Unaudited interim consolidated financial statements

CCS-Group

30 June 2017

Contents

Consolidated Statement of Financial Position

	Notes	30 June 2017 RUB'000	30 June 2016 RUB'000
ASSETS			
Non-current			
Property, plant and equipment	5	1 400 399	594 797
Intangible assets and goodwill	6	11 837	12 434
Long-term investments	7	14 573	13 770
Deferred tax assets	15	88 603	41 176
		1 515 412	**662 177**
Current			
Inventories	8	56 761	49 564
Trade and other receivables	9	548 157	536 769
Subsidies receivable	10	37 659	78 224
Other assets	11	50 077	66 574
Short-term investments		-	-
Cash and cash equivalents	12	368 510	338 984
		1 061 164	**1 070 115**
Total Assets		**2 576 576**	**1 732 292**
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		189 286	128 801
Total Equity		**1 187 838**	**783 635**
LIABILITIES			
Non-current			
Loans and borrowings	14	609 128	244 377
Deferred tax liabilities	15	235 528	102 495
		844 656	**346 872**
Current			
Loans and borrowings	14	19 205	72 369
Trade and other payables	16	420 486	428 965
Other liabilities	17	104 391	100 451
		544 082	**601 785**
Total Liabilities		**1 388 738**	**948 657**
Total Equity and Liabilities		**2 576 576**	**1 732 292**

The consolidated financial statements were approved by the Management and signed on 28 August 2017.

General Director
CCS-Group

Finance Director
CCS-Group

Consolidated Statement of Comprehensive Income

	Notes	**1H 2017 RUB'000**	**1 H 2016 RUB'000**
Sales revenue	18	1 370 507	1 278 957
Government subsidies	18	69 619	67 620
Cost of sales	19	(1 183 242)	(1 167 043)
Gross profit		**256 884**	**179 534**
Selling and marketing expenses	20	(8 013)	(2 826)
Administrative expenses	21	(121 961)	(91 316)
Wages and salaries under option scheme	13	(2 596)	(2 611)
Other operating expenses, net	22	(7 628)	(5 358)
Operating profit		**116 686**	**77 423**
Net finance income / (costs)	23	(36 328)	(51 919)
Other expenses, net	24	(30 479)	(30 304)
			-
Profit before income tax		**48 879**	**(4 800)**
Income tax expense	15,25	(13 114)	(12 221)
Profit for the period		**36 765**	**(17 021)**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Changes in asset revaluation reserve		-	
Deferred tax write-off due to disposal of revalued assets		-	
			-
Other comprehensive income for the period, net of tax		**-**	**-**
Total comprehensive income for the period		**36 765**	**(17 021)**

Consolidated Statement of Cash Flows

	Notes	1H 2017 RUB’000	1 H 2016 RUB’000
Cash flows from operating activities			
Profit for the period before taxation		**49 879**	**(4 800)**
Adjustments for:			
Depreciation and amortization	19,21	26 407	53 073
Net foreign exchange (gain) / loss	23	(3 441)	33 101
Impairment of doubtful trade and other receivables and prepayments	24	28 335	14 988
Impairment losses			‘
Share-based payment reserve	13	2 596	2 611
Interest income	23	(1 851)	(3 684)
Interest expense	23	42 924	21 780
Loss from disposal of property, plant and equipment		5	(21)
VAT non-deductable	22	78	308
Provision for unused vacation		4 110	4 724
		149 042	**122 080**
Adjustments for:			
Change in inventories in course of operational activities		(5 011)	3 155
Change in trade and other receivables in course of operational activities		(39 233)	(102 106)
Change in subsidies receivable		8 624	(29 447)
Change in trade and other payables in course of operational activities		20 886	74 192
Interest paid		(39 613)	(20 546)
Interest received		1 851	3 685
Income taxes paid		(1 319)	(17 607)
Net cash used in operating activities		**95 227**	**33 406**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(144 686)	(52 703)
Proceeds from disposal of property, plant and equipment			-
Purchase of investments		(81)	(81)
Acquisition of subsidiary, net of cash acquired			-
Net cash used in investing activities		**(144 686)**	**(52 734)**
Cash flows from financing activities			
Proceeds from loans and borrowings		76 000	-
Repayment of loans and borrowings		(34 330)	(4 688)
Income participation payment		(3 957)	-
Net cash used in financing activities		**37 713**	**(4 688)**
Effect of exchange rate changes on cash and cash equivalents		**3 441**	**(33 101)**
Net change in cash and cash equivalents		**(8 386)**	**(57 167)**
Cash and cash equivalents at beginning of the period	12	376 896	396 151
Cash and cash equivalents at end of the period	**12**	**368 510**	**338 984**

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 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
Asset revaluation reserve recognised during revaluation of property, plant and equipment (net of deferred taxes)	-	-	-	343 718	-	343 718
Balance at 31 December 2016	**23 714**	**(2 592)**	**333 846**	**643 584**	**149 925**	**1 148 477**
Balance at 1 January 2017	**23 714**	**(2 592)**	**333 846**	**643 584**	**149 925**	**1 148 477**
Share-based compensation (refer to Note 14 "Share capital")	**-**	**-**	**-**	**-**	2 596	2 596
Total transactions with shareholders	**-**	**-**	**-**	**-**	**1 291**	**1 291**
-	-	-	-	-	36 765	36 765
Balance at 30 June 2017	**23 714**	**(2 592)**	**333 846**	**643 584**	**189 286**	**1 187 838**

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 30 June 2017 was 1,183 (30 June 2016: 1,177).

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 22.34% 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 30 June 2017. 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 30 June. 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 licenses 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;
- available-for-sale (AFS) financial assets.

3. Summary of significant accounting policies (continued)

3.6 Financial instruments (continued)

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.

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.

3. Summary of significant accounting policies (continued)

3.6 Financial instruments (continued)

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, 2017 and have been adopted by the Group:

Standard number	Title	Effective date
IAS 12	Income Taxes — Amendments	January 1, 2017
IAS 7	Statement of cash flows - Amendments	January 1, 2017
	Annual Improvements 2014–2016	
IFRS 7	Financial Instruments: Disclosures — Amendments	January 1, 2017

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.

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.

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

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.

IFRS 17 "Insurance contracts"
IFRS 17 "Insurance contracts" requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of consistent, principal-based accounting for insurance contracts. IFRS 17 supersedes IFRS 14 "Insurance contracts" and is effective for periods beginning on or after 1 January 2021. The Group's management has not yet assessed the impact of IFRS 17 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 2016	1 006 831	93 119	37 999	1 788	6 602	205 771	1 352 110
Revaluation	-	-	-	-	-	-	-
Additions	97 653	21 189	-	278	70 807	39 750	229 677
Disposals	(18 890)	-	-	(150)	(17 040)	(49 199)	(85 279)
At 30 June 2017	**1 085 594**	**114 308**	**37 999**	**1 916**	**60 369**	**196 322**	**1 496 508**
Depreciation and impairment							
ιt 31December 2016	21 933	25 990	21 303	1 556	44	-	70 826
Revaluation	-	-	-	-	-	-	-
Depreciation charge	16 866	5 681	2 736	166	-		25 449
Disposals	-	-	-	(166)	-		(166)
At 30 June 2017	**38 799**	**31 671**	**24 039**	**1 556**	**44**	**-**	**96 109**
Revalued amounts at							
At 30 June 2017	**1 046 795**	**82 637**	**13 960**	**360**	**60 325**	**196 322**	**1 400 399**
At 30 June 2016	458 753	33 580	20 059	225	29 800	52 380	594 797

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 2015	752 064	54 257	38 616	1 667	17 069	47 288	910 961
Additions	30 319	1 589	2 503	41	21 657	5 092	61 201
Disposals	-	(93)	-	-	(8 926)		(9 019)
At 30 June 2016	**782 383**	**55 753**	**41 119**	**1 708**	**29 800**	**52 380**	**963 143**
Depreciation and impairment							
At 31 December 2015	**278 716**	**18 263**	**18 027**	**1 382**	**-**	**-**	**316 388**
Depreciation charge	44 914	3 952	3 033	101	-		52 000
Disposals	-	(42)	-	-	-		(42)
At 30 June 2016	**323 630**	**22 173**	**21 060**	**1 483**	**-**	**-**	**368 346**
Revalued amounts at							
At 30 June 2016	**458 753**	**33 580**	**20 059**	**225**	**29 800**	**52 380**	**594 797**
At 30 June 2015	465 801	33 563	21 726	287	29 324	-	550 701

5. Property, plant and equipment (continued)

Assets pledged as security
Land and buildings with a collateral amount of RUB 406,177 thousand (30 June 2016: 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 836,894 thousand as at 30 June 2017 (30 June 2016: RUB 376,357 thousand).

6. Intangible assets and goodwill

In thousands of RUB	Goodwill	Acquired software licenses	Acquired lease rights	Technical documenta-tion	Prepayment for intangible assets	Total
Cost						
Cost at 31 December 2016	6 045	1 733	4 312	12 613	-	18 658
Additions	-	120				120
Transfers	-	(3)		-	-	(3)
Disposals	-	-	-	-		-
At 30 June 2017	**6 045**	**1 850**	**4 312**	**12 613**	**-**	**24 820**
Amortisation and impairment						
At 31 December 2016	6 045	1 353	2 553	2 075	-	5 981
Amortisation charge	-	153	191	613		957
Reclass	-	-	-	-		-
Impairment loss	-	-	-	-		-
At 30 June 2017	**6 045**	**1 506**	**2 895**	**2 135**	**-**	**12 983**
Carrying value						
At 30 June 2017	**-**	**344**	**1 417**	**10 478**	**-**	**11 837**
At 30 June 2016	-	341	2 342	9 751	-	12 434

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 2015	6 045	1 481	4 311	11 657	-	23 494
Additions	-	68	-	-	-	68
Transfers	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 30 June 2016	**6 045**	**1 549**	**4 311**	**11 657**	**-**	**23 562**
Amortisation and impairment						
At 31 December 2015	6 045	1 071	1 908	1 462	-	10 486
Amortisation charge	-	137	61	444	-	642
Impairment loss	-	-	-	-	-	
At 30 June 2016	**6 045**	**1 208**	**1 969**	**1 906**	**-**	**11 128**
Carrying value						
At 30 June 2016	**-**	**341**	**2 342**	**9 751**	**-**	**12 434**
At 30 June 2015	6 045	443	2 464	5 252	6 355	20 559

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 30 June 2016 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

	30 June 2017 RUB'000	30 June 2016 RUB'000
Promissory notes	13 931	13 770
Other long-term investments (cession in TEK Centra)	642	-
Total long-term investments	**14 573**	**13 770**

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

8. Inventories

	30 June 2017 RUB'000	30 June 2016 RUB'000
Raw materials other than coal	31 100	23 155
Heating oil	21 062	21 062
Coal	4 599	5 219
Consumables	-	128
Work in progress	-	-
Total inventories	**56 761**	**49 564**

9. Trade and other receivables

	30 June 2017 RUB'000	30 June 2016 RUB'000
Trade receivables	732 419	624 684
Allowance for doubtful trade receivables	(188 685)	(99 848)
Trade receivables, net	543 734	524 836
Other receivables	4 428	18 181
Allowance for doubtful other receivables	(5)	(6 248)
Other receivables, net	4 423	11 933
Total trade and other receivables	**548 157**	**536 769**

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:

	30 June 2017 RUB'000	30 June 2016 RUB'000
Receivables not overdue	101 335	56 148
Receivables overdue	635 511	586 717
Not more than 1 month	33 526	74 683
More than 1 month but not more than 6 months	260 065	191 390
More than 6 months but not more than 9 months	100 061	84 696
More than 9 months but not more than 1 year	1 237	21 728
More than 1 year	240 622	214 220
Total	**736 847**	**642 865**

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 188,690 thousand (30 June 2016: RUB 106,426 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:

	30 June 2017 RUB'000	30 June 2016 RUB'000
More than 6 months but not more than 9 months	13 712	17 973
More than 9 months but not more than 1 year	833	8 802
More than 1 year	174 145	79 321
Balance at end of period	**188 690**	**106 096**

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

	1 H 2017 RUB'000	1 H 2016 RUB'000
Balance at the beginning of the period	159 986	90 479
Charge for the period, net	28 704	33 623
Recovered during the period	-	(18 006)
Write-offs during the period		-
Balance at end of period	**188 690**	**106 096**

10. Subsidies receivable

	30 June 2017 RUB'000	30 June 2016 RUB'000
Subsidies from Kiselevsk Government, Kemerovo Oblast	37 659	78 224
Total subsidies receivable	**37 659**	**78 224**

11. Other assets

	30 June 2017 RUB'000	30 June 2016 RUB'000
VAT to be reclaimed	33 398	22 710
Prepayments for materials and supplies	7 767	32 765
Income tax prepayment	8 001	10 580
Other tax prepayments	911	519
Total other assets	**50 077**	**66 574**

12. Cash and cash equivalents

	30 June 2017 RUB'000	30 June 2016 RUB'000
Cash at bank	286 537	32 917
Short-term deposits	81 712	305 767
Cash in hand	261	300
Total cash and cash equivalents	**368 510**	**338 984**

As of 30 June 2017 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	RUB	30 000 000	5.00%	14.01.2018
Deposit 2	RUB	26 600 000	5.77%	03.07.2017
Deposit 3	RUB	23 567 000	7.06%	04.08.2017
Deposit 4	RUB	1 100 000	8.50%	15.01.2018
Deposit 5	RUB	455 000	5.93%	10.07.2017

13. Share Capital

As at 30 June 2017authorized 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 30 June 2016).

	2017	2016
As at 30 June		
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**

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'sname	The part of Share Capital as of 30 June 2017 %	30 June 2016 %
Specialised Power Limited	22.34	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	9.02
Treasury shares	0.39	0.39
Other	10.20	12.80
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.

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.

13. Share Capital (continued)

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 30 June 2017.

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 30 June 2017;
(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 during 2016 is nil (2015: RUB 39 307 thousand). Options were priced using binomial option pricing model. Expenses recognized in 1 half 2017 amounted to RUB 2,597 thousand (1 half 2016: RUB 2,611 thousand), which was credited to retained earnings.

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

	30 June 2017 RUB'000	30 June 2016 RUB'000
Non-current		
Loans and borrowings	609 128	244 377
Current		
Secured bank loans	-	61 790
Interest payable	19 205	10 579
Total loans and borrowings	**628 333**	**316 746**

Terms and repayment schedule are as follows:

Loans outstanding as at 30 June 2017:

Lender	Currency	Outstanding principal RUB'000	Nominal annual interest rate	Effective interest rate	Year of maturity
Sberbank	RUB	76 000	11.50%	11.50%	2018
IFC	RUB	250 000	11.195%	12.55%	2022
EBRD	RUB	304 129	15.35%	18.43%	2023

Loans outstanding as at 30 June 2016:

Lender	Currency	Outstanding principal RUB'000	Nominal annual interest rate	Effective interest rate	Year of maturity
Sberbank	RUB	-	15.50%	-	2018
IFC	RUB	75 000	10.60%	11.74%	2022
IFC	RUB	175 000	10.42%	11.74%	2022
EBRD	RUB	67 969	16.59%	25.66%	2023

The table below represents collateral amounts of loans securities as of 30 June 2017 and 30 June 2016:

	30 June 2017 RUB'000	30 June 2016 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.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 April 2017 the Group signed the loan agreement with Sberbank for loan facility in the amount of RUB 206,673 thousand. In the current period the Group received RUB 76,000 thousand. The full repayment of the loan received is scheduled for 25.10.2018.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 250,000,000.

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 RUB350,000 thousand and repaid principal of RUB 45,871 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" and Debt Service Coverage ratio as of 30 June 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 November 2016 EBRD had waived the right to demand early repayment of the loans, caused by breach of Collection ratio and Debt Service Coverage ratio as of 30 June 2016. EBRD had waived the non-compliance with the Collection Ratio and Debt Service Coverage ratio only in relation to the 2st Quarter 2016.

Based on these consolidated financial statements the Group has met covenant as at 30.06.2017.

15. Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	30 June 2017 RUB'000	30 June 2016 RUB'000	30 June 2017 RUB'000	30 June 2016 RUB'000	30 June 2017 RUB'000	30 June 2016 RUB'000
Property, plant and equipment	2 933	3 632	(237 645)	(89 069)	**(234 712)**	**(85 437)**
Intangible assets	-	-	(155)	(13)	**(155)**	**(13)**
Investments	161	202	-	-	**161**	**202**
Inventories	16	15	(34)	(13)	**(18)**	**2**
Receivables and prepayments	67 680	25 182	(28 222)	(35 423)	**39 458**	**(10 241)**
Payables and accruals	1 169	1 802	(187)	(588)	**982**	**1 214**
Tax losses carried forward	47 359	32 954	-	-	**47 359**	**32 954**
	119 318	**63 787**	**(266 243)**	**(125 106)**	**(146 925)**	**(61 319)**

15. Deferred tax assets and liabilities (continued)

	Assets		Liabilities		Net	
	30 June 2016 RUB'000	30 June 2015 RUB'000	30 June 2016 RUB'000	30 June 2015 RUB'000	30 June 2016 RUB'000	30 June 2015 RUB'000
Property, plant and equipment	3 632	1 786	(89 069)	(82 281)	**(85 437)**	**(80 495)**
Intangible assets	-	-	(13)	(546)	**(13)**	**(546)**
Investments	202	-	-	-	**202**	**-**
Inventories	15	9	(13)	(33)	**2**	**(24)**
Receivables and prepayments	25 182	33 334	(35 423)	(15 361)	**(10 241)**	**17 973**
Payables and accruals	1 802	1 405	(588)	(669)	**1 214**	**736**
Tax losses carried forward	32 954	3 780	-	-	**32 954**	**3 780**
	63 787	**40 314**	**(125 106)**	**(98 890)**	**(61 319)**	**(58 576)**

The applicable income tax rate for the Russian Group companies is 20% (1 H 2016: 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 88,603 thousand of deferred tax assets and total amount of negative net balances resulted in RUB 235,528 thousand of deferred tax liability, as shown in the consolidated statement of financial position as at 30 June 2017(30 June 2016: total amount of positive net balances resulted in RUB 41,176 thousand of deferred tax assets and total amount of negative net balances resulted in RUB 102,495).

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.

Movements in deferred taxes during the period were as follows:

<u>In thousands of RUB</u>	Property, plant and equipment	Intangib-les assets	Invest-ments	Inven-tories	Receivab-les and prepay-ments	Payables and accruals	Tax losses carried forward	Total
Balance as at 1 January 2016	(194 957)	(165)	161	(9)	12 774	1 196	35 442	(145 558)
Recognized in income — origination and reversal of timing differences	(39 755)	10	-	(9)	26 684	(214)	11 917	(1 367)
								-
Balance as at 30 June 2017	**(234 712)**	**(155)**	**161**	**(18)**	**39 458**	**982**	**47 359**	**(146 925)**

15. Deferred tax assets and liabilities (continued)

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

In thousands of RUB	Property, plant and equipment	Intangibles 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	231	23	-	(321)	5 374	445	14 145	19 897
Balance as at 30 June 2016	**(85 437)**	**(13)**	**202**	**2**	**(10 241)**	**1 214**	**32 954**	**(61 319)**

16. Trade and other payables

	30 June 2017 RUB'000	30 June 2016 RUB'000
Trade payables	376 560	406 416
Wages, salaries and other related accruals	13 324	14 828
Other payables	30 602	7 721
Total trade and other payables	**420 486**	**428 965**

17. Other liabilities

	30 June 2017 RUB'000	30 June 2016 RUB'000
VAT payable	49 633	50 041
Provision for unused vacation	20 447	20 016
Other taxes payable	19 928	21 304
Advances from customers	13 299	3 133
Corporate income tax payable	1 084	5 957
Total other liabilities	**104 391**	**100 451**

18. Sales revenue

	1 H 2017 RUB'000	1 H 2016 RUB'000
Heating	1 205 156	1 088 007
Water supply and waste water	78 598	112 731
Housing management	44 621	51 054
Electricity	20 052	16 797
Equipment of apartment buildings with metering devices of thermal energy	4 526	-
Other revenue	17 554	10 368
Total sales revenue	**1 370 507**	**1 278 957**

The heat energy is provided to individual residential customers in Kiselevsk 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 1 half 2017, the subsidy amounted to RUB 69,619 thousand (1 half 2016: RUB 67,620 thousand).

Revenue from heating includes revenue in the amount of RUB 10,858 thousand (1 H 2016: RUB 60,415 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 rateis disclosed in these financial statements.

19. Cost of sales

	1 H 2017 RUB'000	1 H 2016 RUB'000
Raw materials	822 278	786 910
Wages, salaries and other personnel expenses	121 023	118 310
Electricity	74 998	65 135
Rent, repair and maintenance	59 226	70 422
Social security costs	37 406	39 779
Fees and services	30 429	19 290
Depreciation and amortisation	24 469	51 438
Utilities	8 209	9 300
Communication and other deliveries	4 590	4 166
Right and insurances	1 534	1 692
Other expenses	(920)	601
Total cost of sales	**1 183 242**	**1 167 043**

20. Selling and marketing expenses

	1 H 2017 RUB'000	1 H 2016 RUB'000
Commission	8 013	2 826
Advertising	-	-
Total selling and marketing expenses	**8 013**	**2 826**

21. Administrative expenses

	1 H 2017 RUB'000	1 H 2016 RUB'000
Wages, salaries and other personnel expenses	83 839	64 351
Social security costs	22 476	15 048
Rent, repair and maintenance	7 205	6 263
Stationery	5 309	2 363
Depreciation and amortisation	1 937	1 635
Consulting and audit services	856	723
Legal expenses	438	493
Transport expenses	59	152
Electricity	351	394
Other expenses	2 087	2 505
Total administrative expenses	**124 557**	**93 927**

22. Other operating expenses, net

	1 H 2017 RUB'000	1 H 2016 RUB'000
Taxes	7 544	5 071
VAT non deductible	79	308
Other operating expenses	5	(21)
Total other operating expenses, net	**7 628**	**5 358**

23. Net finance income / (costs)

	1 H 2017 RUB'000	1 H 2016 RUB'000
Interest income	3 241	3 685
Income from sale of equity investments	81	81
Exchange gains/(losses)	3 441	(33 101)
Interest expense	(42 924)	(21 779)
Other finance costs	(167)	(805)
Total finance income / (costs), net	**(36 328)**	**(51 919)**

24. Other income/ (expenses), net

	1 H 2017 RUB'000	1 H 2016 RUB'000
Impairment of receivables	(28 704)	(15 617)
Recalculation of other periods expenses		(8 552)
Court decision in the case with electricity supplier		(6 338)
Loss on trade receivables	370	629
Other income	4 326	92
Other expenses	(6 471)	(518)
Total other expenses, net	**(30 479)**	**(30 304)**

25. Income tax expense

	1 H 2017 RUB'000	1 H 2016 RUB'000
Current		
Current income tax expense	11 747	32 118
Deferred		
Effect of utilisation and origination of tax losses carriedforward	(11 917)	(14 145)
Origination and reversal of temporary differences	131 284	(5 752)
Impairment test		
Total income tax expense	**13 114**	**12 221**

Reconciliation of theoretical income tax expense with actual income tax expenses

	1 H 2017 RUB'000	1 H 2016 RUB'000
Profit before tax	49 879	(4 800)
Income tax using the tax rate (20 %)	9 976	(960)
Adjustment for tax exempt income and non-deductible expenses	3 138	13 181
Total income tax expense in the consolidated statement of comprehensive income	**13 114**	**12 221**

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

	1 H 2017 RUB'000	**1 H 2016** RUB'000
Consolidated profit for the period	36 765	(17 021)
Adjustments for:		
Income tax expense	13 114	12 221
including impairment loss on deferred tax assets	-	-
Interest expense, net	39 683	18 094
Consolidated EBIT	**89 562**	**13 294**
Adjustment for depreciation and amortization	26 407	53 073
Consolidated EBITDA	**115 969**	**66 367**

Consolidated EBITDA for 1 half 2017 includes exchange gains of RUB 3,441 thousand (1 H 2016: exchange loss of RUB 33,101 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.

	1 H 2017 RUB'000	**1 H 2016 RUB'000**
Consolidated profit for the period	36 765	(17 021)
Adjustments for:		
Financial income/ expenses (excluding interest)	86	724
Income tax expense	13 114	12 221
Interest expense, net	39 683	18 094
Consolidated recurring EBIT	**89 648**	**14 018**
Adjustment for depreciation and amortisation	26 407	53 073
Adjustment for non-recurring operations, including:		
Exchange (gains)/losses	(3 441)	33 101
Share-based compensation	2 597	2 611
Consolidated recurring EBITDA	**115 211**	**102 803**

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:

	1 H 2017 RUB'000	1 H 2016 RUB'000
Operating profit	116 686	77 423
Total averaged assets	2 497 943	1 699 175
Return on assets ratio for the year	**4,67%**	**4.56%**

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:

	30 June 2017 RUB'000	30 June 2016 RUB'000
Loans and borrowings	628 333	316 746
Less: Cash and cash equivalents	368 510	338 984
Net debt	**259 823**	**(22 238)**
Total equity	**1 187 838**	**783 635**
Gearing ratio	**21,87%**	**N/a**

27. Capital risk management(continued)

As a requirement of investors, the company also monitors the following ratios as at 31.03.2017.

	RUB'000	Benchmark
Current assets	1 061 164	
- Prepaid expenses	(50 077)	
Current assets less prepaid expenses	1 011 087	
Current liabilities	544 082	
Current ratio	**1,86**	**1,2 and more**
Total Liabilities	1 388 738	
Equity	1 187 838	
Deferred tax assets	88 603	
Intangible assets	11 837	
Tangible Net Worth	1 087 398	
Tangible Net Worth ratio	**1,28**	**Not exceeding 2**
Profit for the period	55 249	
Non-cash items, including		
depreciation and amortisation	56 011	
Income taxes	30 314	
Payments due on account of interest and other charges on all Financial debt	73 234	
CAPEX	-	
Sub total 1	214 808	
Scheduled payments	107 439	
Historic Debt Service Coverage Ratio	**2,00**	**1,3 and more**
Loans and borrowings	604 779	
Less: Cash and cash equivalents	(368 510)	
Net debt	**236 269**	
Consolidated recurring EBITDA	225 463	
Net Debt to EBITDA ratio	**1,05**	**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:

	30 June 2017 RUB'000	30 June 2016 RUB'000
Financial assets		
Trade and other receivables	548 157	536 769
Subsidies receivable	37 659	78 224
Cash and cash equivalents	368 510	338 984
Financial liabilities		
Trade and other payables	420 486	428 965
Loans and borrowings	628 333	316 746

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:

	30 June 2017 RUB'000
Individuals	261 617
Department of housing and public utilities of Kiselevsky region	37 659
MUP "Management company of Venevsky region municipality	32 012
ZHK ""Comfort stil' plus"	8 906
LLC «Domashuy uyut+»	7 745

	30 June 2016 RUB'000
Individuals	320 321
Department of housing and public utilities of Kiselevsky region	78 224
MUP "Management company of Venevsky region municipality	20 926
UK "Domashniy uyut"	6 061
ZHK "Comfort stil'"	6 278

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	254 068	11.195	15.09.2017
EBRD	298 186	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.

30 June 2017	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	298 186	46 841	38 932	84 990	210 669	67 799	449 231
Loans received from IFC	254 068	14 305	30 753	74 131	188 390	26 430	334 009
Loan received from Sberbank	76 079	76 079	-	-	-	-	76 079
Trade and other payables and other monetary liabilities	420 486	420 486	-	-	-	-	420 486
Total financial liabilities	**1 048 819**	**557 711**	**69 685**	**159 121**	**399 059**	**94 230**	**1 279 805**

28. Financial risk management (continued)

28.3 Liquidity risk (continued)

30 June 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	64 342	10 835	8 724	19 892	50 346	28 575	118 372
Loans received from IFC	252 339	13 383	5 382	51 549	201 846	82 986	355 147
Loan received from Sberbank	65	65		-	-	-	65
Trade and other payables and other monetary liabilities	428 965	428 965	-		-	-	428 965
Total financial liabilities	**745 711**	**453 249**	**14 106**	**71 441**	**252 192**	**111 561**	**902 550**

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 1.0% for 1 half 2017 (1 half 2016: 3.3%). 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

	1 H 2017 RUB'000	1 H 2016 RUB'000
Sales and purchases of goods and services (net of VAT)		
Financial charges		
Interest charge	38 071	19 026
Commitment charge	-	684
Period-end balances		
Loan received (nominal value)	554 129	317 969
Trade and other payables	14 969	10 509

30.2 Transactions with key management personnel

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

	1 H 2017 RUB'000	1 H 2016 RUB'000
Short-term benefits	16 302	12 440
Share-based compensation	2 596	2 611
Total	**18 898**	**15 051**

30. Related-party transactions (continued)

	30 June 2017 RUB'000	30 June 2016 RUB'000
Period-end balances		
Trade and other payables	1 436	914

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:

	30 June 2017 RUB'000	30 June 2016 RUB'000
Period-end balances		
Trade and other payables	99	7

	2016 RUB'000	2015 RUB'000
Transactions for sales and purchases of goods and services (net of VAT)		
Purchases of services (rent)	870	813

31. Commitments

31.1 Operating leases

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

	30 June 2017 RUB'000	30 June 2016 RUB'000
Less than one year	18 409	16 067
Between one and five years	54 961	58 257
More than five years	47 194	55 848
Total operating leases	**120 564**	**130 172**

The Group companies lease boiler-houses, heat pipelines and land 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 30 June 2017, RUB'000	**Level 1**	**Level 2**	**Level 3**	**Total**
Property, plant and equipment	-	-	1 400 399	**1 400 399**
Promissory notes	-	-	13 931	**13 931**

Fair value hierarchy as at 30 June 2016, RUB'000	Level 1	Level 2	Level 3	Total
Property, plant and equipment	-	-	594 797	**594 797**
Promissory notes	-	-	13 770	**13 770**

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 30 June 2017 and 30 June 2016:

Entity	**Principal activities**	**Country of incorpo-ration**	**Control, %**	
			30 June 2017	**30 June 2016**
КОТК LLC	Heating, Water supply and removal	Russia	100	100
Nash dom LLC	Housing management	Russia	100	100
CCS LLC[1]	Delivery, Distribution and production of thermal energy	Russia	100	100
TEK Centra LLC	Delivery, Distribution and production of thermal energy	Russia	100	100
Chernskaya Teplovaya companiya LLC	Heating	Russia	100	100
CCS Capital LLC	Investing	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
RTS LLC	Delivery, Distribution and production of thermal energy	Russia	-	100
DKK LLC	Heating	Russia	-	100
VTK LLC	Heating	Russia	-	100
Resource Plavsk LLC	Delivery, Distribution and production of thermal energy, Water supply	Russia	-	100
CCS Vostok, LLC	Management of financial and industrial groups and holding companies	Russia	-	100

[1] Former NTK LLC. 01.02.2017 subsidiaries RTS LLC, Resource-Plavsk LLC, DKK LLC, VTK LLC, CCS Vostok LLC merged to CCS LLC.

34. Events after the reporting period

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

1. 14.07.2017 CCS LLC purchased 71.67% share on share capital of LLC "Aleksinskaya teplo-energo kompaniya" (other 28.33% are purchased by LLC "Aleksinskaya teplo-energo kompaniya");
2. In July 2017 the Group entered into a loan agreement with Sberbank in the amount of up to RUB 356,673 thousand with a maturity date of 24.09.2019. The objective of receiving of this loan was financing of working capital of the Group;
3. 27.07.2017 the Board of the State Fund of reforms promotion in communal services sector decided to provide financial support in the amount of RUB 74.3 million for modernization of communal infrastructure in the framework of concession agreement in Chern region.

Appendix A

PJSC “CCS-Group”
Statement of Financial Position

	30 June 2017 RUB’000	30 June 2016 RUB’000
ASSETS		
Non-current		
Property, plant and equipment	221 741	64 482
Intangible assets	889	5 440
Long-term investments	490 735	484 865
Deferred tax assets	3 244	12 564
Other assets	-	-
	716 609	**567 351**
Current		
Inventories	21 112	23 131
Trade and other receivables	347 638	99 035
Other assets	3 995	3 644
Short-term investments	441 828	272 800
Cash and cash equivalents	127 354	281 307
	941 927	**679 917**
Total Assets	**1 658 536**	**1 247 268**
Equity		
Share capital	26 306	26 306
Treasury shares	-	-
Share premium	424 234	424 234
Revaluation reserve	140 900	19 509
Retained earnings	466 693	445 011
	1 058 133	**915 060**
LIABILITIES		
Non-current		
Loans and borrowings	533 128	244 377
Deferred tax liabilities	40 687	9 423
	573 815	**253 800**
Current		
Loans and borrowings	19 126	72 304
Trade and other payables	1 972	2 910
Other liabilities	5 490	3 194
	26 588	**78 408**
Total Liabilities	**600 403**	**332 208**
Total Equity and Liabilities	**1 658 536**	**1 247 268**

PJSC “CCS-Group”
Income Statement

	1 H 2017 RUB’000	1 H 2016 RUB’000
Sales revenue	16 528	19 970
Cost of sales	(7 658)	(13 013)
Gross profit / (loss)	**8 870**	**6 957**
Administrative expenses	(9 403)	(10 450)
Other operating income / (expenses), net	(389)	(454)
Operating profit /(loss)	**(922)**	**(3 947)**
Net finance income/ (costs)	(10 673)	(34 431)
Other expense, net	3 865	15 088
Profit/ (loss) before income tax	**(7 730)**	**(23 290)**
Income tax benefit/ (expense)	2 348	12 550
Profit / (loss) for the period	**(5 382)**	**(10 740)**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Deferred tax write-off due to disposal of revalued assets	-	-
Other comprehensive income for the period, net of tax	**-**	**-**
Total comprehensive income for the period	**(5 382)**	**(10 740)**

PJSC "CCS-Group"
Statement of Cash Flows

	1 H 2017 RUB'000	1 H 2016 RUB'000
Cash flows from operating activities		
Profit / (loss) for the period before taxation	(7 729)	(23 291)
Adjustments for:		
Depreciation and amortisation	4 753	7 669
Net foreign exchange (gain) /loss	(3 441)	33 101
Impairment and write-off of doubtful trade and other receivables	(259)	130
Interest income	(37 812)	(19 867)
Interest expense	42 228	21 103
Gain / (loss) from disposal of property, plant and equipment	(7)	-
VAT non-deductable	48	3
Provision for unused vacation	(110)	278
	(2 329)	**19 126**
(Increase)/ decrease in inventories in course of operational activities	132	1 733
(Increase)/ decrease in trade and other receivables in course of operational activities	120 704	(20 479)
Increase / (decrease) in trade and other payables in course of operational activities	(9 899)	(18 490)
Interest paid	(38 997)	(19 860)
Interest received	37 812	19 867
Income taxes paid	-	4 880
Net cash (used in) / from operating activities	**107 423**	**(13 493)**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(3 786)	(2 654)
Investment purchase	-	-
Proceeds from investment disposal	(3 374)	1 858
Purchase of equity investments	(280 300)	-
Loans reimbursed /(granted)	57 812	(16 600)
Net cash used in investing activities	**(229 648)**	**(17 396)**
Cash flows from financing activities		
Proceeds from loans and borrowings	-	
Repayment of loans and borrowings	(24 331)	(4 688)
Payment of income participation fee	(3 957)	-
Net cash (used in) / from financing activities	**(28 288)**	**(4 688)**
Effect of exchange rate changes on cash and cash equivalents	**3 441**	**(33 101)**
Net increase in cash and cash equivalents	**(147 072)**	**(68 678)**
Cash and cash equivalents at beginning of year	274 426	349 985
Cash and cash equivalents at end of period	**127 354**	**281 307**

PJSC "CCS-Group"
Statement of Changes in Equity

	Share capital RUB'000	**Treasury shares** RUB'000	**Share premium** RUB'000	**Revaluation reserves** RUB'000	**Retained earnings** RUB'000	**Total Net Assets** RUB'000
Balance at 1 January 2016	**26306**	**-**	**424 234**	**19 509**	**455 751**	**925 800**
Profit/ (loss) for the period					15 347	15 347
Other comprehensive income				**121 391**	**976**	**122 367**
Asset revaluation reserve recognised during revaluation of property, plant and equipment (net of deferred taxes)				122 367	-	122 367
Asset revaluation reserve on disposed fixed assets				(976)	976	-
Balance at 31 December 2016	**26 306**	**-**	**424 234**	**140 900**	**472 074**	**1 063 514**
Balance at 1 January 2017	**26 306**	**-**	**424 234**	**140 900**	**472 074**	**1 063 514**
Profit/ (loss) for the period					(5 382)	5 382
Balance at 30 June 2017	**26 306**	**-**	**424 234**	**140 900**	**466 692**	**1 058 132**

LLC "CCS"
Statement of Financial Position

	30 June 2017[2] RUB'000	30 June 2016[3] RUB'000
ASSETS		
Non-current		
Property, plant and equipment	718 848	263 595
Intangible assets	10 637	5 821
Long-term investments	1 694	28 700
Deferred tax assets	49 140	45 766
	780 319	**343 882**
Current		
Inventories	18 762	10 842
Trade and other receivables	393 300	305 016
Other assets	27 379	27 436
Short-term investments	-	-
Cash and cash equivalents	72 985	42 449
	512 426	**385 743**
Total Assets	**1 292 745**	**729 625**
Net Assets		
Share capital	303 099	303 099
Revaluation reserve	152 112	-
Retained earnings	137 166	140 042
	592 377	**443 141**
LIABILITIES		
Non-current		
Loans and borrowings	230 060	80 000
Deferred tax liabilities	43 875	114
	273 935	**80 114**
Current		
Loans and borrowings	66 079	66
Trade and other payables	294 893	150 454
Other liabilities	65 461	55 850
	426 433	**206 370**
Total Liabilities	**700 368**	**286 484**
Total Net Assets and Liabilities	**1292 745**	**729 625**

[2] Results of former NTK, LLC, VTK, LLC, DKK, LLC, RTS, LLC, Resourse Plavsk, LLC and CCS Vostok, LLC
[3] Results of NTK, LLC

LLC "CCS"
Income Statement

	1 H 2017 RUB'000	1 H 2016 RUB'000
Sales revenue	1 016 481	676 623
Cost of sales	(834 041)	(566 629)
Gross profit / (loss)	**182 440**	**109 994**
Selling and marketing expenses	(4 173)	-
Administrative expenses	(79 158)	(23 180)
Other operating expenses, net	(4 380)	(2 596)
Operating profit / (loss)	**94 729**	**84 218**
Net finance costs	(3 118)	(3 398)
Other income / (expense), net	(77 957)	(12 618)
Profit / (loss) before income tax	**13 654**	**68 202**
Income tax expense, net	(8 444)	7 673
Profit / (loss) for the period	**5 210**	**75 875**

LLC “CCS”
Statement of Cash Flows

	1 H 2017 RUB’000	1 H 2016 RUB’000
Cash flows from operating activities		
Profit / (loss) for the period before taxation	13 654	68 202
Adjustments for:		
Depreciation and amortisation	14 700	34 204
Impairment and write-off of doubtful trade and other receivables	78 641	6 741
Interest income	(353)	(2 069)
Interest expense	11 426	6 246
Gain/ (loss) from disposal of property, plant and equipment	-	-
VAT non deductible	23	160
Provision for unused vacation	3 088	1 656
Loss from disposal of equity investment		
	121 179	**115 140**
(Increase) in inventories in course of operational activities	(5 846)	(1 659)
(Increase) in trade and other receivables in course of operational activities	(43 403)	(72 294)
Increase / (decrease) in trade and other payables in course of operational activities	(24 923)	40 978
Interest received	353	2 069
Interest paid	(21 544)	(6 256)
Income taxes paid	(466)	(14 985)
Net cash from operating activities	**25 350**	**62 993**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(59 254)	(36 425)
Investment purchase	-	
Loans received /(granted)	-	
Net cash used in investing activities	**(59 254)**	**(36 425)**
Cash flows from financing activities		
Proceeds from loans and borrowings	95 620	-
Repayment of loans and borrowings	(17 000)	-
Decrease of share capital	(7 080)	(10 000)
Dividends paid	(10 000)	
Net cash (used in) / from financing activities	**(61 540)**	**(10 000)**
Net increase in cash and cash equivalents	**27 636**	**16 568**
Cash and cash equivalents at beginning of year	45 349	25 881
Cash and cash equivalents at end of period	**72 985**	**42 449**

LLC “CCS”
Statement of Changes in Net Assets

	Share capital RUB'000	Revaluation reserve RUB'000	Retained earnings RUB'000	Total Net Assets RUB'000
Balance at 1 January 2016	**303 099**	**-**	**74167**	**377 266**
Profit /(loss) for the period	-	-	132 943	132 943
Other comprehensive income				
Dividend payment	-	-	(10 000)	(10 000)
Assets revaluation reserve	-	152 112	-	152 112
Balance at 31 December 2016	**303 099**	**152 112**	**197 110**	**652 321**
Balance at 1 January 2017	**303 099**	**152 112**	**197 110**	**652 321**
Retained earnings VTK			(17 019)	**(17 019)**
Retained earnings DKK			(5 093)	**(5 093)**
Retained earnings RTS			(1 091)	**(1 091)**
Retained earnings RP			(32 501)	**(32 501)**
Retained earnings CCS Vostok			(163)	**(163)**
Revaluation reserve RAS			713	**713**
Profit/(loss) for the year	-	-	5 210	**5 210**
Other comprehensive income				
Dividend payment	-	-	(10 000)	**(10 000)**
Assets revaluation reserve	-	-	-	**-**
Balance at 30 June 2017	**303 099**	**152 112**	**137 166**	**592 377**

LLC "KOTK"
Statement of Financial Position

	30 June 2017 RUB'000	30 June 2016 RUB'000
ASSETS		
Non-current		
Property, plant and equipment	5 705	1 784
Intangible assets	6	6
Investments	13 931	13 770
Deferred tax asset	3 834	3 541
	23 476	**19 101**
Current		
Inventories	12 461	8 185
Trade and other receivables	80 725	36 649
Subsidies receivable	603	78 224
Other assets	-	4 483
Cash and cash equivalents	580	720
	94 369	**128 261**
Total Assets	**117 845**	**147 362**
Net Assets		
Share capital	6 000	6 000
Revaluation reserve	1 125	-
Retained earnings	(3 190)	(9 963)
	3 935	**(3 963)**
LIABILITIES		
Non-current		
Deferred tax liabilities	725	367
	725	**367**
Current		
Trade and other payables	94 993	128 921
Other liabilities	18 192	22 037
	113 185	**150 958**
Total Net Assets and Liabilities	**117 845**	**147 362**

LLC “KOTK”
Income Statement

	1 H 2017 RUB’000	1 H 2016 RUB’000
Sales revenue	100 118	97 662
Government subsidies	69 619	67 620
Cost of sales	(137 568)	(135 921)
Gross profit	**32 169**	**29 361**
Selling and marketing expenses	-	-
Administrative expenses	(20 927)	(21 618)
Other operating expenses, net	(593)	(500)
Operating profit	**10 649**	**7 243**
Net finance costs	41	26
Other income / (expense), net	(4 462)	(6 408)
Profitbefore income tax	**6 228**	**861**
Income tax expense, net	(1 857)	(1 665)
Profit for the period	**4 371**	**(804)**
Other comprehensive income		
Assets revaluation reserve	-	-
Other comprehensive income for the period, net of tax	**-**	**-**
Total comprehensive income for the period	**4 371**	**(804)**

LLC "KOTK"
Statement of Cash Flows

	1 H 2017	1 H 2016
	RUB'000	**RUB'000**
Cash flows from operating activities		
Profit / (loss) for the period before taxation	6 227	860
Adjustments for:		
Depreciation and amortisation	50	261
Impairment and write-off of doubtful trade and other receivables	1 963	5 633
(Gain)/ loss from disposal of property, plant and equipment	-	-
(Gain)/ loss from disposal of equity investment	(81)	(81)
VAT non deductible	(89)	16
Provision for unused vacation	829	(105)
	8 899	**6 584**
Decrease/ (increase) in inventories in course of operational activities	904	4 966
Decrease/ (increase) in trade and other receivables in course of operational activities	1 303	(5 032)
Change in subsidies recievable	8 624	(29 447)
Increase / (decrease) in trade and other payables in course of operational activities	(19 178)	23 489
Income taxes paid	-	(1 218)
Net cash from operating activities	**552**	**(658)**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(952)	-
Proceeds from investment disposal	81	81
Net cash used in investing activities	**(827)**	**81**
Cash flows from financing activities		
Net cash (used in) / from financing activities	**-**	**-**
Net increase in cash and cash equivalents	**(319)**	**(577)**
Cash and cash equivalents at beginning of year	899	1 297
Cash and cash equivalents at end of period	**580**	**720**

LLC “KOTK”
Statement of Changes in Net Assets

	Share capital RUB'000	Revaluation reserves RUB'000	Retained earnings RUB'000	Total Net Assets RUB'000
Balance at 1 January 2016	6 000	-	(9 160)	(3 160)
Profit/ (loss) for the period	-	-	1599	1599
Other comprehensive income				
Assets revaluation reserve	-	1 125	-	1 125
Balance at 31 December 2016	**6 000**	**1 125**	**(7 561)**	**(436)**
Balance at 1 January 2017	6 000	1 125	(7 561)	(436)
Profit/ (loss) for the period	-	-	4 371	**4 371**
Other comprehensive income				
Assets revaluation reserve	-	-	-	**-**
Balance at 30 June 2017	**6 000**	**1 125**	**(3 190)**	**3 935**

LLC “TEK Centra”
Statement of Financial Position

	30 June 2017 RUB’000	30 June 2016 RUB’000
ASSETS		
Non-current		
Property, plant and equipment	31 699	23 600
Intangible assets	5	6
Investments	13 702	13 262
Deferred tax assets	9 870	8 193
	55 276	**45 061**
Current		
Inventories	-	-
Trade and other receivables	19 986	17 621
Other assets	16	69
Cash and cash equivalents	2 578	675
	22 580	**18 365**
Total Assets	**77 856**	**63 426**
Share capital	56 651	56 651
Revaluation reserves	8 564	1 154
Retained earnings	7 148	1 165
	72 363	**58 970**
LIABILITIES		
Non-current		
Deferred tax liabilities	2 413	650
	2 413	**650**
Current		
Trade and other payables	1 922	2 760
Other liabilities	1 158	1 046
	3 080	**3 806**
Total Liabilities	**5 493**	**4 456**
Total Equity and Liabilities	**77 856**	**63 426**

LLC “TEK Centra”
Income Statement

	1 H 2017 RUB’000	1 H 2016 RUB’000
Sales revenue	8 104	8 104
Cost of sales	(618)	(1 353)
Gross profit	**7 486**	**6 751**
Administrative expenses	(5 802)	(6 094)
Other operating expenses, net	(505)	(529)
Operating profit	**1 179**	**128**
Net finance costs	(27)	(13)
Other income / (expense), net	-	(35)
Profit before income tax	**1 152**	**80**
Income tax expense, net	1 878	2 314
Profit for the period	**3 030**	**2 394**
Other comprehensive income		
Assets revaluation reserve	-	-
Other comprehensive income for the period, net of tax	**-**	**-**
Total comprehensive income for the period	**3 030**	**2 394**

LLC "TEK Centra"
Statement of Cash Flows

	1 H 2017 RUB'000	1 H 2016 RUB'000
Cash flows from operating activities		
Profit / (loss) for the period before taxation	1 151	79
Adjustments for:		
Depreciation and amortisation	493	1 227
Provision for unused vacation	88	(439)
Impairment and write-off of doubtful trade and other receivables	-	(50)
VAT not deductible	-	-
Gain/ loss on disposal of property, plant and equipment	-	-
	1 732	**817**
(Increase) in inventories in course of operational activities	(1 982)	989
(Increase) in trade and other receivables in course of operational activities	(919)	(3 143)
Increase / (decrease) in trade and other payables in course of operational activities	-	1 321
Income taxes paid	(36)	(565)
Net cash from operating activities	**(1 205)**	**(581**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(8)	(8)
Acquisition of investments	-	-
Net cash used in investing activities	**-**	**(8)**
Cash flows from financing activities		
Proceeds from loans and borrowings	5	-
Repayment of loans and borrowings	(5)	-
Net cash (used in) / from financing activities	**-**	**-**
Net increase in cash and cash equivalents	**(1 213)**	**(589)**
Cash and cash equivalents at beginning of year	3 791	1 264
Cash and cash equivalents at end of period	**2 578**	**675**

LLC “TEK Centra”
Statement of Changes in Net Assets

	Share capital RUB'000	Revaluation reserves RUB'000	Retained earnings RUB'000	Total Net Assets RUB'000
Balance at 1 January 2016	56 651	1 103	(1 179)	56 575
Profit/(loss) for the period	-	-	5 297	5 297
Other comprehensive income				
Assets revaluation reserve	-	7 461	-	7 461
Balance at 31 December 2016	**56 651**	**8 564**	**4 118**	**69 333**
Balance at 1 January 2017	56 651	8 564	4 118	69 333
Profit/(loss) for the period	-	-	3 030	3 030
Other comprehensive income				
Assets revaluation reserve	-	-		
Balance at 31 December 2016	**56 651**	**8 564**	**7 148**	**72 363**

LLC “TEK Kiselevska”
Statement of Financial Position

	30 June 2017 RUB’000	30 June 2016 RUB’000
ASSETS		
Non-current		
Property, plant and equipment	240 480	166 251
Intangible assets	4	4
Deferred tax assets	3 241	-
	243 725	**166 255**
Current		
Inventories	-	-
Trade and other receivables	22 412	16 074
Other assets	527	65
Cash and cash equivalents	4 065	322
	27 004	**16 461**
Total Assets	**270 729**	**182 716**
Net Assets		
Share capital	74 100	74 100
Revaluation reserves	161 463	90 374
Retained earnings	(6 302)	(6 449)
	229 261	**158 025**
LIABILITIES		
Non-current		
Deferred tax liabilities	40 366	22 593
	40 366	**22 593**
Current		
Trade and other payables	28	981
Other liabilities	1 074	1 117
	1 102	**2 098**
Total Liabilities	**41 468**	**24 691**
Total Equity and Liabilities	**270 729**	**182 716**

LLC “TEK Kiselevska”
Income statement

	1 H 2017 RUB’000	1 H 2016 RUB’000
Sales revenue	8 002	8 019
Cost of sales	(7 412)	(5 884)
Gross profit / (loss)	**590**	**2 135**
Administrative expenses	(420)	(420)
Other operating expenses, net	(632)	(713)
Operating profit / (loss)	**(462)**	**1 002**
Net finance costs	(9)	(8)
Other income / (expense), net	-	-
Profit / (loss) before income tax	**(471)**	**994**
Income tax expense, net	(802)	(1 154)
Profit /(loss) for the period	**(1 273)**	**(160)**
Other comprehensive income		
Assets revaluation reserve	-	-
Other comprehensive income for the period, net of tax	**-**	**-**
Total comprehensive income for the period	**(1 273)**	**(160)**

LLC “TEK Kiselevska”
Statement of Cash Flows

	1 H 2017 RUB’000	1 H 2016 RUB’000
Cash flows from operating activities		
Profit / (loss) for the period before taxation	(471)	994
Adjustments for:		
Depreciation and amortisation	7 417	5 888
Impairment and write-off of doubtful trade and other receivables	-	-
VAT not deductible	1	-
Provision for unused vacation	21	21
	6 968	**6 903**
(Increase) / decrease in inventories in course of operational activities	-	-
(Increase) / decrease in trade and other receivables in course of operational activities	(2 706)	(5 471)
Increase / (decrease) in trade and other payables in course of operational activities	(295)	1 344
Income taxes paid	(1 089)	(1 432)
Net cash from operating activities	**2 878**	**1 344**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	-	(1 434)
Net cash used in investing activities	**-**	**(1 434)**
Cash flows from financing activities		
Net cash (used in) / from financing activities	**-**	**-**
Net increase in cash and cash equivalents	**2 878**	**(90)**
Cash and cash equivalents at beginning of year	1 187	412
Cash and cash equivalents at end of period	**4 065**	**322**

LLC “TEK Kiselevska”
Statement of Changes in Net Assets

	Share capital RUB'000	**Revaluation reserves** RUB'000	**Retained earnings** RUB'000	**Total Net Assets** RUB'000
Balance at 1 January 2016	74 100	90 374	(6 289)	158185
Profit/ (loss) for the period	-	-	1 260	1260
Other comprehensive income				
Assets revaluation reserve	-	71 089	-	71 089
Balance at 31 December 2016	**74 100**	**161 463**	**(5 029)**	**230 534**
Balance at 1 January 2017	74 100	161 463	(5 029)	230 534
Profit/ (loss) for the period	-	-	(1 273)	(1 273)
Other comprehensive income				
Assets revaluation reserve	-	-	-	-
Balance at 30 June 2017	**74 100**	**161 463**	**(6 302)**	**229 261**

LLC “Klintsovskaya TEC”
Statement of Financial Position

	30 June 2017 RUB’000	30 June 2016 RUB’000
ASSETS		
Non-current		
Property, plant and equipment	141 025	222
Intangible assets	68	76
Deferred tax assets	28 488	25 861
	169 581	**26 159**
Current		
Inventories	4 110	4 493
Trade and other receivables	19 871	95 575
Other assets	13 234	3 257
Cash and cash equivalents	121 790	65
	159 005	**103 390**
Total Assets	**328 586**	**129 549**
Net Assets		
Share capital	2 738	10
Revaluation reserves	991	991
Retained earnings	(104 139)	(104 364)
	(100 410)	**(103 363)**
LIABILITIES		
Non-current		
Loans and borrowings	286 017	67 000
Deferred tax liabilities	261	562
	286 278	**67 562**
Current		
Loans and borrowings	69 930	86 753
Trade and other payables	67 753	77 996
Other liabilities	5 035	601
	142 718	**165 350**
Total Liabilities	**428 996**	**232 912**
Total Equity and Liabilities	**328 586**	**129 549**

LLC "Klintsovskaya TEC"
Income statement

	1 H 2017 RUB'000	1 H 2016 RUB'000
Sales revenue	157 673	137 500
Cost of sales	(143 101)	(137 916)
Gross profit / (loss)	**14 572**	**(416)**
Selling and marketing expenses	(1 344)	(65)
Administrative expenses	(6 763)	(6 475)
Other operating expenses, net	(224)	(189)
Operating profit / (loss)	**6 241**	**(7 145)**
Net finance costs	(584)	(7 614)
Other income / (expense), net	(1 310)	1 174
Profit / (loss) before income tax	**4 347**	**(13 585)**
Income tax expense, net	735	2 588
Profit /(loss) for the period	**5 082**	**(10 997)**

LLC "Klintsovskaya TEC"
Statement of Cash Flows

	1 H 2017 RUB'000	1 H 2016 RUB'000
Cash flows from operating activities		
Profit / (loss) for the period before taxation	4 347	(13 585)
Adjustments for:		
Depreciation and amortisation	197	263
Impairment of trade and other receivables	(342)	(1 812)
Interest expense	10 063	7 581
VAT non-deductible	-	9
Provision for unused vacation	(127)	(291)
	14 138	**(7 835)**
(Increase) / decrease in inventories in course of operational activities	143	441
(Increase) / decrease in trade and other receivables in course of operational activities	61 386	(32 171)
Increase / (decrease) in trade and other payables in course of operational activities	(403)	18 123
Interest paid	(465)	-
Income taxes paid	(70)	-
Net cash from operating activities	**74 729**	**(21 442)**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(49 402)	(44)
Net cash used in investing activities	**(49 402)**	**(44)**
Cash flows from financing activities		
Proceeds from loans and borrowings	161 017	21 000
Repayment of loans and borrowings	(71 000)	-
Increase of share capital	2 294	
Net cash (used in) / from financing activities	**92 311**	**21 000**
Net increase in cash and cash equivalents	**117 638**	**244**
Cash and cash equivalents at beginning of year	4 152	551
Cash and cash equivalents at end of period	**121 790**	**65**

LLC "Klintsovskaya TEC"
Statement of Changes in Net Assets

	Share capital RUB'000	Revaluation reserves RUB'000	Retained earnings RUB'000	Total Net Assets RUB'000
Balance at 1 January 2016	10	991	(93 367)	(92 366)
Profit/ (loss) for the period	-	-	(15 854)	(15 854)
Transactions with owners recorded directly in equity	**433**	**-**	**-**	**433**
Increase of share capital	433	-	-	433
Balance at 31 December 2016	**443**	**991**	**(109 221)**	**(107 787)**
Balance at 1 January 2017	443	991	(109 221)	(107 787)
Profit/ (loss) for the period	-	-	5 082	**5 082**
Balance at 30 June 2017	**443**	**991**	**(104 139)**	**(100 410)**

LLC “Klintsovskaya TSK”
Statement of Financial Position

	30 June 2017 RUB’000	30 June 2016 RUB’000
ASSETS		
Non-current		
Property, plant and equipment	26 495	14 952
Intangible assets	749	-
Deferred tax assets	16 819	12 729
	44 513	**27 681**
Current		
Inventories	1 478	1 460
Trade and other receivables	43 473	28 590
Other assets	3 086	7 328
Cash and cash equivalents	2 671	777
	50 708	**38 155**
Total Assets	**95 221**	**65 836**
Net Assets		
Share capital	19 935	17 177
Revaluation reserves	8 422	-
Retained earnings	(56 603)	(34 208)
	(28 246)	**(17 031)**
LIABILITIES		
Non-current		
Loans and borrowings	109 000	-
Deferred tax liabilities	2 106	-
	111 106	**-**
Current		
Loans and borrowings	611	4 046
Trade and other payables	11 677	78 723
Other liabilities	73	98
	12 361	**82 867**
Total Liabilities	**123 467**	**82 867**
Total Equity and Liabilities	**95 221**	**65 836**

LLC “Klintsovskaya TSK”
Income statement

	1 H 2017 RUB’000	1 H 2016 RUB’000
Sales revenue	135 052	91 714
Cost of sales	(133 081)	(112 813)
Gross profit / (loss)	**1 971**	**(21 099)**
Selling and marketing expenses	(35)	(134)
Administrative expenses	(1 672)	(3 201)
Other operating expenses, net	(152)	(146)
Operating profit / (loss)	**112**	**(24 580)**
Net finance costs	(3 681)	(162)
Other income / (expense), net	(2 373)	(998)
Profit / (loss) before income tax	**(5 942)**	**(25 740)**
Income tax expense, net	3 330	8 647
Profit /(loss) for the period	**(2 612)**	**(17 093)**
Other comprehensive income		
Assets revaluation reserve	-	-
Other comprehensive income for the period, net of tax	**-**	**-**
Total comprehensive income for the period	**(2 612)**	**(17 093)**

LLC “Klintsovskaya TSK”
Statement of Cash Flows

	1 H 2017 RUB’000	1 H 2016 RUB’000
Cash flows from operating activities		
Profit / (loss) for the period before taxation	(5 942)	(25 740)
Adjustments for:		
Depreciation and amortisation	224	1 043
Impairment and write-off of doubtful trade and other receivables	2 580	923
Interest expense	3 685	134
VAT non-deductible	2	1
Provision for unused vacation	5	-
	554	
(Increase) / decrease in inventories in course of operational activities	(624)	(954)
(Increase) / decrease in trade and other receivables in course of operational activities	(8 505)	(22 017)
Increase / (decrease) in trade and other payables in course of operational activities	(55 272)	43 882
Interest paid	(3 704)	-
Income taxes paid	(308)	(53)
Net cash from operating activities	**(67 859)**	**(2 781)**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(139)	2 674
Proceeds from disposal of property, plant and equipment and intangible assets	-	-
Net cash used in investing activities	**(139)**	**2 674**
Cash flows from financing activities		
Proceeds from loans and borrowings	65 000	3 000
Repayment of loans and borrowings	-	(47)
Decrease of share capital	-	(2 758)
Net cash (used in) / from financing activities	**65 000**	**195**
Net increase in cash and cash equivalents	**(2 998)**	**88**
Cash and cash equivalents at beginning of year	5 669	689
Cash and cash equivalents at end of period	**2 671**	**777**

LLC "Klintsovskaya TSK"
Statement of Changes in Net Assets

	Share capital RUB'000	**Revaluation reserves** RUB'000	**Retained earnings** RUB'000	**Total Net Assets** RUB'000
Balance at 1 January 2016	19 935	-	(17 115)	2 820
Profit / (loss) for the period	-	-	(36 876)	(36876)
Other comprehensive income				
Assets revaluation reserve	-	8 422	-	8 422
Balance at 31 December 2016	**17 177**	**8 422**	**(45 569)**	**(25 634)**
Balance at 1 January 2017	17 177	8 422	(45 569)	(25 634)
Profit / (loss) for the period	-	-	(2 612)	(2 612)
Other comprehensive income	**-**	**-**	**-**	**-**
Balance at 30 June 2017	**17 177**	**8 422**	**(48 181)**	**(28 246)**