
Consolidated financial statements and independent auditor's
report

PJSC CCS-Group

31 December 2018

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INDEPENDENT AUDITOR'S REPORT

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

Details of auditor

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

Details of the audited entity

"CCS-Group" PJSC

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of "CCS-Group" PJSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit matters

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

Allowance for doubtful accounts receivable

We focused on this matter due to significant balances of accounts receivable as at 31 December 2018 and importance of professional judgments and estimates used for calculation of allowance. Allowance represents the best management's estimation with regards to losses, incurred for accounts receivable as at the reporting date. More detailed information is disclosed in Note 10 "Trade and other receivables" to the consolidated financial statements.

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

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

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

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

Covenants compliance analysis

The Group has significant amount of outstanding loans and borrowings at year end for financing its operational activities. Amount of loans outstanding is RUB 778 033 thousand as at 31 December 2018. Terms and conditions of loan agreements contain several financial and non-financial covenants. More detailed information is disclosed in the Notes 15 "Loans and borrowings" and 29 "Capital risk management" to the consolidated financial statements.

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

- reviewed calculations of financial covenants;
- reviewed compliance with non-financial covenants.

Other information

Management is responsible for other information. The other information comprises management report which is expected to be available for us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As at the date of this auditor's report the other information is not available to us and we do not provide any reporting in respect of the other information.

Other information

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

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

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

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

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

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

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

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

- a) Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- d) Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Moscow, Russian Federation

29 April 2019



Alexander Malkov

Consolidated Statement of Financial Position

	Notes	31 December 2018 RUB'000	31 December 2017 RUB'000
ASSETS			
Non-current			
Property, plant and equipment	6	1 926 354	1 771 500
Intangible assets and goodwill	7	69 449	66 720
Long-term financial assets	8	633	722
Deferred tax assets	16	92 558	120 846
		2 088 994	1 959 788
Current			
Inventories	9	70 160	69 770
Trade and other receivables	10	777 431	579 541
Subsidies receivable	11	11 190	13 402
Other assets	12	31 924	84 938
Short-term financial assets	8	-	14 012
Cash and cash equivalents	13	48 618	119 063
		939 323	880 726
Total Assets		3 028 317	2 840 514
Equity			
Share capital	14	23 714	23 714
Treasury shares	14	(2 592)	(2 592)
Share premium	14	333 846	333 846
Revaluation reserve		702 360	703 209
Retained earnings		369 347	232 384
Total Equity		1 426 675	1 290 561
LIABILITIES			
Non-current			
Loans and borrowings	15	521 215	713 452
Deferred tax liabilities	16	216 956	256 360
		738 171	969 812
Current			
Loans and borrowings	15	256 818	8 633
Trade and other payables	17	496 314	446 822
Other liabilities	18	110 339	124 686
		863 471	580 141
Total Liabilities		1 601 642	1 549 953
Total Equity and Liabilities		3 028 317	2 840 514

The consolidated financial statements were approved by the Management and signed on 29 April 2019.

General Director
CCS-Group



Finance Director
CCS-Group

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	2018 RUB'000	2017 RUB'000
Sales revenue	19	3 568 601	3 015 639
Government subsidies	19	138 231	136 206
Cost of sales	20	(3 006 758)	(2 533 685)
Gross profit		700 074	618 160
Selling and marketing expenses	21	(9 664)	(13 492)
Administrative expenses	22	(318 192)	(275 591)
Wages and salaries under option scheme	14	(5 236)	(5 236)
Other operating expenses, net	23	(22 630)	(24 790)
Operating profit		344 352	299 051
Net finance costs	24	(108 923)	(53 724)
Other income/ (expenses), net	25	(39 476)	(141 002)
Profit before income tax		195 953	104 325
Income tax expense	16,26	(51 770)	(27 102)
Profit for the period		144 183	77 223
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Changes in asset revaluation reserve		849	59 625
Deferred tax write-off due to disposal of revalued assets		212	-
Other comprehensive income for the period, net of tax		1 061	59 625
Total comprehensive income for the period		145 244	136 848
Earnings per share		0,00003062	0,00002885
Diluted earnings per share		0,00002970	0,00002799

Consolidated Statement of Cash Flows

	Notes	2018 RUB'000	2017 RUB'000
Cash flows from operating activities			
Profit for the period before taxation		195 953	104 325
<u>Adjustments for:</u>			
Depreciation and amortization	20,22	149 722	57 838
Net foreign exchange (gain) / loss	24	(2 326)	(4 289)
Impairment of doubtful trade and other receivables and prepayments	25	209 956	117 824
Recovery of accounts receivable for ATEK	25	(152 220)	-
FA revaluation			59 625
Share-based payment reserve	14	5 236	5 236
Gain from sale of shares		13 272	(4 781)
Interest income	24	(2 288)	(4 677)
Interest expense	24	86 518	76 385
Loss from disposal of property, plant and equipment		(5 964)	1 715
VAT non-deductable	23	3 103	6 731
Provision for unused vacation		2 261	5 938
Gain on sale of subsidiaries		-	(9 868)
Gain on bargain purchase		-	(37 368)
		503 232	374 634
<u>Adjustments for:</u>			
Change in inventories in course of operational activities		(389)	5 188
Change in trade and other receivables in course of operational activities		(207 447)	(162 229)
Change in other assets		-	8 177
Change in subsidies receivable		2 212	32 881
Change in trade and other payables in course of operational activities		(208)	(36 421)
Interest paid		(74 980)	(83 267)
Interest received		2 288	4 677
Income taxes paid		(67 591)	(27 978)
Net cash used in operating activities		157 117	115 662
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(261 610)	(486 061)
Proceeds from disposal of subsidiaries		-	1 829
Acquisition of subsidiaries, net of cash acquired		-	(58 699)
Proceeds from investment disposal		829	23 109
Net cash received from investing activities		(260 781)	(519 822)
Cash flows from financing activities			
Proceeds from loans and borrowings		2 379 181	1 002 263
Repayment of loans and borrowings		(2 330 160)	(855 820)
Dividend payment		(13 517)	
IFC, EBRD costs reimbursement		(4 611)	(4 405)
Net cash used in financing activities		30 893	142 038
Effect of exchange rate changes on cash and cash equivalents		2 326	4 289
Net change in cash and cash equivalents		(70 445)	(257 833)
Cash and cash equivalents at beginning of the period	13	119 063	376 896
Cash and cash equivalents at end of the period	13	48 618	119 063

Consolidated Statement of Changes in Equity

	Share capital	Treasury shares	Share premium	Asset revaluation reserve	Retained earnings	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
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")	-	-	-	-	5 236	5 236
Total transactions with shareholders	-	-	-	-	5 236	5 236
Profit for the period	-	-	-	-	77 223	77 223
Other comprehensive income / (loss)	-	-	-	-	-	-
Asset revaluation reserve recognised during revaluation of property, plant and equipment (net of deferred taxes)	-	-	-	59 625	-	59 625
Total comprehensive income for the period	-	-	-	59 625	77 223	136 848
Balance at 31 December 2017	23 714	(2 592)	333 846	703 209	232 384	1 290 561
Balance at 1 January 2018	23 714	(2 592)	333 846	703 209	232 384	1 290 561
Dividends	-	-	-	-	(13 517)	(13 517)
Share-based compensation (refer to Note 14 "Share capital")	-	-	-	-	5 236	5 236
Total transactions with shareholders	-	-	-	-	(8 281)	(8 281)
Profit for the period	-	-	-	-	144 183	144 183
Other comprehensive income / (loss)	-	-	-	-	-	-
Asset revaluation reserve recognised during revaluation of property, plant and equipment (net of deferred taxes)	-	-	-	(849)	849	-
Deferred taxed asset on revalued fixed assets	-	-	-	-	212	212
Total comprehensive income / (loss) for the period	-	-	-	(849)	145 244	145 244
Balance at 31 December 2018	23 714	(2 592)	333 846	702 360	369 347	1 426 675

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, including production and distribution of electricity. The production and distribution facilities of the Group for production and distribution are located mostly in Tula, Bryansk and Kemerovo regions of Russia.

The Group’s total headcount as at 31 December 2018 was 1,640 (31 December 2017: 1,487).

PJSC “CCS-Group” permanently domiciled in Russian Federation since 1 October 2009. The Company’s registered office is located at office 38, 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 35 "Subsidiaries".

As at 31 December 2018 and 31 December 2017 the Group has not the final beneficiary.

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 of America, 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 Company and its subsidiaries 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 10 "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 6 "Property, plant and equipment";
- Tax contingencies as described in Note 32.3 "Contingencies";
- Deferred tax assets and liabilities in Note 16.

2.5 Going concern

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

3. Summary of significant accounting policies

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

3.1 Subsidiaries

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2018. 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 September. 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 estimated useful lives are as follows: Concession agreements 1-23 years, Other intangible assets 1-10 years.

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 test in 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 Concession agreements

Financial asset

The Group shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services; the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public. Financial asset is measured initially at fair value. Financial asset is measured subsequently at amortised cost.

Intangible assets

The Group shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. Intangible assets received in connection with concession agreements are measured at fair value of construction/modernization services less amortization and impairment.

3.6 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. Summary of significant accounting policies (continued)

3.7 Financial instruments

Until January 1, 2018:

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.

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.

3. Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

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. 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.

After January 1, 2018:

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

Non-derivative financial instruments of the Group comprise investments in equity and debt securities, trade receivables, cash and cash equivalents, loans and borrowings, trade and other payables.

3. Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

Non-derivative financial instruments (financial assets and liabilities) are recognised initially at fair value plus any costs directly attributable to the transaction, except for financial instruments at fair value, changes in which are recognised through profit or loss. Subsequent to initial recognition, non-derivative financial instruments are measured in accordance with the methods described below.

The classification of financial instruments to a particular category occurs at the time of their adoption to accounting based on the business model used by the organization for managing financial assets and liabilities and the characteristics of the financial instrument associated with contractual cash flows.

Financial assets measured at amortized cost.

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

Amortised cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus or minus the amount of accumulated depreciation calculated using the effective interest method - the difference between the initial amount and the amount of the maturity date, and, in relation to financial assets, adjusted for the provision for losses.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Loans and receivables related to financial assets measured at amortized cost include financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term (which shall be classified as held for trading), and those that the Group upon initial recognition designates at fair value through profit or loss.

Cash and cash equivalents related to financial assets measured at amortized cost include cash in hand and in bank accounts, deposits held at call with banks with original maturities of three months or less, and deposits held at call. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management policy are included in cash and cash equivalents for the purpose of the statement of cash flows. The Group presents interest accrued on bank accounts balances as cash flows from operating activities in the consolidated statement of cash flows.

3. Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

Financial assets at fair value through other comprehensive income.

The financial asset is classified at fair value through other comprehensive income if it is held within a business model that is achieved both through the receipt of contractual cash flows and the sale of financial assets and the contractual terms of the financial asset determine the receipt on the dates indicated cash flows that are solely payments of principal and interest on the principal amount outstanding. When the recognition of a financial asset is discontinued, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

For the purposes of the above classification, the principal amount of the debt is the fair value of the financial asset upon initial recognition. Interest includes only reimbursement for the time value of money, for credit risk in respect of principal that remains outstanding for a certain period of time, and for other usual risks and costs associated with lending, as well as profit margins.

Financial assets at fair value through profit or loss.

A financial asset is classified at fair value through profit or loss, except when it is measured at amortized cost or at fair value through other comprehensive income.

Irrespective of the conditions described above, an entity may, at the initial recognition of a financial asset at its sole discretion, classify it, without the right of subsequent reclassification, as measured at fair value through profit or loss or through other comprehensive income, if this will eliminate or significantly reduce the inconsistency of approaches to evaluation or recognition (sometimes referred to as an «accounting discrepancy»).

The Group recognises the disposal of a financial asset only in the event of termination of the rights for cash flows under the relevant contract or if the financial asset and the related risks and rewards are transferred to other entity. If the Group retains substantially all the risks and rewards of ownership of the transferred financial asset, it continues to recognise the financial asset. When the financial asset is fully derecognized, the difference between its carrying amount assessed at the date of derecognition and the amount of the consideration received (including the amount of the new asset received less the amount of the new obligation assumed) shall be recognized in profit or loss. The Group derecognises financial liabilities only when they are discharged, cancelled or expired.

Financial liabilities mainly include trade and other accounts payable, loans and borrowings payable, and classified as subsequently measured at amortised cost by using the effective interest method.

3.8 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.

3. Summary of significant accounting policies (continued)

3.8 Impairment (continued)

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.

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. Summary of significant accounting policies (continued)

3.9 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.

3.10 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.

3.11 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.

3.12 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 the consolidated 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.

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.

3. Summary of significant accounting policies (continued)

3.13 Equity

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.

3.14 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.

3.15 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.

3.16 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 profit or loss and other comprehensive income when services are rendered.

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

3.17 Municipal 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. Summary of significant accounting policies (continued)

3.18 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.

3.19 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.

3.20 Operating segments

The Group does not disclose information about operating segments in the absence of components that meet the definition of paragraph 5 of IFRS 8 "Operating segments".

3.21 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.

3. Summary of significant accounting policies (continued)

3.22 Share-based payment transactions (continued)

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 standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Rendering of services

The Group recognised service revenue in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

4.1 New standards, interpretations and amendments adopted by the Group (continued)

Presentation and disclosure requirements

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. Information required by IFRS 15 is provided above. Adoption of IFRS 15 did not have an impact on the Group's consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 and without adjusting the comparative information for the period beginning 1 January 2017.

Classification and measurement

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9.

Impairment model

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis.

The Group performed detailed analysis and has not determined significant effects from moving from an incurred loss model under IAS 39 to an expected loss model as required by IFRS 9. As a result of this analysis, the Group concluded that IFRS 9 did not have an impact on the Group's consolidated financial statements.

4.2 Application of Interpretations and Amendments to existing Standards

A number of interpretations and amendments to current IFRSs became effective for the periods beginning on or after 1 January 2018:

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016) provides requirements for recognising a non-monetary asset or a non-monetary obligation arising from a result of committing or receiving prepayment until the recognition of the related asset, income or expense;
- The amendments to IFRS 2 Share-based Payment (issued in June 2016). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions;
- The amendments to IAS 40 Investment Property (issued in December 2016). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property. The Group has reviewed these interpretations and amendments to standards while preparing consolidated financial information. The interpretations and amendments to standards have no significant impact on the Group's consolidated financial information..

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

4.3 Standards, Interpretations and Amendments to existing Standards that are not yet effective and have not been early adopted by the Group

Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2019. In particular, the Group has not early adopted the standards and amendments:

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors;
- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments;
- The amendments to IAS 28 Investments in Associates and Joint Ventures (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify that long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments;
- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify which borrowing costs are eligible for capitalisation in particular circumstances.

The Group is currently assessing the impact of the amendments on its financial position and results of operations.

5. Acquisition of subsidiaries

5.1 Acquisition of the 100% stake in LLC “ATEC”

In July, 2017 the Group purchased 100% ownership in LLC “ATEC” located in Aleksin, Tula region from the third parties, whose principal activities are heat production and distribution. The Group fully paid RUB 71,670 thousand as a total consideration.

The acquisition was recorded under the acquisition method. The fair value of net assets acquired comprised RUB 109,388 thousand. The excess of the fair value of identifiable net assets over acquisition cost of LLC “ATEC” amounted to RUB 37,368 thousand, was recorded as a gain on bargain purchase.

The results of operations of LLC “ATEC” were included in the accompanying consolidated statement of income from the date of acquisition. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Fair value of assets and liabilities LLC “ATEK” as of July,14 2017 RUB'000	
ASSETS	
Property, plant & equipment	117 714
Intangible assets	37
Other non-current assets	8 177
Deferred tax assets	1 612
Inventories	23 338
Investments	19 625
Receivables and other current assets	69 822
Cash	12 971
	253 296
LIABILITIES	
Loans	28 330
Deferred tax liability	6 801
Trade and other payables	74 302
Other current liabilities	34 825
	144 258
Share of the Group in the net identifiable assets	100%
Fair value of acquired net identifiable assets	109 038
Consideration paid	71 670
Excess of Group's interest in the net fair value of the acquired subsidiary's identifiable assets and liabilities over cost	37 368

6. Property, plant and equipment

<u>In thousands of RUB</u>	Land and buildings	Machinery and equipment	Vehicles	Fixtures and fittings	Assets under constructio n	Prepayments for fixed assets	Total
Cost / revalued amount							
At 31 December 2017	1 272 429	258 274	38 276	2 281	279 100	47 791	1 898 151
Revaluation	-	-	-	-	-	-	-
Additions	70 081	10 147	8 215	867	266 140	6 754	362 204
Disposals	(454)	(7 475)	(788)	-	(539)	(52 856)	(62 112)
At 31 December 2018	1 342 056	260 946	45 703	3 148	544 701	1 689	2 198 243
Depreciation and impairment	58 429	41 661	24 868	1 649	44	-	126 651
At 31 December 2017	-	-	-	-	-	-	-
Depreciation charge	98 606	43 623	4 764	403	-	-	147 396
Disposals	(306)	(1 020)	(788)	-	(44)	-	(2 158)
At 31 December 2018	156 729	84 264	28 844	2 052	-	-	271 889
Revalued amounts at At 31 December 2018	1 185 327	176 682	16 859	1 096	544 701	1 689	1 926 354
At 31 December 2017	1 214 000	216 613	13 408	632	279 056	47 791	1 771 500

6. Property, plant and equipment (continued)

<u>In thousands of RUB</u>	Land and buildings	Machinery and equipment	Vehicles	Fixtures and fittings	Assets under constructio n	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	-	-	-	-	-	-	-
Arising on acquisition	45 192	53 948	1 533	310	9 263	7 467	117 713
Additions	235 781	112 805	646	418	375 293	44 569	769 512
Transfers	(15 375)	(1 598)	(1 902)	(235)	(112 058)	(210 016)	(341 184)
At 31 December 2017	1 272 429	258 274	38 276	2 281	279 100	47 791	1 898 151
Depreciation and impairment							
At 31 December 2016	21 933	25 990	21 303	1 556	44	-	70 826
Revaluation	-	-	-	-	-	-	-
Depreciation charge	36 496	15 671	3 565	93	-	-	55 825
At 31 December 2017	58 429	41 661	24 868	1 649	44	-	126 651
Revalued amounts at At 31 December 2017	1 214 000	216 613	13 408	632	279 056	47 791	1 771 500
At 31 December 2016	984 898	67 129	16 696	232	6 558	205 771	1 281 284

6. Property, plant and equipment (continued)

Assets pledged as security

Land and buildings with a book value of RUB 211,620 thousand (31 December 2017: RUB 237,001 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 1,406,916 thousand as at 31 December 2018 (31 December 2017: RUB 1,256,565 thousand).

The carrying amount of fully depreciated but used property, plant and equipment

The book value of fully depreciated but used property, plant and equipment is RUB 49,048 thousand as at 31 December 2018 (31 December 2017: RUB 43,415 thousand).

7. Intangible assets and goodwill

<u>In thousands of RUB</u>	Goodwill	Acquired software licenses	Acquired lease rights	Technical documentation	Concession agreements	Total
Cost						
Cost at 31 December 2017	6 045	2 324	4 311	11 591	56 486	80 757
Additions	-	808	-	-	6 405	7 213
Disposals	-	-	-	-	-	-
At 31 December 2018	6 045	3 132	4 311	11 591	62 891	87 970
Amortisation and impairment						
At 31 December 2017	6 045	1 732	2 935	3 108	217	14 037
Amortisation charge	-	521	383	1 144	2 436	4 484
Disposal	-	-	-	-	-	-
At 31 December 2018	6 045	2 253	3 318	4 252	2 653	18 521
Carrying value						
At 31 December 2018	-	879	993	7 339	60 238	69 449
At 31 December 2017	-	592	1 376	8 483	56 269	66 720

7. Intangible assets and goodwill (continued)

<u>In thousands of RUB</u>	Goodwill	Acquired software licenses	Acquired lease rights	Technical documentation	Concession agreements	Total
Cost						
Cost at 31 December 2016	6 045	1 733	4 311	12 612	-	24 701
Additions	-	594	-	-	56 486	57 080
Transfers	-	(3)	-	(1 021)	-	(1 024)
Disposals	-	-	-	-	-	-
At 31 December 2017	6 045	2 324	4 311	11 591	56 486	80 757
Amortisation and impairment						
At 31 December 2016	6 045	1 353	2 552	2 074	-	12 024
Amortisation charge	-	380	383	1 227	217	2 207
Disposals	-	(1)	-	(193)	-	(194)
At 31 December 2017	6 045	1 732	2 935	3 108	217	14 037
Carrying value						
At 31 December 2017	-	592	1 376	8 483	56 269	66 720
At 31 December 2016	-	380	1 759	10 538	-	12 677

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 “Klintsovskaya TEC”. As at 31 December 2018 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 statement of profit or loss and other comprehensive income in the “Impairment loss” line item in 2015.

7. Intangible assets and goodwill (continued)

In December 2016 the Group signed concession Agreement in which its counterpart is Chernsky region Municipality (the Grantor). According to terms of the Agreement Chernskaya teplovaya kompaniya (the Operator) is obliged to invest RUR 394,661 thousand including VAT in reconstruction and construction of heating systems in Chernsky region of Tulskeya oblast during 2017 - 2040.

The terms of the Agreement require the Grantor to pay to the Operator RUB 74,344 thousand including VAT in order to reimburse part of construction and reconstruction costs.

During the period of concession the Operator operates the heating systems and is paid for its services by the public at regulated prices. In case regulated prices are established in the amount lower, than it was stipulated by the concession agreement the Grantor is obliged to reimburse the Operator for its losses.

After the end of the term of concession the Grantor receives the infrastructure back.

8. Financial assets

8.1 Long-term financial assets

	31 December 2018 RUB'000	31 December 2017 RUB'000
Other long-term financial assets (cession in TEK Centra)	633	392
Other long-term financial assets (cession in ATEK)	-	330
Total long-term financial assets	633	722

8.2 Short-term financial assets

	31 December 2018 RUB'000	31 December 2017 RUB'000
Promissory notes (KOTK)	-	14 012
Total short-term financial assets	-	14 012

Promissory notes were issued by LLC "FinTrade" has maturity date in 2018. In 3 quarter 2018 provision for these notes in the amount of RUB 14,079 thousand was created.

9. Inventories

	31 December 2018 RUB'000	31 December 2017 RUB'000
Raw materials other than coal	44 373	41 015
Heating oil	20 857	21 062
Coal	4 855	7 562
Consumables	75	131
Total inventories	70 160	69 770

Allowance for inventory impairment as at 31 December 2018 and 31 December 2017 was not created, due to the absence of slow-moving inventory items.

As at 31 December 2018 and 31 December 2017 the Group has no inventory in pledge.

10. Trade and other receivables

	31 December 2018 RUB'000	31 December 2017 RUB'000
Trade receivables	1 227 353	846 482
Allowance for doubtful trade receivables	(457 519)	(275 824)
Trade receivables, net	869 834	570 658
Other receivables	9 394	12 026
Allowance for doubtful other receivables	(1 797)	(3 143)
Other receivables, net	7 597	8 883
Total trade and other receivables	777 431	579 541

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.

10. Trade and other receivables(continued)

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

	31 December 2018 RUB'000	31 December 2017 RUB'000
Receivables not overdue	348 472	263 372
Receivables overdue	888 275	595 136
Not more than 1 month	97 756	80 659
More than 1 month but not more than 6 months	308 897	138 628
More than 6 months but not more than 9months	129 752	86 461
More than 9 months but not more than 1 year	16 573	16 850
More than 1 year	335 297	272 538
Total	1 236 747	858 508

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 459,316 thousand (31 December 2017: RUB 278,967 thousand) was created. The impaired receivables are mostly due from companies that are experiencing financial difficulties or went bankrupt and due from individuals based on percentage of collectability of this type of trade and other receivables. The aging of these receivables is as follows:

	31 December 2018 RUB'000	31 December 2017 RUB'000
More than 6 months but not more than months	130 209	64 568
More than months but not more than 1 year	16 722	16 756
More than 1 year	312 385	197 643
Balance at end of period	459 316	278 967

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

	2018 RUB'000	2017 RUB'000
Balance at the beginning of the period	278 967	159 986
Charge for the period, net (Note 25)	180 349	118 981
Recovered during the period	-	-
Write-offs during the period	-	-
Balance at end of period	459 316	278 967

11. Subsidies receivable

	31 December 2018 RUB'000	31 December 2017 RUB'000
Subsidies from Kiselevsk Government, Kemerovo Oblast	11 190	13 402
Total subsidies receivable	11 190	13 402

12. Other assets

	31 December 2018 RUB'000	31 December 2017 RUB'000
Income tax prepayment	13 235	22 331
VAT to be reclaimed	10 645	44 683
Prepayments for materials and supplies	7 287	17 460
Other tax prepayments	757	464
Total other assets	31 924	84 938

13. Cash and cash equivalents

	31 December 2018 RUB'000	31 December 2017 RUB'000
Cash at bank	20 180	52 271
Short-term deposits	28 240	52 565
Irrevocable letter of credit	-	14 000
Cash in hand	198	227
Total cash and cash equivalents	48 618	119 063

As of 31 December 2018 total cash and cash equivalents includes bank deposits in Rubles and foreign currency placed in Sberbank and Gazprombank the following terms:

Deposit	Currency	Amount in currency	Annual interest rate,	Maturity date
Deposit 1	RUB	20 390 000	7.10%	06.02.2019
Deposit 2	RUB	450 000	4.11%	09.01.2019
Deposit 3	RUB	4 500 000	6.89%	14.01.2019
Deposit 4	RUB	1 800 000	4.11%	09.01.2019
Deposit 5	RUB	1 100 000	4.11%	09.01.2019

At the date of the signing of the consolidated financial statements, the deposit was returned.

14. Share Capital

As at 31 December 2018 authorized and issued share capital of the Company consisted of 4,742,783,406 ordinary shares with the nominal value of 0.005 RUB each (4,742,783,406 ordinary shares as at 31 December 2017).

	31 December 2018	31 December 2017
Shares issued and fully paid	4 742 783 406	4 742 783 406
Total authorised and issued shares at 30 September	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 - 2017.

According to the Minutes N 18 of General meeting of OJSC "CCS-Group" shareholders dated 03.07.2018, the decision on distribution of net profit of OJSC "KKS-Group" according to the results of the 2017 financial year. Total dividends were paid to the shareholders in the amount of RUB 13,517 thousand. Dividends payable per share amounted to 0.00285 rubles.

List of shareholders of the Company is presented below.

Shareholder's name	The part of Share Capital as of 31 December 2018 %	31 December 2017 %
Specialised Power Limited	22.34	22.34
Magna Carta Capital Limited	19.43	19.43
EBRD	19.09	19.09
IFC	19.09	19.09
Reserved shares issued by the Company and held by subsidiaries of the Group	9.46	9.46
Treasury shares	0.39	0.39
Other	10.20	10.20
Total	100	100

As at 31 December 2018 and 31 December 2017 the Group has not the final beneficiary.

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 "Resurs Plavsk" (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

14. Share Capital (continued)

Date in accordance with Section 3.02 (Exit Put Price) of the Amended and Restated Put and Call Option Agreement and the Grantors agreed, on a joint and several basis, to purchase and pay for such IFC Shares.

Based on confirmations received by the Company in case during the Exit Put Period EBRD will exercise the right to sell all but not less than all of the EBRD Shares held by EBRD on the relevant Option Settlement Date at the Exit Put Price determined as of such Option Settlement Date in accordance with Section 3.02 (Exit Put Price) of the Put and Call Option Agreement or in case during the Exit Put Period IFC will exercise the right to sell all but not less than all of the IFC Shares held by IFC on the relevant Option Settlement Date at the Exit Put Price determined as of such Option Settlement Date in accordance with Section 3.02 (Exit Put Price) of the Amended and Restated Put and Call Option Agreement, Magna Carta Capital Limited will pay for the shares in full. Due to mentioned above, exit put options owned by EBRD and IFC do not give rise to any liabilities for CCS-Group and management elected not to disclose these options in the financial statements of CCS-Group for the period ended 31 December 2018.

Share-Based compensation

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

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

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

Qualifying executives will be granted the right to execute options during 3 periods in the following manner:

- (a) not more that 30% of the Options granted between 1 July 2016 and 31 December 2018;
- (b) not more that 30% of the Options granted between 1 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 2018 is nil (2017:nil). Options were priced using binomial option pricing model. Expenses recognized in 2018 amounted to RUB 5,236 thousand (2017: RUB 5,236 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%

15. Loans and borrowings

	31 December 2018 RUB'000	31 December 2017 RUB'000
Non-current		
Loans and borrowings	521 215	713 452
Current		
Interest payable	213 669 43 149	- 8 633
Total loans and borrowings	778 033	722 085

Terms and repayment schedule are as follows:

Loans outstanding as at 31 December 2018:

Lender	Currency	Outstanding principal RUB'000	Nominal annual interest rate	Effective interest rate	Year of maturity
Sberbank	RUB	266 953	9.30%	9.30%	2021
Sberbank	RUB	70 632	9.30%	9.30%	2021
Sberbank	RUB	15 200	10.96%	10.96%	2021
IFC	RUB	200 000	9.05%	12.07%	2022
EBRD	RUB	231 138	14.10%	17.52%	2023

The amortized cost of loans as at 31 December 2018 is RUB 197,086 thousand on a loan from the IFC and RUB 226,243 thousand on a loan from the EBRD.

Loans outstanding as at 31 December 2017:

Lender	Currency	Outstanding principal RUB'000	Nominal annual interest rate	Effective interest rate	Year of maturity
Sberbank	RUB	175 697	10.95%	10.95%	2019
Sberbank	RUB	29 406	10.95%	10.95%	2019
IFC	RUB	250 000	9.39%	11.81%	2022
EBRD	RUB	279 799	13.14%	17.13%	2023

The amortized cost of loans as at 31 December 2017 is RUB 247,488 thousand on a loan from the IFC and RUB 267,869 thousand on a loan from the EBRD.

The table below represents a book value of assets as collateral amounts of loans securities as of 31 December 2018 and 31 December 2017:

	31 December 2018 RUB'000	31 December 2017 RUB'000
Property, plant and equipment (Ref. Note 6)	211 620	237 001

In July 2017 the Group signed the loan agreement with Sberbank for loan facility in the amount of RUB 356,673 thousand. In the current period the Group received RUB 685,987 thousand and repaid RUB 861,684 thousand. The loan agreement was terminated in May 2018.

15. Loans and borrowings (continued)

In May 2018 the Group signed the loan agreement with Sberbank for loan facility in the amount of RUB 450,000 thousand. In the current period the Group received RUB 1,191,364 thousand and repaid RUB 924,411 thousand. According to the contract full repayment is scheduled for February, 2021. The objective of receiving of these loans was financing of working capital of the Group.

In November 2017 the Group signed the loan agreement with Sberbank for loan facility in the amount of RUB 80,000 thousand. In the current period the Group received RUB 91,860 thousand and repaid RUB 121,266 thousand. The loan agreement was terminated in May 2018.

In May 2018 the Group signed the loan agreement with Sberbank for loan facility in the amount of RUB 195,000 thousand. In the current period the Group received RUB 394,770 thousand and repaid RUB 324,138 thousand. According to the contract full repayment is scheduled for February, 2021. The objective of receiving of these loans was financing of working capital of the Group.

In December 2018 the Group signed the loan agreement with Sberbank for loan facility in the amount of RUB 100,000 thousand. In the current period the Group received RUB 15,200 thousand and repaid RUB 0 thousand. According to the contract full repayment is scheduled for March, 2021. The objective of receiving of these loans was financing of working capital of the Group.

In December 2012 the Group entered into a loan agreement with the International Finance Corporation 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 and repaid RUB 50,000,000.

In September 2013 the Group entered into a loan agreement with the European Bank for Reconstruction and Development in the amount of RUB 350,000 thousand with a maturity date up to 2023 year. At the reporting date the Group received RUB 350,000 thousand and repaid principal of RUB 118,862 thousand.

The objective of receiving of loans from IFC and EBRD was financing of investment programs of the Group.

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

Due to the breach of the covenant "Collection ratio" as at 31 December 2018 and the above mentioned EBRD loan with the amortized amount of RUB 226,243 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". Management does not expect the EBRD to demand early repayment of the loan. To confirm the absence of such intentions the management requested a waiver of the early demand for repayment of the loan.

17.04.2019 waiver was received from the EBRD, in which the EBRD agrees not to exercise or apply the right to demand early repayment of the loan with amortized cost of RUB 226,243 thousand in connection with the breach of the covenant "Collection ratio", in relation to the financial year ending 31 December 2018.

Based on the waiver management believes that the EBRD loan is effectively long-term as of 31 December 2018 and should be classified as long-term for the purpose of calculating covenants "Current ratio" under a loan agreement with the IFC. Based on the above, the "Current ratio" is 1.42 and complies with the conditions of the loan agreement with the IFC (see Note 29). A letter was sent to IFC on the applied approach to calculating financial covenants before the date of approval of the annual consolidated financial statements.

16. Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	31 December 2018 RUB'000	31 December 2017 RUB'000	31 December 2018 RUB'000	31 December 2017 RUB'000	31 December 2018 RUB'000	31 December 2017 RUB'000
Property, plant and equipment	19 924	18 127	(206 795)	(238 718)	(186 871)	(220 591)
Intangible assets	-	-	(134)	(146)	(134)	(146)
Investments	12 799	9 279	(7 340)	(4 950)	5 459	4 329
Inventories	165	163	(13)	(75)	152	88
Receivables and prepayments	-	56 676	6 754	-	6 754	56 676
Payables and accruals	1 931	1 681	(9 428)	(12 471)	(7 497)	(10 790)
Tax losses carried forward	57 739	34 920	-	-	57 739	34 920
	92 558	120 846	(216 956)	(256 360)	(124 398)	(135 514)

	Assets		Liabilities		Net	
	31 December 2017 RUB'000	31 December 2016 RUB'000	31 December 2017 RUB'000	31 December 2016 RUB'000	31 December 2017 RUB'000	31 December 2016 RUB'000
Property, plant and equipment	18 127	5 356	(238 718)	(200 313)	(220 591)	(194 957)
Intangible assets	-	-	(146)	(165)	(146)	(165)
Investments	9 279	161	(4 950)	-	4 329	161
Inventories	163	16	(75)	(25)	88	(9)
Receivables and prepayments	56 676	(2 494)	-	15 268	56 676	12 774
Payables and accruals	1 681	1 290	(12 471)	(94)	(10 790)	1 196
Tax losses carried forward	34 920	35 442	-	-	34 920	35 442
	120 846	39 771	(256 360)	(185 329)	(135 514)	(145 558)

The applicable income tax rate for the Russian Group companies is 20% (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 92,558 thousand of deferred tax assets and total amount of negative net balances resulted in RUB 216,956 thousand of deferred tax liability, as shown in the consolidated statement of financial position as at 31 December 2018 (31 December 2017: total amount of positive net balances resulted in RUB 120,846 thousand of deferred tax assets and total amount of negative net balances resulted in RUB 256,360).

16. Deferred tax assets and liabilities (continued)

Movements in deferred taxes during the period were as follows:

<u>In thousands of RUB</u>	Property, plant and equipment	Intangibles assets	Investments	Inventories	Receivables and prepayments	Payables and accruals	Tax losses carried forward	Total
Balance as at 1 January 2018	(220 591)	(146)	4 329	88	56 676	(10 790)	34 920	(135 514)
Recognized in income — origination and reversal of timing differences	33 508	12	1 130	64	(49 922)	3 293	22 819	10 904
Release of deferred tax from disposal of revalued assets	212	-	-	-	-	-	-	212
Balance as at 31 December 2018	(186 871)	(134)	5 459	152	6 754	(7 497)	57 739	(136 573)

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

<u>In thousands of RUB</u>	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	(194 957)	(165)	161	(9)	12 774	1 196	35 442	(145 558)
Recognized in income — origination and reversal of timing differences	(20 395)	19	4 168	90	38 566	(12 096)	5 445	15 797
Arising on acquisition	(5 247)	-	-	7	52	-	-	(5 188)
Release of deferred tax from disposal of subsidiaries	8	-	-	-	5 284	110	(5 967)	(565)
Balance as at 31 December 2017	(220 591)	(146)	4 329	88	56 676	(10 790)	34 920	(135 514)

Group companies recognized tax losses of RUB 342,305 thousand which was generated in the following periods:

	Amount, RUB'000
2013	76
2014	24,841
2015	95,111
2016	66,678
2017	61,874
2018	93,725
Total	342,305

During 2018 the Group used tax assets in the amount of RUB 17,515 thousand (2017: RUB 13,181 thousand).

17. Trade and other payables

	31 December 2018 RUB'000	31 December 2017 RUB'000
Trade payables	469 154	423 024
Wages, salaries and other related accruals	24 017	21 524
Other payables	3 143	2 274
Total trade and other payables	496 314	446 822

18. Other liabilities

	31 December 2018 RUB'000	31 December 2017 RUB'000
VAT payable	41 926	41 750
Other taxes payable	28 136	23 201
Provision for unused vacation	24 535	22 274
Advances from customers	14 251	22 914
Corporate income tax payable	1 491	14 547
Total other liabilities	110 339	124 686

19. Sales revenue

	2018 RUB'000	2017 RUB'000
Heating	3 286 062	2 589 056
Water supply	143 625	137 922
Electricity	64 220	33 768
Equipment of apartment buildings with metering devices of thermal energy	9 299	12 354
Housing management	-	82 279
Revenue from construction services of concession agreements	6 784	119 490
Other revenue	58 611	40 770
Total sales revenue	3 568 601	3 015 639

The heat energy is provided to individual residential customers at regulated social tariffs, significantly lower than the rates applicable to commercial customers. The difference in tariffs is compensated to the Group in the form of subsidies from the Kiselevsk Government, Kemerovo Oblast. For 2018, the subsidy amounted to RUB 138,231 thousand (2017: RUB 136,206 thousand).

Revenue from heating includes revenue in the amount of RUB 26,368 thousand (2017: RUB 33,083 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.

19. Sales revenue (continued)

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 ratios disclosed in these financial statements.

20. Cost of sales

	2018 RUB'000	2017 RUB'000
Raw materials	2 057 026	1 623 898
Wages, salaries and other personnel expenses	304 698	261 104
Electricity	199 668	172 792
Rent, repair and maintenance	124 608	139 926
Depreciation and amortisation	132 673	47 852
Social security costs	93 673	79 740
Fees and services	59 255	56 829
Communication and other deliveries	20 497	13 343
Utilities	5 097	15 740
Right and insurances	2 755	2 943
Costs of constructions services of concession agreements	6 376	119 490
Other expenses	432	28
Total cost of sales	3 006 758	2 533 685

21. Selling and marketing expenses

	2018 RUB'000	2017 RUB'000
Commission	9 664	13 492
Total selling and marketing expenses	9 664	13 492

22. Administrative expenses

	2018 RUB'000	2017 RUB'000
Wages, salaries and other personnel expenses	202 896	181 333
Social security costs	50 970	46 747
Rent, repair and maintenance	25 033	18 754
Depreciation and amortisation	17 049	9 986
Stationery	10 774	11 811
Consulting and audit services	8 501	2 768
Electricity	1 617	841
Transport expenses	566	886
Legal expenses	30	1 516
Other expenses	5 992	6 185
Total administrative expenses	323 428	280 827

23. Other operating expenses, net

	2018 RUB'000	2017 RUB'000
Taxes	25 494	16 344
VAT non deductible	3 103	6 731
Other operating (income) /expenses	(5 967)	1 715
Total other operating expenses, net	22 630	24 790

24. Finance costs, net

	2018 RUB'000	2017 RUB'000
Interest income	2 288	4 677
Gain/ (loss) from sale of shares	(13 272)	4 781
Exchange gains/(losses)	2 326	4 289
Interest expense	(86 518)	(76 385)
Other finance income /(costs)	(13 747)	8 914
Total finance income / (costs), net	(108 923)	(53 724)

25. Other income/ (expenses), net

	2018 RUB'000	2017 RUB'000
Recovery of accounts receivable for ATEK	152 220	-
Fines to/from suppliers (net)	19 030	4 263
Gain on bargain purchase (Note 5,35)	-	37 368
Gain on disposal of subsidiaries (Note 35)	-	9 868
Write-off of inventories	3 177	3 533
Write-off of payables	-	1 157
Gains/ (losses) on assignment of right of demand	1 055	(4 022)
Property tax (INVEK)	(1 053)	-
Loss on trade receivables	(29 616)	-
Impairment of receivables (Note 10)	(180 349)	(118 981)
FA revaluation	-	(59 625)
Increased ratio 1/1 (Nash Dom)	-	(7 104)
State duties (net)	(1 705)	(2 902)
Correction of previous periods revenues	333	(2 334)
Charity	(1 465)	(691)
Other income	1 959	3 086
Other expenses	(3 062)	(4 618)
Total other expenses, net	(39 476)	(141 002)

26. Income tax expense

	2018 RUB'000	2017 RUB'000
Current		
Current income tax expense	62 674	42 899
Deferred		
Effect of utilisation and origination of tax losses carried forward	(22 819)	(5 445)
Origination and reversal of temporary differences	11 915	(10 352)
		-
Total income tax expense	51 770	27 102

Reconciliation of theoretical income tax expense with actual income tax expenses

	2018 RUB'000	2017 RUB'000
Profit before tax	195 953	104 325
Income tax using the tax rate (20 %)	39 191	20 865
Tax losses	12 579	5 445
Adjustment for non-taxable income and non-accepted expenses	-	792
Total income tax expense in the consolidated statement of comprehensive income	51 770	27 102

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

27. Earnings per share and diluted earnings per share

	2018 RUB'000	2017 RUB'000
Total comprehensive income for the period	145 244	136 848
Weighted average number of shares during the year	4 742 783 406	4 742 783 406
Earnings per share	0,00003062	0,00002885
Potential shares as a result of exercising options	147 191 555	147 191 555
Total shares	4 889 974 961	4 889 974 961
Diluted earnings per share	0,00002970	0,00002799

28. Consolidated EBITDA reconciliation

	2018 RUB'000	2017 RUB'000
Consolidated profit for the period	144 183	77 223
Adjustments for:		
Income tax expense	51 770	27 102
Interest expense, net	84 230	71 708
Consolidated EBIT	280 183	176 033
Adjustment for depreciation and amortization	149 722	57 838
Consolidated EBITDA	429 905	233 871

Consolidated EBITDA for 2018 includes exchange gains of RUB 2,326 thousand (2017: exchange gain of RUB 4,289 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.

	2018 RUB'000	2017 RUB'000
Consolidated profit for the period	144 183	77 223
Adjustments for:		
Financial income/ expenses (excluding interest)	27 019	(13 695)
Income tax expense	51 770	27 102
Interest expense, net	84 230	71 708
Consolidated recurring EBIT	307 202	162 338
Adjustment for depreciation and amortisation	149 722	57 838
Adjustment for non-recurring operations, including:		
FA revaluation	-	59 625
Exchange (gains)/losses	(2 326)	(4 289)
Share-based compensation	5 236	5 236
Gain on purchase of ATEK	-	(37 368)
Gain on sale on Nash Dom	-	(9 868)
Recovery of accounts receivable for ATEK	(152 220)	-
Consolidated recurring EBITDA	307 614	233 512

29. 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:

	2018 RUB'000	2017 RUB'000
Operating profit	344 352	299 051
Total averaged assets	2 934 415	2 629 912
Return on assets ratio for the year	11,73%	11,37%

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

The gearing ratios were as follows:

	31 December 2018 RUB'000	31 December 2017 RUB'000
Loans and borrowings	778 033	722 085
Less: Cash and cash equivalents	(48 618)	(119 063)
Net debt	729 415	603 022
Total equity	1 426 675	1 290 561
Gearing ratio	51,13%	46,73%

29. Capital risk management(continued)

As a requirement of investors, the company also monitors the following ratios as at 31.12.2018.

	RUB'000	Benchmark
Current assets	939 323	
- Prepaid expenses	(31 924)	
Current assets less prepaid expenses	907 329	
Current liabilities	637 228	
Current ratio¹	1,42	1,2 and more
Total Liabilities	1 601 642	
Equity	1 426 675	
Deferred tax assets	92 558	
Intangible assets	69 449	
Tangible Net Worth	1 264 668	
Tangible Net Worth ratio	1,27	Not exceeding 2
Profit for the period	144 183	
Non-cash items, including depreciation and amortisation	149 722	
Income taxes	51 770	
Payments due on account of interest and other charges on all Financial debt	86 518	
CAPEX	-	
Sub total 1	432 193	
Scheduled payments	173 641	
Historic Debt Service Coverage Ratio	2,49	1,3 and more
Loans and borrowings	757 639	
Less: Cash and cash equivalents	(48 618)	
Net debt	709 021	
Consolidated recurring EBITDA	307 614	
Net Debt to EBITDA ratio	2,30	Not exceeding 3

¹ See Note 15 for explaining a coefficient calculation

30. Financial risk management

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

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

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

	31 December 2018 RUB'000	31 December 2017 RUB'000
Financial assets		
Trade and other receivables	777 431	579 541
Subsidies receivable	11 190	13 402
Cash and cash equivalents	48 618	119 063
Financial liabilities		
Trade and other payables	496 314	446 822
Loans and borrowings	778 033	722 085

30.1 Credit risk analysis

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

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

	31 December 2018 RUB'000	Share
Individuals	344 679	44,34%
Municipal unitary enterprise "Management company of Venevsky district"	47 017	6,05%
GKS MUP	46 623	6,00%
JSC "MUK goroda Aleksina"	26 564	3,42%
LLC «Doma Krasivomechya»	26 179	3,37%
Total:	491 062	63,16%
Total trade and other receivables:	777 431	

	31 December 2017 RUB'000	Share
Individuals	189 458	32,7%
Department of housing and public utilities of Kiselevsky region	13 402	2,3%
LLC ZHK "Comfort stil' plus"	11 569	2,0%
LLC «Domashuy uyut+»	8 350	1,4%
LLC ZHK «Comfort-Plus»	8 123	1,4%
Total:	230 902	39,8%
Total trade and other receivables:	579 541	

30. Financial risk management (continued)

30.2 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 favorable 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	197 086	9.05	15.09.2019
EBRD	234 391	14.10	07.11.2019

*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.

30.3 Liquidity risk

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

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

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

31 December 2018	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	226 243	35 252	42 404	70 870	159 358	-	307 884
Loans received from IFC	197 086	28 721	37 130	61 300	108 761	-	235 912
Loan received from Sberbank (LLC "CCS")	268 490	-	-	268 490	-	-	268 490
Loan received from Sberbank (LLC "ATEK")	70 996	-	-	70 996	-	-	70 996
Loan received from Sberbank (LLC "Klintsovskaya TEC")	15 218	-	-	15 218	-	-	15 218
Trade and other payables and other monetary liabilities	496 314	496 314	-	-	-	-	496 314
Total financial liabilities	1 274 347	560 287	79 534	486 874	268 119	-	1 394 814

30. Financial risk management (continued)

30.3 Liquidity risk (continued)

31 December 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	267 869	36 829	45 251	75 682	188 787	38 190	384 739
Loans received from IFC	247 488	29 825	41 380	66 446	170 815	-	308 466
Loan received from Sberbank (LLC “CCS”)	177 147	-	-	177 147	-	-	177 147
Loan received from Sberbank (LLC “ATEK”)	29 581	-	-	29 581	-	-	29 581
Trade and other payables and other monetary liabilities	446 822	446 822	-	-	-	-	446 822
Total financial liabilities	1 168 907	513 476	86 631	348 856	359 602	38 190	1 346 755

30.4 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.

31. 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).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value hierarchy as at 31 December 2018, RUB'000

	Level 1	Level 2	Level 3	Total
Property, plant and equipment	-	-	1 926 354	1 926 354
Loans	-	778 033	-	778 033

Fair value hierarchy as at 31 December 2017, RUB'000

	Level 1	Level 2	Level 3	Total
Property, plant and equipment	-	-	1 771 500	1 771 500
Loans	-	722 085	-	722 085
Promissory notes	-	-	14 012	14 012

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.

32. Contingencies

32.1 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. In 2017 the Group insured property and third party liability in JSC "SOGAZ" and directors and officers liability in Allianz for 2018 and in 2018 for 2019.

32.2 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.

32. Contingencies (continued)

32.3 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.

32.4 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.

32.5 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 4.3% for 2018 (2017: 2.5%). The financial results of the Russian economy and consequently of the Group will be affected if inflation is not controlled effectively.

32. Contingencies (continued)

32.5 Uncertainties of operating environment

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.

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.

32.6 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.

33. Related-party transactions

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

33.1 Transactions with shareholders

Related party	Services provided	Balance as at 31 December 2017	Debit turnover for 2018	Credit turnover for 2018	Balance as at 31 December 2018
EBRD	Loans received	(279 799)	48 661	-	(231 138)
EBRD	Interest on loans	(5 540)	34 366	(33 737)	(4 911)
EBRD	Dividends	-	2 862	(2 862)	-
IFC	Loans received	(250 000)	50 000	-	(200 000)
IFC	Interest on loans	(6 977)	22 719	(21 020)	(5 279)
IFC	Income participation fee	-	4 206	(4 206)	-
IFC	Other expenses reimbursement	-	405	(405)	-
IFC	Dividends	-	2 862	(2 862)	-
Total		(542 316)	166 081	(65 092)	(441 327)

33. Related-party transactions (continued)

Related party	Services provided	Balance as at 31 December 2016	Debit turnover for 2017	Credit turnover for 2017	Balance as at 31 December 2017
EBRD	Loans received	(328 460)	48 661	-	(279 799)
EBRD	Interest on loans	(7 577)	47 605	(45 568)	(5 540)
EBRD	Other expenses reimbursement	-	34	(34)	-
IFC	Loans received	(250 000)	-	-	(250 000)
IFC	Interest on loans	(8 318)	28 376	(27 035)	(6 977)
IFC	Income participation fee	-	3 957	(3 957)	-
IFC	Legal costs reimbursement	-	414	(414)	-
Total		(594 355)	129 047	(77 008)	(542 316)

33.2 Transactions with key management personnel

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

	2018 RUB'000	2017 RUB'000
Short-term benefits	39 912	33 041
Share-based compensation	5 236	5 236
Dividends	758	-
Total	45 906	38 277

	31 December 2018 RUB'000	31 December 2017 RUB'000
Period-end balances		
Trade and other receivables	-	2 500
Trade and other payables	796	1 305

33.3 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:

Related party	Services provided	Balance as at 31 December 2017	Debit turnover for 2018	Credit turnover for 2018	Balance as at 31 December 2018
Vektor, LLC	Purchase of services	(140)	2 989	(3 131)	(282)
Total		(140)	2 989	(3 131)	(282)

33. Related-party transactions (continued)

Related party	Services provided	Balance as at 31 December 2016	Debit turnover for 2017	Credit turnover for 2017	Balance as at 30 December 2017
Vektor, LLC	Purchase of services	(11)	2 236	(2 365)	(140)
Total		(11)	2 236	(2 365)	(140)

34. Commitments**34.1 Operating leases**

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

	31 December 2018 RUB'000	31 December 2017 RUB'000
Less than one year	26 570	26 651
Between one and five years	74 640	80 228
More than five years	92 383	70 388
Total operating leases	193 593	177 267

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

35. Subsidiaries

The following comprise the list of the Group subsidiaries as at 31 December 2018 and 31 December 2017:

Entity	Principal activities	Country of incorporation	Control, %	
			31 December 2018	31 December 2017
KOTK LLC	Heating, Water supply and removal	Russia	100	100
CCS LLC ²	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 kompaniya 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 Kompaniya LLC	Delivery, distribution and production of thermal energy	Russia	100	100
IPK LLC	Activities of the customer-contractor, general contractor	Russia	100	100

During 2017, LLC Nash Dom was sold for 5,000 thousand rubles with the amount of negative net assets of 4,868 thousand rubles. Income from the disposal of LLC Nash Dom amounted to 9,868 thousand rubles (the amount is disclosed in Note 25 "Other income / (expenses), net").

During 2017 the Group purchased 100% ownership LLC ATEK and its subsidiary LLC Kvadro for RUB 71,670 thousand (the amount is disclosed in Note 5 "Acquisition of subsidiaries"). 03.12.2018 LLC Kvadro was liquidated. Information on the participation shares is given below:

Entity	Principal activities	Country of incorporation	Control, %	
			31 December 2018	31 December 2017
ATEK, LLC	Heating	Russia	100	100
Kvadro, LLC	Leasing	Russia	-	100

36. Events after the reporting period

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

02.04.2019 the General meeting of shareholders of LLC "CCS" adopted a decision to reorganize LLC "CCS" by accession of LLC "Chernskaya teplovaya kompaniya" and LLC "IPK". The event did not affect the annual consolidated financial statements.

There were no other material events after the reporting period requiring disclosure.

²Former NTK LLC. 01.02.2017 subsidiaries RTS LLC, Resource-Plavsk LLC, DKK LLC, VTK LLC, CCSVostok LLC merged to CCS LLC.

Appendix A

PJSC “CCS-Group”

Statement of Financial Position

	31 December 2018 RUB'000	31 December 2017 RUB'000
ASSETS		
Non-current		
Property, plant and equipment	142 689	135 780
Intangible assets	1	-
Long-term investments	1 058 447	1 054 655
Deferred tax assets	2	2
Other assets	-	-
	1 201 139	1 190 437
Current		
Inventories	35	38
Trade and other receivables	63 326	76 119
Other assets	1 059	1 510
Short-term investments	424 048	474 779
Cash and cash equivalents	23 104	69 205
	511 572	621 651
Total Assets	1 712 711	1 812 088
Equity		
Share capital	26 306	26 306
Treasury shares	-	-
Share premium	424 234	424 234
Revaluation reserve	83 295	83 295
Retained earnings	725 115	693 929
	1 258 950	1 227 764
LIABILITIES		
Non-current		
Loans and borrowings	168 431	508 349
Deferred tax liabilities	26 188	27 555
	194 619	535 904
Current		
Loans and borrowings	254 899	7 009
Trade and other payables	1 223	15 608
Other liabilities	3 020	25 803
	259 142	48 420
Total Liabilities	453 761	584 324
Total Equity and Liabilities	1 712 711	1 812 088

PJSC “CCS-Group”

Income Statement

	2018 RUB'000	2017 RUB'000
Sales revenue	34 170	31 951
Cost of sales	(12 450)	(16 500)
Gross profit / (loss)	21 720	15 451
Administrative expenses	(14 745)	(18 620)
Other operating income / (expenses), net	(1 051)	77 423
Operating profit /(loss)	5 924	74 254
Net finance income/ (costs)	45 589	161 324
Other expense, net	(5 964)	3 930
Profit/ (loss) before income tax	45 549	239 508
Income tax benefit/ (expense)	631	(17 653)
Profit / (loss) for the period	46 180	221 855
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
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	46 180	221 855

PJSC “CCS-Group”

Statement of Cash Flows

	2018 RUB'000	2017 RUB'000
Cash flows from operating activities		
Profit / (loss) for the period before taxation	45 549	239 507
<u>Adjustments for:</u>		
Depreciation and amortisation	6 527	11 436
Net foreign exchange (gain) /loss	(2 326)	(4 289)
Impairment and write-off of doubtful trade and other receivables	7 182	(2 555)
Interest income	(63 002)	(76 749)
Interest expense	68 327	67 094
Gain / (loss) from disposal of property, plant and equipment	(100)	(92 874)
Gain on disposal of equity investments	-	(155 105)
VAT non-deductable	193	14 798
Provision for unused vacation	64	(181)
	62 414	(19 190)
(Increase)/ decrease in inventories in course of operational activities	3	21 078
(Increase)/ decrease in trade and other receivables in course of operational activities	5 951	58 303
Increase / (decrease) in trade and other payables in course of operational activities	(25 036)	65 053
Interest paid	(57 084)	(75 981)
Interest received	63 002	76 749
Income taxes paid	(13 014)	(3 507)
Net cash (used in) / from operating activities	36 236	122 505
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(13 336)	97 201
Investment purchase	(3 792)	-
Proceeds from investment disposal	-	1 830
Purchase of equity investments	-	(402 841)
Loans reimbursed /(granted)	50 731	24 861
Net cash used in investing activities	33 603	(278 949)
Cash flows from financing activities		
Proceeds from loans and borrowings	-	-
Repayment of loans and borrowings	(98 661)	(48 661)
IFC and EBRD other costs reimbursement	(405)	(448)
IFC income participation fee	(4 206)	(3 957)
Dividends	(14 994)	-
Net cash (used in) / from financing activities	(118 266)	(53 066)
Effect of exchange rate changes on cash and cash equivalents	2 326	4 289
Net increase in cash and cash equivalents	(46 101)	(205 221)
Cash and cash equivalents at beginning of year	69 205	274 426
Cash and cash equivalents at end of period	23 104	69 205

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 2017	26 306	-	424 234	140 900	472 074	1 063 514
Profit/ (loss) for the period	-	-	-	-	221 855	221 855
Other comprehensive income	-	-	-	(57 605)	-	(57 605)
Asset revaluation reserve on disposed fixed assets	-	-	-	(57 605)	-	(57 605)
Balance at 31 December 2017	26 306	-	424 234	83 295	693 929	1 227 764
Balance at 1 January 2018	26 306	-	424 234	83 295	693 929	1 227 764
Profit/ (loss) for the period	-	-	-	-	46 180	46 180
Transactions with shareholders recorded directly in equity						
Dividends	-	-	-	-	(14 994)	(14 994)
Balance at 31 December 2018	26 306	-	424 234	83 295	725 115	1 258 950

LLC "CCS"

Statement of Financial Position

	31 December 2018 RUB'000	31 December 2017 RUB'000
ASSETS		
Non-current		
Property, plant and equipment	934 384	862 150
Intangible assets	8 788	9 950
Long-term investments	74 900	74 900
Deferred tax assets	68 695	47 536
	1 086 767	994 536
Current		
Inventories	18 405	15 468
Trade and other receivables	415 610	355 004
Other assets	13 516	28 201
Short-term investments	-	-
Cash and cash equivalents	9 019	2 284
	456 550	400 957
Total Assets	1 543 317	1 395 493
Net Assets		
Share capital	303 099	303 099
Revaluation reserve	152 112	152 112
Retained earnings	234 978	170 856
	690 189	626 067
LIABILITIES		
Non-current		
Loans and borrowings	462 968	351 552
Deferred tax liabilities	64 999	55 884
	527 967	407 436
Current		
Loans and borrowings	1 737	67 450
Trade and other payables	273 795	262 705
Other liabilities	49 629	31 835
	325 161	361 990
Total Liabilities	853 128	769 426
Total Net Assets and Liabilities	1 543 317	1 395 493

LLC “CCS”

Income Statement

	2018 RUB'000	2017 RUB'000
Sales revenue	2 092 900	1 931 447
Cost of sales	(1 724 852)	(1 506 226)
Gross profit / (loss)	368 048	425 221
Selling and marketing expenses	(9 542)	(8 826)
Administrative expenses	(140 430)	(141 969)
Other operating expenses, net	(11 960)	(9 162)
Operating profit / (loss)	206 116	265 264
Net finance costs	(49 457)	(30 758)
Other income / (expense), net	(43 076)	(161 727)
Profit / (loss) before income tax	113 583	72 779
Income tax expense, net	(14 461)	(33 879)
Profit / (loss) for the period	99 122	38 900
Other comprehensive income		
Assets 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	99 122	38 900

LLC “CCS”

Statement of Cash Flows

	2018 RUB'000	2017 RUB'000
Cash flows from operating activities		
Profit / (loss) for the period before taxation	113 583	72 779
<u>Adjustments for:</u>		
Depreciation and amortisation	112 537	28 894
Impairment and write-off of doubtful trade and other receivables	(5 918)	154 040
Interest income	-	(353)
Interest expense	45 395	38 821
Gain/ (loss) from disposal of property, plant and equipment	67	-
Loss from disposal of investments	13 272	-
VAT non deductible	138	116
Provision for unused vacation	146	500
	339 522	294 797
 (Increase) in inventories in course of operational activities	(2 937)	(2 551)
(Increase) in trade and other receivables in course of operational activities	(106 259)	(73 396)
Increase / (decrease) in trade and other payables in course of operational activities	17 756	(88 150)
Interest received	-	353
Interest paid	(45 108)	(46 458)
Income taxes paid	(19 014)	(20 676)
Net cash from operating activities	183 960	63 919
 Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(174 369)	(216 809)
Investment purchase/ disposal	(13 272)	-
Loans received /(granted)	-	(73 207)
Net cash used in investing activities	(187 641)	(290 016)
 Cash flows from financing activities		
Proceeds from loans and borrowings	1 877 351	874 784
Repayment of loans and borrowings	(1 831 935)	(674 672)
Decrease of share capital	-	(7 080)
Dividends paid	(35 000)	(10 000)
Net cash (used in) / from financing activities	10 416	183 032
 Net increase in cash and cash equivalents	6 735	(43 065)
 Cash and cash equivalents at beginning of year	2 284	45 349
Cash and cash equivalents at end of period	9 019	2 284

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 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	-	-	38 900	38 900
Other comprehensive income				
Dividend payment	-	-	(10 000)	(10 000)
Balance at 31 December 2017	303 099	152 112	170 856	626 067
Balance at 1 January 2018	303 099	152 112	170 856	626 067
Profit/(loss) for the year	-	-	99 122	99 122
Other comprehensive income				
Dividend payment	-	-	(35 000)	(35 000)
Balance at 31 December 2018	303 099	152 112	234 978	690 189

LLC “KOTK”

Statement of Financial Position

	31 December 2018 RUB'000	31 December 2017 RUB'000
ASSETS		
Non-current		
Property, plant and equipment	7 236	6 421
Intangible assets	25	17
Investments	-	-
Deferred tax asset	7 125	1 453
	14 326	7 891
Current		
Inventories	8 554	14 050
Trade and other receivables	34 473	44 852
Subsidies receivable	11 190	13 402
Other assets	1 622	1 142
Cash and cash equivalents	981	2 402
	56 820	89 860
Total Assets	71 206	97 751
Net Assets		
Share capital	6 000	6 000
Revaluation reserve	1 125	1 125
Retained earnings	(36 764)	(10 684)
	(29 639)	(3 559)
LIABILITIES		
Non-current		
Deferred tax liabilities	294	296
	294	296
Current		
Trade and other payables	80 668	82 978
Other liabilities	19 883	18 036
	100 551	101 014
Total Net Assets and Liabilities	71 206	97 751

LLC “KOTK”

Income Statement

	2018 RUB'000	2017 RUB'000
Sales revenue	200 868	184 573
Government subsidies	138 231	136 206
Cost of sales	(296 874)	(266 289)
Gross profit	42 225	54 490
Selling and marketing expenses	(21)	-
Administrative expenses	(50 811)	(43 181)
Other operating expenses, net	(1 821)	(1 138)
Operating profit	(10 428)	10 171
Net finance costs	(1 132)	79
Other income / (expense), net	(20 194)	(10 923)
Profit before income tax	(31 754)	(673)
Income tax expense, net	5 674	(2 450)
Profit for the period	(26 080)	(3 123)
Other comprehensive income		
Assets revaluation reserve	-	-
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income for the period	(26 080)	(3 123)

LLC “KOTK”

Statement of Cash Flows

	2018	2017
	RUB'000	RUB'000
Cash flows from operating activities		
Profit / (loss) for the period before taxation	(31 754)	(673)
<u>Adjustments for:</u>		
Depreciation and amortisation	176	102
Impairment and write-off of doubtful trade and other receivables	20 813	7 334
(Gain)/ loss from disposal of property, plant and equipment	-	-
(Gain)/ loss from disposal of equity investment	-	(161)
VAT non deductible	366	98
Provision for unused vacation	164	189
	(10 235)	6 889
Decrease/ (increase) in inventories in course of operational activities	5 496	(686)
Decrease/ (increase) in trade and other receivables in course of operational activities	(11 383)	(5 520)
Change in subsidies recievable	2 212	32 881
Increase / (decrease) in trade and other payables in course of operational activities	(84)	(30 328)
Income taxes paid	(593)	(1)
Net cash from operating activities	(14 587)	3 235
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(846)	(1 732)
Proceeds from investment disposal	14 012	-
Net cash used in investing activities	13 166	(1 732)
Cash flows from financing activities		-
Net cash (used in) / from financing activities	-	
Net increase in cash and cash equivalents	(1 421)	1 503
Cash and cash equivalents at beginning of year	2 402	899
Cash and cash equivalents at end of period	981	2 402

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 2017	6 000	1 125	(7 561)	(436)
Profit/ (loss) for the period	-	-	(3 123)	(3 123)
Balance at 31 December 2017	6 000	1 125	(10 684)	(3 559)
Balance at 1 January 2018	6 000	1 125	(10 684)	(3 559)
Profit/ (loss) for the period	-	-	(26 080)	(26 080)
Balance at 31 December 2018	6 000	1 125	(36 764)	(29 639)

LLC “TEK Centra”

Statement of Financial Position

	31 December 2018 RUB'000	31 December 2017 RUB'000
ASSETS		
Non-current		
Property, plant and equipment	30 527	32 210
Intangible assets	2	2
Investments	13 693	13 452
Deferred tax assets	7 691	11 734
	51 913	56 398
Current		
Inventories	-	-
Trade and other receivables	16 118	13 248
Other assets	495	470
Cash and cash equivalents	6 230	9 276
	22 843	22 994
Total Assets	74 756	79 392
Share capital	56 651	56 651
Revaluation reserves	8 766	8 564
Retained earnings	4 605	10 782
	70 022	75 997
LIABILITIES		
Non-current		
Deferred tax liabilities	2 262	2 362
	2 262	2 362
Current		
Trade and other payables	-	-
Other liabilities	2 472	1 033
	2 472	1 033
Total Liabilities	4 734	3 395
Total Equity and Liabilities	74 756	79 392

LLC “TEK Centra”

Income Statement

	2018 RUB'000	2017 RUB'000
Sales revenue	16 298	16 207
Cost of sales	(1 032)	(1 236)
Gross profit	15 266	14 971
Administrative expenses	(12 069)	(10 882)
Other operating expenses, net	(940)	(992)
Operating profit	2 257	3 097
Net finance costs	1 720	(69)
Other income / (expense), net	(393)	-
Profit before income tax	3 584	3 028
Income tax expense, net	(4 559)	3 636
Profit for the period	(975)	6 664
Other comprehensive income		
Assets revaluation reserve	(202)	-
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income for the period	(1 177)	6 664

LLC “TEK Centra”

Statement of Cash Flows

	2018 RUB'000	2017 RUB'000
Cash flows from operating activities		
Profit / (loss) for the period before taxation	3 584	3 028
<u>Adjustments for:</u>		
Depreciation and amortisation	691	986
Provision for unused vacation	1 313	55
Impairment and write-off of doubtful trade and other receivables	1 751	-
VAT not deductible	2	-
Gain/ loss on disposal of property, plant and equipment	-	2
	7 341	4 071
(Increase) in inventories in course of operational activities	-	-
(Increase) in trade and other receivables in course of operational activities	(4 647)	4 299
Increase / (decrease) in trade and other payables in course of operational activities	(21)	(2 897)
Income taxes paid	(470)	(230)
Net cash from operating activities	2 203	5 243
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(8)	(8)
Purchase of investments / proceeds from investment disposal	(241)	250
Acquisition of investments	-	-
Net cash used in investing activities	(249)	242
Cash flows from financing activities		
Proceeds from loans and borrowings	-	5
Repayment of loans and borrowings	-	(5)
Dividend payment	(5 000)	-
Net cash (used in) / from financing activities	(5 000)	242
Net increase in cash and cash equivalents	(3 046)	5 485
Cash and cash equivalents at beginning of year	9 276	3 791
Cash and cash equivalents at end of period	6 230	9 276

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 2017	56 651	8 564	4 118	69 333
Profit/(loss) for the period	-	-	6 664	6 664
Balance at 31 December 2017	56 651	8 564	10 782	75 997
Balance at 1 January 2018	56 651	8 564	10 782	75 997
Profit/(loss) for the period	-	-	(975)	(975)
Transactions with shareholders				
Dividend payment	-	-	(5 000)	(5 000)
Other comprehensive income				
Changes in assets revaluation reserve		202	(202)	-
Balance at 31 December 2018	56 651	8 766	4 605	70 022

LLC “TEK Kiselevska”

Statement of Financial Position

	31 December 2018 RUB'000	31 December 2017 RUB'000
ASSETS		
Non-current		
Property, plant and equipment	229 761	240 214
Intangible assets	8	8
Deferred tax assets	-	4082
	229 769	244 304
Current		
Inventories	-	-
Trade and other receivables	31 649	27 684
Other assets	363	456
Cash and cash equivalents	2 885	4 315
	34 897	32 455
Total Assets	264 666	276 759
Net Assets		
Share capital	74 100	74 100
Revaluation reserves	161 463	161 463
Retained earnings	(12 274)	(96)
	223 289	235 467
LIABILITIES		
Non-current		
Deferred tax liabilities	40 688	40 365
	40 688	40 365
Current		
Trade and other payables	-	-
Other liabilities	689	927
	689	927
Total Liabilities	41 377	41 292
Total Equity and Liabilities	264 666	276 759

LLC “TEK Kiselevska”

Income statement

	2018 RUB'000	2017 RUB'000
Sales revenue	16 118	16 107
Cost of sales	(11 270)	(8 987)
Gross profit / (loss)		7 120
Administrative expenses	(646)	(703)
Other operating expenses, net	889	(1 200)
Operating profit / (loss)	5 091	5 217
Net finance costs	59	(18)
Other income / (expense), net	-	758
Profit / (loss) before income tax	5150	5 957
Income tax expense, net	(7 328)	(1 024)
Profit /(loss) for the period	(2 178)	4 933
Other comprehensive income		
Assets revaluation reserve	-	-
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income for the period	(2 178)	4 933

LLC “TEK Kiselevska”

Statement of Cash Flows

	2018 RUB'000	2017 RUB'000
Cash flows from operating activities		
Profit / (loss) for the period before taxation	5 151	5 957
<u>Adjustments for:</u>		
Depreciation and amortisation	11 278	8 946
Impairment and write-off of doubtful trade and other receivables	(2 708)	-
VAT not deductible	750	1
Provision for unused vacation	(1)	(1)
	14 470	14 903
(Increase) / decrease in trade and other receivables in course of operational activities	(4 587)	(7 930)
Increase / (decrease) in trade and other payables in course of operational activities	(237)	(449)
Income taxes paid	(2 959)	(2 129)
Net cash from operating activities	6 687	4 395
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	1 883	(1 267)
Net cash used in investing activities	1 883	(1 267)
Cash flows from financing activities		
Dividend payment	(10 000)	-
Net cash (used in) / from financing activities	(10 000)	-
Net increase in cash and cash equivalents	(1 430)	3 128
Cash and cash equivalents at beginning of year	4 315	1 187
Cash and cash equivalents at end of period	2 885	4 315

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 2017	74 100	161 463	(5 029)	230 534
Profit/ (loss) for the period	-	-	4 933	4 933
Balance at 31 December 2017	74 100	161 463	(96)	235 467
Balance at 1 January 2018	74 100	161 463	(96)	235 467
Profit/ (loss) for the period	-	-	(2 178)	(2 178)
Transactions with shareholders				
Dividend payment	-	-	(10 000)	(10 000)
Balance at 31 December 2018	74 100	161 463	(12 274)	223 289

LLC “Klintsovskaya TEC”

Statement of Financial Position

	31 December 2018 RUB'000	31 December 2017 RUB'000
ASSETS		
Non-current		
Property, plant and equipment	456 741	389 975
Intangible assets	35	42
Deferred tax assets	39 696	31 892
	496 472	421 909
Current		
Inventories	26 951	26 383
Trade and other receivables	94 113	40 411
Other assets	3 360	33 144
Cash and cash equivalents	235	314
	124 659	100 252
Total Assets	621 131	522 161
Net Assets		
Share capital	32 044	32 044
Revaluation reserves	991	991
Retained earnings	(112 759)	(89 512)
	(79 724)	(56 477)
LIABILITIES		
Non-current		
Loans and borrowings	440 770	418 723
Deferred tax liabilities	258	256
	441 028	418 979
Current		
Loans and borrowings	132 894	77 466
Trade and other payables	122 904	70 337
Other liabilities	4 029	11 856
	259 827	159 659
Total Liabilities	700 855	578 638
Total Equity and Liabilities	621 131	522 161

LLC “Klintsovskaya TEC”

Income statement

	2018 RUB'000	2017 RUB'000
Sales revenue	358 972	292 818
Cost of sales	(318 079)	(261 606)
Gross profit / (loss)	40 893	31 212
Selling and marketing expenses	(4)	(70)
Administrative expenses	(17 540)	(15 170)
Other operating expenses, net	(3 421)	224
Operating profit / (loss)	19 928	16 196
Net finance costs	(39 844)	(3 965)
Other income / (expense), net	(11 133)	3 333
Profit / (loss) before income tax	(31 049)	15 564
Income tax expense, net	7 802	4 145
Profit /(loss) for the period	(23 247)	19 709

LLC “Klintsovskaya TEC”

Statement of Cash Flows

	2018 RUB'000	2017 RUB'000
Cash flows from operating activities		
Profit / (loss) for the period before taxation	(31 049)	15 564
<u>Adjustments for:</u>		
Depreciation and amortisation	21 840	383
Impairment of trade and other receivables	9 626	(8 914)
Interest expense	39 692	15 576
VAT non-deductible	7	-
Provision for unused vacation	(221)	864
	39 895	23 473
(Increase) / decrease in inventories in course of operational activities	(568)	(22 129)
(Increase) / decrease in trade and other receivables in course of operational activities	(28 167)	29 507
Increase / (decrease) in trade and other payables in course of operational activities	9 234	8 011
Interest paid	(7 410)	(464)
Income taxes paid	64	(69)
Net cash from operating activities	13 048	38 329
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(35 173)	(275 991)
Net cash used in investing activities	(35 173)	(275 991)
Cash flows from financing activities		
Proceeds from loans and borrowings	22 046	352 723
Repayment of loans and borrowings	-	(150 500)
Increase of share capital	-	31 601
Net cash (used in) / from financing activities	22 046	233 824
Net increase in cash and cash equivalents	(79)	(3 838)
Cash and cash equivalents at beginning of year	314	4 152
Cash and cash equivalents at end of period	235	314

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 2017	443	991	(109221)	(107787)
Profit/ (loss) for the period	-	-	19 709	19709
Transactions with owners recorded directly in equity	31 601	-	-	31601
Increase of share capital	31 601	-	-	31 601
Balance at 31 December 2017	32 044	991	(89 512)	(56 477)
Balance at 1 January 2018	32 044	991	(89 512)	(56 477)
Profit/ (loss) for the period	-	-	(23 247)	(23 247)
Balance at 31 December 2018	32 044	991	(112 759)	(79 724)

LLC “Klintsovskaya TSK”

Statement of Financial Position

	31 December 2018 RUB'000	31 December 2017 RUB'000
ASSETS		
Non-current		
Property, plant and equipment	31 245	31 442
Intangible assets	662	722
Deferred tax assets	32 664	21 741
	64 571	53 905
Current		
Inventories	1 771	1 219
Trade and other receivables	53 087	30 370
Other assets	4 132	4 221
Cash and cash equivalents	1 146	2 183
	60 136	37 993
Total Assets	124 8707	91 898
Net Assets		
Share capital	19 935	19 935
Revaluation reserves	8 422	8 422
Retained earnings	(135 298)	(87 872)
	(106 941)	(59 515)
LIABILITIES		
Non-current		
Loans and borrowings	143 400	124 000
Deferred tax liabilities	2 106	2 106
	145 506	126 106
Current		
Loans and borrowings	1 633	1 723
Trade and other payables	79 222	17 460
Other liabilities	5 287	6 124
	86 142	25 307
Total Liabilities	231 648	151 413
Total Equity and Liabilities	124 707	91 898

LLC “Klintsovskaya TSK”

Income statement

	2018 RUB'000	2017 RUB'000
Sales revenue	245 924	227 187
Cost of sales	(276 699)	(244 074)
Gross profit / (loss)	(30 775)	(16 887)
Selling and marketing expenses	(96)	(74)
Administrative expenses	(7 231)	(4 848)
Other operating expenses, net	(164)	(312)
Operating profit / (loss)	(38 267)	(22 121)
Net finance costs	(17 793)	(13 506)
Other income / (expense), net	(2 290)	(6 506)
Profit / (loss) before income tax	(58 349)	(42 133)
Income tax expense, net	10 923	8 252
Profit /(loss) for the period	(47 426)	(33 881)
Other comprehensive income		
Assets revaluation reserve	-	-
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income for the period	(47 426)	(33 881)

LLC “Klintsovskaya TSK”

Statement of Cash Flows

	2018 RUB'000	2017 RUB'000
Cash flows from operating activities		
Profit / (loss) for the period before taxation	(58 350)	(42 133)
<u>Adjustments for:</u>		
Depreciation and amortisation	444	529
Impairment and write-off of doubtful trade and other receivables	2 180	6 808
Interest expense	17 802	13 471
VAT non-deductible	(76)	20
Provision for unused vacation	52	31
	(37 818)	(21 274)
(Increase) / decrease in inventories in course of operational activities	(552)	(365)
(Increase) / decrease in trade and other receivables in course of operational activities	(24 861)	(1 091)
Increase / (decrease) in trade and other payables in course of operational activities	60 873	(43 465)
Interest paid	(17 892)	(12 377)
Income taxes paid	-	-
Net cash from operating activities	(20 250)	(78 572)
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(187)	(4 914)
Proceeds from disposal of property, plant and equipment and intangible assets	-	-
Net cash used in investing activities	(187)	(4 914)
Cash flows from financing activities		
Proceeds from loans and borrowings	19 400	80 000
Repayment of loans and borrowings	-	-
Decrease of share capital	-	-
Net cash (used in) / from financing activities	19 400	80 000
Net increase in cash and cash equivalents	(1 037)	(3 486)
Cash and cash equivalents at beginning of year	2 183	5 669
Cash and cash equivalents at end of period	1 146	2 183

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 2017	17 177	-	(45 569)	(25 634)
Profit / (loss) for the period	-		(33 881)	(33 881)
Balance at 31 December 2017	17 177	-	(79 450)	(59 515)
Balance at 1 January 2018	17 177	-	(79 450)	(59 515)
Profit / (loss) for the period	-		(47 426)	(47 426)
Balance at 31 December 2018	17 177	-	(126 876)	(106 941)

LLC “ATEK”

Statement of Financial Position

	31 December 2018	31 December 2017
	RUB'000	RUB'000
ASSETS		
Non-current		
Property, plant and equipment	136 159	118 853
Intangible assets	205	226
Investments	300	630
Deferred tax assets	10 042	1 612
	146 406	121 321
Current		
Inventories	14 572	5 000
Trade and other receivables	204 811	72 463
Other assets	5 530	7 172
Short-term investments	36 238	24 750
Cash and cash equivalents	3 597	3 054
	264 648	121 538
Total Assets	411 154	242 859
EQUITY		
Attributable to the shareholders of the parent company		
Share capital	5 000	5 000
Treasury shares	(28 330)	(28 330)
Revaluation reserves	750	750
Retained earnings	263 089	130 765
Total Equity	240 509	108 185
LIABILITIES		
Non-current		
Loans and borrowings	70 632	29 406
Deferred tax liabilities	7 044	6 691
	77 676	36 097
Current		
Loans and borrowings	364	175
Trade and other payables	71 623	72 436
Other liabilities	20 982	25 966
	92 969	98 577
Total Liabilities	170 645	134 674
Total Equity and Liabilities	411 154	242 859

LLC “ATEK”

Income statement

	2018 RUB'000	3 -4 Q 2017 RUB'000
Sales revenue	837 676	333 752
Cost of sales	(635 305)	(266 277)
Gross profit	202 371	67 475
Administrative expenses	(94 504)	(49 154)
Other operating expenses, net	1 023	(3 860)
Operating profit / (loss)	108 890	14 461
Net finance costs	(769)	(1 449)
Other income / (expense), net	45 853	(13 164)
Profit / (loss) before income tax	153 974	(152)
Income tax (expense) / benefit, net	(11 650)	(701)
Profit / (loss) for the period	142 324	(853)

LLC “ATEK”

Statement of Cash Flows

	2018 RUB'000	3-4 quarters 2017 RUB'000
Cash flows from operating activities		
Profit / (loss) for the period before taxation	153 974	(151)
<u>Adjustments for:</u>		
Depreciation and amortisation	17 909	8 560
Impairment and write-off of doubtful trade and other receivables	113 167	15 668
Interest income	(2 337)	(243)
Interest expense	2 495	1 791
Gain / (loss) from disposal of property, plant and equipment	(4 372)	2 407
VAT non-deductable	1 656	680
Provision for unused vacation	504	(536)
Gain / (loss) from disposal of equity investment	300	-
	283 296	28 176
(Increase) in inventories in course of operational activities	(473)	9 230
(Increase) in trade and other receivables in course of operational activities	(247 436)	(9 691)
Increase / (decrease) in trade and other payables in course of operational activities	(6 282)	23 245
Interest paid	(2 305)	(1 602)
Income taxes paid	(17 832)	(231)
Net cash from operating activities	8 968	49 127
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(30 830)	(19 799)
Proceeds from investments disposal	(11 158)	(5 755)
Interest recieved	2 337	243
Net cash used in investing activities	(39 651)	(25 311)
Cash flows from financing activities		
Proceeds from loans and borrowings	486 630	134 069
Repayment of loans and borrowings	(445 404)	(167 818)
Dividends paid	(10 000)	-
Net cash (used in) / from financing activities	31 226	(3 749)
Net increase in cash and cash equivalents	543	(9 933)
Cash and cash equivalents at beginning of year	3 054	12 987
Cash and cash equivalents at end of year	3 597	3 054

LLC “ATEK”

Statement of Changes in Net Assets

	Share capital RUB'000	Treasury shares RUB'000	Revaluation reserves RUB'000	Retained earnings RUB'000	Total RUB'000
Balance at 1 July 2017	5 000	(28 330)	750	131 618	109 038
Profit/(loss) for the year				(853)	(853)
Balance at 31 December 2017	5 000	(28 330)	750	130 765	108 185
Balance at 1 January 2018	5 000	(28 330)	750	130 765	108 185
Transactions with owners recorded directly in equity					
Dividends				(10 000)	(10 000)
Profit/(loss) for the year				142 324	142 324
Balance at 31 December 2018	5 000	(28 330)	750	263 089	240 509