Currency	Outstanding principal RUB'000	Nominal annual interest rate	Effective interest rate	Year of maturity
IFC	RUB	75 000	10.60%	11.72%	2022
IFC	RUB	175 000	10.42%	11.72%	2022
EBRD	RUB	72656	16.59%	25.61%	2023

The table below represents collateral amounts of loans securities as of 31 December 2016 and 31 December 2015:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Property, plant and equipment (Ref. Note 6)	406 177	406 177

14. Loans and borrowings (continued)

In November 2015 the Group signed the loan agreement with Sberbank for loan facility by several tranches. In the current period the Group received principal in the amount of RUB 10,000. The full repayment of the loan received is scheduled for 26.07.2018.The objective of receiving of this loan was financing of working capital of the Group.

In December 2012 the Group entered into a loan agreement with the International Finance Corporation (IFC) in the amount of RUB 250,000 thousand with a maturity date up to 2022 year. At the reporting date the Group received RUB 250,000.

In September 2013 the Group entered into a loan agreement with the European Bank for Reconstruction and Development (EBRD) in the amount of RUB 350,000 thousand with a maturity date up to 2023 year. At the reporting date the Group received RUB 350,000 thousand and repaid principal of RUB 21,540 thousand.

The objective of receiving of these loans was financing of investment programs of the Group.

In these consolidated financial statements the loans received are carried at amortised cost which accounts for costs incurred by the Group directly attributable to receiving of the loans. The offering memorandum of guaranteed notes and loan agreements impose financial covenants tested on every reporting date.

Due to the breach of the covenant “Collection ratio” as at 31 December 2015 and 31 March 2016 the above mentioned EBRD loan with the amortized amount of RUB 64,342 thousand were classified by the Group as short-term in accordance with requirements of IAS 1 ”Presentation of Financial Statements” and IFRS 7 “Financial Instruments: Disclosures”.

In April 2016 EBRD had waived the right to demand early repayment of the loans, caused by breach of “Collection ratio” as of 31 December 2015. EBRD had waived the non-compliance with the “Collection Ratio” only in relation to the Financial Year 2015.

Based on these consolidated financial statements the Group has met covenant as at 31.12.2016.

15. Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	31 December 2016 RUB’000	31 December 2015 RUB’000	31 December 2016 RUB’000	31 December 2015 RUB’000	31 December 2016 RUB’000	31 December 2015 RUB’000
Property, plant and equipment	**5 356**	2 932	**(200 313)**	(88 600)	**(194 957)**	(85 668)
Intangible assets	**-**	-	**(165)**	(36)	**(165)**	(36)
Investments	**161**	202	**-**	-	**161**	202
Inventories	**16**	356	**(25)**	(33)	**(9)**	323
Receivables and prepayments	**55 219**	21 148	**(42 445)**	(36 763)	**12 774**	(15 615)
Payables and accruals	**1 290**	1 248	**(94)**	(479)	**1 196**	769
Tax losses carried forward	**35 442**	18 809	**-**	-	**35 442**	18 809
	97 484	44 695	**(243 042)**	(125 911)	**(145 558)**	(81 216)

15. Deferred tax assets and liabilities (continued)

	Assets		Liabilities		Net	
	31 December 2015 RUB'000	31 December 2014 RUB'000	31 December 2015 RUB'000	31 December 2014 RUB'000	31 December 2015 RUB'000	31 December 2014 RUB'000
Property, plant and equipment	**2 932**	1 213	**(88 600)**	(81 661)	**(85 668)**	(80 448)
Intangible assets	**-**	-	**(36)**	(608)	**(36)**	(608)
Investments	**202**	-	**-**	-	**202**	-
Inventories	**356**	18	**(33)**	(5)	**323**	13
Receivables and prepayments	**21 148**	10 766	**(36 763)**	(21 381)	**(15 615)**	(10 615)
Payables and accruals	**1 248**	1 679	**(479)**	(21)	**769**	1 658
Tax losses carried forward	**18 809**	12 030	**-**	-	**18 809**	12 030
	44 695	25 706	**(125 911)**	(103 676)	**(81 216)**	(77 970)

The applicable income tax rate for the Russian Group companies is 20% (2015: 20%). This rate has been used in the calculation of deferred tax assets and liabilities.

Deferred tax assets and liabilities shown above are offset within each legal entity. Total amount of positive net balances resulted in RUB 39,771thousand of deferred tax assets and total amount of negative net balances resulted in RUB 185,329 thousand of deferred tax liability, as shown in the consolidated statement of financial position as at 31 December 2016 (31 December 2015: total amount of positive net balances resulted in RUB 21,053 thousand of deferred tax assets and total amount of negative net balances resulted in RUB 102,269).

Deferred tax assets in 2015 were reduced by impairment loss of RUB 23,805 thousand which was recognized during impairment test of the cash generating unit LLC "Klintsovkaya TEC". The impairment loss was included in consolidated statements of comprehensive income for 2015 in the "Impairment loss" line item.

Group companies recognized tax losses of RUB 271,714 thousand which was generated in the following periods:

	Amount, RUB'000
2014	45,475
2015	117,807
2016	108,432
Total	**271,714**

The period of the tax assets use is 10 years from the year of generation. In 2016 the Group used tax assets in the amount of RUB 5,731 thousand (2015: RUB 1,014 thousand).

Movements in deferred taxes during the period were as follows:

In thousands of RUB	Property, plant and equipment	Intangible assets	Investments	Inventories	Receivables and prepayments	Payables and accruals	Tax losses carried forward	Total
Balance as at 1 January 2016	(85 668)	(36)	202	323	(15 615)	769	18 809	(81 216)
Recognized in income — origination and reversal of timing differences	(23 360)	(129)	(41)	(332)	28 389	427	16 633	21 587
Recognised in equity due to revaluation of property, plant and equipment	(85 929)	-	-	-	-	-	-	(85 929)
Balance as at 31 December 2016	**(194 957)**	**(165)**	**161**	**(9)**	**12 774**	**1 196**	**35 442**	**(145 558)**

Movements in deferred taxes during the previous year were as follows:

In thousands of RUB	Property, plant and equipment	Intangible assets	Investments	Inventories	Receivables and prepayments	Payables and accruals	Tax losses carried forward	Total
Balance as at 1 January 2015	(80 448)	(608)	-	13	(10 615)	1 658	12 030	(77 970)
Recognized in income — origination and reversal of timing differences	(4 941)	572	202	314	(5 000)	(889)	30 419	20 677
Release of deferred tax from disposal of revalued assets	(117)	-	-	-	-	-	-	(117)
Impairment test	(162)	-	-	(4)	-	-	(23640)	(23 806)
Balance as at 31 December 2015	**(85 668)**	**(36)**	**202**	**323**	**(15 615)**	**769**	**18 809**	**(81 216)**

16. Trade and other payables

	31 December 2016 RUB'000	31 December 2015 RUB'000
Trade payables	398 192	355 483
Wages, salaries and other related accruals	15 551	20 982
Other payables	2 984	4 178
Total trade and other payables	**416 727**	**380 643**

17. Other liabilities

	31 December 2016 RUB'000	31 December 2015 RUB'000
VAT payable	40 899	21 648
Other taxes payable	20 494	22 507
Provision for unused vacation	16 337	15 292
Advances from customers	3 496	4 453
Corporate income tax payable	240	1 001
Total other liabilities	**81 466**	**64 901**

18. Sales revenue

	2016 RUB'000	2015 RUB'000
Heating	2 133 260	1 857 156
Water supply and waste water	217 858	202 086
Housing management	105 411	85 977
Electricity	30 081	62 452
Equipment of apartment buildings with metering devices of thermal energy	3 316	-
Other revenue	31 440	1 745
Total sales revenue	**2 521 366**	**2 209 416**

The heat energy is provided to individual residential customers at regulated social tariffs, significantly lower than the rates applicable to commercial customers. The difference in tariffs is compensated to the Group in the form of subsidies from the Kiselevsk Government, Kemerovo Oblast. For 2016, the subsidy amounted to RUB 134,116 thousand (2015: RUB 123,308 thousand).

Revenue from heating includes revenue in the amount of RUB 120,809 thousand (2015: RUB 58,471 thousand) from application of increased rate, approved by resolutions of the Government of the Russian Federation of 16 April 2013 № 344 and December 17, 2014, № 1380, amending the Rules of the establishment and definition of rate of consumption of utilities, approved by the resolution of the Government of the Russian Federation of May 23, 2006 № 306 and order № 66 of 01.07.2015 of the Ministry of construction and housing and communal services of the Tula region and put into effect from 12.07.2015. This revenue is calculated as the difference between the increased rate of consumption of utilities and the base rate in houses not equipped with metering devices.

Management recognizes that in the future the Group may have obligations related to the use of funds received in connection with a multiplying factor to the base rate of consumption of utilities in buildings that are not equipped with metering devices on the basis of subparagraph(1) of paragraph 31 of the rules of granting of utilities to proprietors and users of premises in apartment buildings and residential houses, approved by the Decree of the government of the Russian Federation of May 06, 2011 № 354. At the reporting date management estimates the occurrence of such liabilities as possible; therefore, the information on the application of the increased rate is disclosed in these financial statements.

19. Cost of sales

	2016 RUB'000	2015 RUB'000
Raw materials	1 439 851	1 297 766
Wages, salaries and other personnel expenses	229 536	223 927
Rent, repair and maintenance	170 828	156 199
Electricity	132 994	118 400
Depreciation and amortisation	79 198	93 756
Social security costs	77 850	76 300
Fees and services	45 681	43 499
Utilities	16 326	16 885
Communication and other deliveries	8 525	5 002
Right and insurances	3 016	3 139
Other expenses	970	87
Total cost of sales	**2 204 775**	**2 034 960**

20. Selling and marketing expenses

	2016 RUB'000	2015 RUB'000
Commission	5 601	7 406
Advertising	91	10
Total selling and marketing expenses	**5 692**	**7 416**

21. Administrative expenses

	2016 RUB'000	2015 RUB'000
Wages, salaries and other personnel expenses	126 125	112 517
Social security costs	29 922	25 345
Rent, repair and maintenance	11 785	14 182
Consulting and audit services	5 258	2 714
Stationery	4 407	4 508
Depreciation and amortisation	3 479	2 505
Legal expenses	1 213	914
Transport expenses	306	356
Electricity	824	850
Other expenses	6 954	6 944
Total administrative expenses	**190 273**	**170 835**

22. Other operating expenses, net

	2016 RUB'000	2015 RUB'000
Taxes	13 034	10 641
VAT non deductible	1 900	15 416
Other operating expenses	(826)	(532)
Total other operating expenses, net	**14 108**	**25 525**

23. Net finance income / (costs)

	2016 RUB'000	2015 RUB'000
Interest income	11 208	36 747
Income from sale of equity investments	161	161
Exchange gains/(losses)	(51 472)	54 422
Interest expense	(52 090)	(45 740)
Other finance costs	(2 051)	(1 052)
Total finance income / (costs), net	**(94 244)**	**44 538**

24. Other income/ (expenses), net

	2016 RUB'000	2015 RUB'000
Impairment of receivables	(69 508)	(47 506)
Recalculation of other periods expenses	(8 552)	-
Court decision in the case with electricity supplier	(6 338)	-
Loss on trade receivables	(29 766)	(70)
Other income	2 473	11 072
Membership in professional organizations	-	(3 990)
Charity	-	(3 616)
Fines to suppliers	-	(4 122)
Correction of previous year revenues due to court decision	-	(2 878)
Other expenses	(3 815)	(11 176)
Total other expenses, net	**(115 506)**	**(62 286)**

25. Income tax expense

	2016 RUB'000	2015 RUB'000
Current		
Current income tax expense	51 008	51 554
Deferred		
Effect of utilisation and origination of tax losses carried forward	(16 633)	(30 419)
Origination and reversal of temporary differences	(4 954)	9 742
Impairment test	-	23 806
Total income tax expense	**29 421**	**54 683**

Reconciliation of theoretical income tax expense with actual income tax expenses

	2016 RUB'000	2015 RUB'000
Profit before tax	30 884	66 250
Income tax using the tax rate (20 %)	6 177	13 250
Adjustment for tax exempt income and non-deductible expenses	23 244	41 433
Total income tax expense in the consolidated statement of comprehensive income	**29 421**	**54 683**

The applicable income tax rate for the Russian Group companies is 20%. This rate has been used in the calculation of deferred tax assets and liabilities.

26. Consolidated EBITDA reconciliation

	2016 RUB'000	2015 RUB'000
Consolidated profit for the period	**1 463**	11 567
Adjustments for:		
Income tax expense	29 421	54 683
including impairment loss on deferred tax assets	-	*23 805*
Interest expense, net	40 882	8 993
Consolidated EBIT	**71 766**	**75 243**
Adjustment for depreciation and amortization	82 677	96 261
Consolidated EBITDA	**154 443**	**171 504**

Consolidated EBITDA for 2016 includes exchange losses of RUB 51,472 thousand (2015: exchange gain of RUB 54,422 thousand).

As a requirement of investors, the Group calculate the "Consolidated recurring EBITDA" the consolidated profit or loss before taking into account:
(a) any interest, commissions, discounts and other fees and costs related to Financial Debt;
(b) any interest, commissions, discounts, dividends, and other fees earned on Financial Debt;
(c) share of profits or losses of associates and equity method joint-ventures;
(d) any provision for or payment on account of taxation;
(e) any depreciation on fixed assets, amortisation of goodwill and other intangible assets;
(f) any amount attributable to discontinued operations; and
(g) any amount attributable to extraordinary, unusual or non-recurring items, including restructuring charges;
(h) net finance costs other than interest.

	2016 RUB'000	2015 RUB'000
Consolidated profit for the period	1 463	11 567
Adjustments for:		
Financial income/ expenses (excluding interest)	1 890	891
Income tax expense	29 421	54 683
including impairment loss on deferred tax assets	-	*23 805*
Interest expense, net	40 882	8 993
Consolidated recurring EBIT	**73 656**	**76 134**
Adjustment for depreciation and amortisation	82 677	96 261
Adjustment for non-recurring operations, including:		
Exchange (gains)/losses	51 472	(54 422)
Impairment loss	-	6 045
Share-based compensation	5 251	3 945
Consolidated recurring EBITDA	**213 056**	**127 963**

27. Capital risk management

The Group's objectives when managing capital are to ensure that the Group will be able to operate as a going concern in order to maximize return to shareholders and benefits to other stakeholders through the optimization of debt and equity balance. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of loans and borrowings (refer to Note 15 "Loans and borrowings"), cash and cash equivalents and equity.

Capital structure is reviewed by the Group's management on regular basis.

There were no changes in the Group's approach to capital management during the period. The return on assets ratios for the reporting and comparative periods were as follows:

	2016 RUB'000	2015 RUB'000
Operating profit	240 634	90 043
Total averaged assets	2 042 684	1 693 139
Return on assets ratio for the year	**11,78%**	**5.32%**

The increase in ROA ratio mostly resulted from increase of revenues due to application of multiplying factor to heat ratio.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital.

The gearing ratios were as follows:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Loans and borrowings	587 309	320 200
Less: Cash and cash equivalents	(376 896)	(396 151)
Net debt	**210 413**	**(75 951)**
Total equity	**1 148 477**	**798 045**
Gearing ratio	**18,32%**	**N/a**

27. Capital risk management(continued)

As a requirement of investors, the company also monitors the following ratios as at 31.12.2016.

	RUB'000	Benchmark
Current assets	1 071 085	
- Prepaid expenses	(70 501)	
Current assets less prepaid expenses	1 000 584	
Current liabilities	510 115	
Current ratio	**1,96**	**1,2 and more**
Total Liabilities	1 270 832	
Equity	1 148 477	
Deferred tax assets	-	
Intangible assets	39 771	
	12 677	
Tangible Net Worth	1 096 029	
Tangible Net Worth ratio	**1,16**	**Not exceeding 2**
Profit for the period	1 463	
Non-cash items, including		
depreciation and amortisation	82 677	
Income taxes	29 421	
Payments due on account of interest and other charges on all Financial debt	52 090	
CAPEX	-	
Sub total 1	165 651	
Scheduled payments	68 660	
Historic Debt Service Coverage Ratio	**2,41**	**1,3 and more**
Loans and borrowings	562 417	
Less: Cash and cash equivalents	(376 896)	
Net debt	**185 521**	
Consolidated recurring EBITDA	213 056	
Net Debt to EBITDA ratio	**0,87**	**Not exceeding 3**

28. Financial risk management

Exposure to credit, liquidity and market risk (including currency, fair value interest rate risk and price risk) arises in the normal course of the Group's business. Risk management is carried out by a central treasury department.

The Group does not use derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. The most significant financial risks to which the Group is exposed are described below.

These risks are attributable to the following categories of financial instruments:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Financial assets		
Trade and other receivables	525 655	476 289
Subsidies receivable	46 283	48 777
Cash and cash equivalents	376 896	396 151
Financial liabilities		
Trade and other payables	416 727	380 643
Loans and borrowings	587 309	320 200

28.1 Credit risk analysis

Credit risk is the risk that counterparty may default or not meet its obligations to the Group when contractually due leading to financial losses of the Group.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not require collateral in respect of the majority of its financial assets. The table below represents five largest balances of accounts receivable from the major counterparties as at the reporting date:

	31 December 2016 RUB'000
Individuals	357 245
Department of housing and public utilities of Kiselevsky region	46 283
MUP "Management company of Venevsky region municipality	24 389
ZHK ""Comfort stil' plus"	8 810
LLC «Domashuyuyut+»	7 172

	31 December 2015 RUB'000
Individuals	293 821
Department of housing and public utilities of Kiselevsky region	48 777
MUP "Management company of Venevsky region municipality	14 003
ZHK ""Comfort stil' plus"	5 436
LLC «Domashuyuyut+»	4 616

28. Financial risk management (continued)

28.2 Interest rate risk

Interest rate risk is the risk that movements in market interest rates will adversely impact the financial results of the Group.

Interest rates on the Group's debt finance are either fixed or variable. Changes in market interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans and borrowings, management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The Group bear variable interest rate risk as the borrowings are fixed rate instruments only for one year period.

Loan provider	Amount, RUB'000	Fixed rate, %	Maturity date*
IFC	255 442	11.195	15.09.2017
EBRD	321 868	15.35	07.11.2017

*Maturity date, mentioned here does not represent date of loan maturity, but represents the date, from which rate to be changed from fixed to variable.

28.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities when they are contractually due.

The Group manages liquidity risk with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due by preparing annual budgets, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following are the contractual maturities of financial liabilities. Contractual cash flows represent undiscounted cash flows of financial liabilities based on earliest date on which the Group can be required to pay and include both the principal and interest cash flows.

31 December 2016	Carrying amount	6 months or less	6 -12 months	1 – 2 years	2 – 5 years	More than 5 years	Contractual cash flows
Financial liabilities							
Loans received from EBRD	321 868	41 817	53 364	87 701	218 374	96 314	497 570
Loans received from IFC	255 442	5 753	22 623	75 282	191 841	52 581	348 080
Loan received from Sberbank	10 000	10 000	-	-	-	-	10 000
Trade and other payables and other monetary liabilities	416 727	416 727	-	-	-	-	416 727
Total financial liabilities	**1 004 037**	**474 297**	**75 987**	**162 983**	**410 215**	**148 895**	**1 272 377**

28. Financial risk management (continued)

28.3 Liquidity risk (continued)

31 December 2015	Carrying amount	6 months or less	6 -12 months	1 – 2 years	2 – 5 years	More than 5 years	Contractual cash flows
Financial liabilities							
Loans received from EBRD	68 225	9 288	12 702	20 433	51 970	35 134	129 527
Loans received from IFC	251 901	5 455	21 166	26 549	205 076	110 139	368 385
Loan received from Sberbank	74	-	-	-	-	-	-
Trade and other payables and other monetary liabilities	380 643	380 643	-	-	-	-	380 643
Total financial liabilities	**700 843**	**395 386**	**33 868**	**46 982**	**257 046**	**145 273**	**878 555**

28.4 Fair value of financial instruments

Management of the Group considers that the carrying amounts of the financial instruments approximate their fair values.
The estimated fair values of financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date. The estimates of fair value are intended to approximate the amount to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of assets or settlement of liabilities.

29. Contingencies

29.1 Insurance

In 2013-2015 the Group signed insurance contracts with OJSC Insurance company Allianz in order to obtain insurance cover for its property, plant and equipment, business interruption and third party liability in respect of property or environmental damage arising from accidents on Group’s property or relating to Group’s operations.In 2016 the Group signed insurance contracts with OJSC Insurance company Allianz for the same risks for the period from 08.10.2016 till 31.12.2016 and prolonged it till 31.12.2017.

29.2 Litigation

From time to time and in the normal course of business, claims against the Group are received. On the basis of own estimates and internal and external professional advice the Management is of the opinion that no material losses will be incurred. Besides, disputes with tax authorities are sometime solved through the appellations to courts.

29. Contingencies (continued)

29.3 Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterized by numerous official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretations by different authorities. Taxes are subject to audit and investigation by a number of authorities of different levels, which are empowered by law to impose severe fines, penalties and interest charges for late payments.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for the tax liabilities based on its interpretation of the tax legislation. However, the relevant tax authorities may have different interpretations and the effects could be significant.

29.4 Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

29.5 Uncertainties of operating environment

The Group's all operations are in the Russian Federation. During the year, there have been a number of political developments that affect the overall business and investment climate of the Russian Federation leading to risks that are not typically associated with developed markets; such as capital markets instability, deterioration of liquidity in the business sector and tighter credit conditions. The Russian Government has introduced a range of stabilization measures aimed at ensuring solvency and providing liquidity and financing for Russian companies.

The future stability of the Russian economy is largely dependent upon the reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

During the year certain sanctions were applied on Russian Federation by the USA and European Union. Management believes that currently those sanctions had no significant impact on Group's business.

Inflation

According to the State Committee on Statistics of the Russian Federation, the rate of inflation, as measured by changes in the Consumer Price Index, was 5.4% for 2016 (2015: 12.91%). The financial results of the Russian economy and consequently of the Group will be affected if inflation is not controlled effectively.

Recoverability of financial assets

As a result of recent economic turmoil in capital and credit markets in the Russian Federation, and the consequential economic uncertainties existing as at reporting date, there exists the potential that assets may not be recovered at their carrying amount in the regular course of business.

29. Contingencies (continued)

29.5 Uncertainties of operating environment (continued)

Management of the Group believes that in current economical situation there is no significant impact on the Group and it could arise only in situation where the USD/RUR exchange rates will further increase significantly.

29.6 Contingent liabilities related to option schemes

Contracts for sale of shares between CCS-Group, PJSC and the directors of the Company contain provisions on Special bonus. The right on Special bonus arises in case of "sale event" which is a sale of more than threshold number of shares (511,141,199 shares) to third party. The directors have the right on Special bonus in any period till 30.09.2022 on shares not acquired under option contracts.

If selling price of one share is less than 0.174243 no right on Special bonus arise.

30. Related-party transactions

The Group has related-party relationship with its shareholders, directors, senior officers and some other parties.

30.1 Transactions with shareholders

	2016 RUB'000	2015 RUB'000
Financial charges		
Interest charge	54 817	38 542
Commitment charge	845	1 375
Period-end balances		
Loan received (nominal value)	590 625	322 656
Trade and other payables	9 555	10 789

30.2 Transactions with key management personnel

Remuneration paid to key management personnel during the year was as follows:

	2016 RUB'000	2015 RUB'000
Short-term benefits	26 324	27 931
Share-based compensation	5 251	3 945
Total	**31 575**	**31 876**

30. Related-party transactions (continued)

	31 December 2016 RUB'000	31 December 2015 RUB'000
Period-end balances		
Trade and other payables	1 175	653

30.3 Transactions with other related parties

In the normal course of its business activities the Group purchases services and raw materials or fixed assets, and makes sales to related parties other than disclosed above. Transactions with those related parties were as follows:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Period-end balances		
Trade and other payables	11	8

	2016 RUB'000	2015 RUB'000
Transactions for sales and purchases of goods and services (net of VAT)		
Purchases of services (rent)	1 476	1 370

31. Commitments

31.1 Operating leases

The Group has the following operating lease commitments at the reporting date:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Less than one year	17 967	16 336
Between one and five years	54 807	62 245
More than five years	51 285	60 057
Total operating leases	**124 059**	**138 638**

The Group companies lease boiler-houses and heat pipelines from local administrations.

32. Fair value hierarchy

The tables below analyze assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level3:inputs for the asset or liability that are not based on observable market data (unobservable inputs).

32. Fair value hierarchy (continued)

Fair value hierarchy as at 31 December 2016, RUB'000	**Level 1**	**Level 2**	**Level 3**	**Total**
Property, plant and equipment	-	-	1 281 284	**1 281 284**
Promissory notes	-	-	13 850	**13 850**

Fair value hierarchy as at 31 December 2015, RUB'000	Level 1	Level 2	Level 3	Total
Property, plant and equipment	-	-	594 573	**594 573**
Promissory notes	-	-	13 689	**13 689**

There were no transfers between levels of fair value hierarchy during the reporting periods. Details of assumptions used in valuation have been disclosed in the relevant notes.

33. Subsidiaries

The following comprise the list of the Group subsidiaries as at 31 December 2016 and 31 December 2015:

Entity	**Principal activities**	**Country of incorpo-ration**	**Control, %**	
			31 December 2016	**31 December 2015**
KOTK LLC	Heating, Water supply and removal	Russia	100	100
Nash dom LLC	Housing management	Russia	100	100
NTK LLC	Heating	Russia	100	100
Resource Plavsk LLC	Delivery, Distribution and production of thermal energy, Water supply	Russia	100	100
RTS LLC	Delivery, Distribution and production of thermal energy	Russia	100	100
TEK Centra LLC	Delivery, Distribution and production of thermal energy	Russia	100	100
DKK LLC	Heating	Russia	100	100
Chernskaya Teplovaya companiya LLC	Heating	Russia	100	100
CCS Capital LLC	Investing	Russia	100	100
VTK LLC	Heating	Russia	100	100
INVEK JSC	Consulting services	Russia	100	100
TEK Kiselevska LLC	Delivery, Distribution and production of thermal energy	Russia	100	100
Klintsovskaya TEC LLC	Delivery, distribution and production of electricity, thermal energy	Russia	100	100
Klintsovskaya Teplosetevaya Companiya LLC	Delivery, distribution and production of thermal energy	Russia	100	100
Klintsovskaya GPU LLC	Delivery, distribution and production of electricity	Russia	100	100
CCS Vostok, LLC	Management of financial and industrial groups and holding companies	Russia	100	100

34. Events after the reporting period

Subsequent the reporting date there have been the following material events:

1. Subsidiary NTK LLC changed name to CCS LLC on January 10, 2017. Appropriate registration arrangements were performed in accordance with Russian legislation.
2. Reorganization of subsidiaries was performed on February 01, 2017. Subsidiaries RTS LLC, Resource-Plavsk LLC, DKK LLC, VTK LLC, CCS Vostok LLC merged to CCS LLC.
3. Additional issue of ordinary shares via closed subscription performed by INVEK JSC on March 10, 2017. Quantity of issued shares is 68 000 000, nominal value – 0,5 roubles per share, price of issue – 8,87 roubles per share. Sole purchaser of issued shares was CCS-Group PJSC.
4. Increased rates, approved by resolutions of the Government of the Russian Federation of 16 April 2013 № 344 and December 17, 2014, № 1380, amending the Rules of the establishment and definition of rate of consumption of utilities, approved by the resolution of the Government of the Russian Federation of May 23, 2006 № 306 and order № 66 of 01.07.2015 of the Ministry of construction and housing and communal services of the Tula region, which are used for calculation of prices for heating and hot water supply for customers were set on the levels of 1,1 and 1,5 accordingly from January 01, 2017, instead of 1,5 and 1,4, used during year 2016.