Consolidated financial statements and independent auditors report

PJSC CCS-Group

31 December 2019

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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-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). Baker Tilly Rus JSC is included in the control copy of the register of auditors and audit organizations, main registration number 12006010438.

Details of the audited entity

Name: "CCS-Group" PJSC

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

State Registration number: 1097154022547

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AUDITOR'S REPORT

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

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of "CCS-Group" PJSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019 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, 2019, 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 2019 and importance of professional judgments and estimates used for calculation of allowance. Allowance represents the best management's estimation with regards to losses, incurred for accounts receivable as at the reporting date. More detailed information is disclosed in Note 9 "Trade and other receivables" to the consolidated financial statements.

We reviewed main assumptions used by management for calculation of allowance to assure their compliance with IFRS.
We tested accounts receivable, assessed by management as not overdue, on a sample basis and formed our judgment with regards of these receivables being classified correctly.

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

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

Covenants compliance analysis

The Group has significant amount of outstanding loans and borrowings at year end for financing it's operational activities. Amount of loans outstanding is RUB 940 961 thousand as at 31 December 2019. Terms and conditions of loan agreements contain several financial and non-financial covenants. More detailed information is disclosed in the Notes 14 "Loans and borrowings" and 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 calculation of financial covenants as at 31 December 2019;

- reviewed compliance with non-financial covenants as at 31 December 2019.

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 no 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 dated 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

Alexander Malkov

Moscow, Russian Federation

29 April 2020

Consolidated Statement of Financial Position

	Notes	31 December 2019 RUB'000	31 December 2018 RUB'000
ASSETS			
Non-current			
Property, plant and equipment	5	2 386 946	1 926 354
Intangible assets	6	111 739	69 449
Long-term financial assets	7	1 227	633
Deferred tax assets	15	153 923	92 558
		2 653 835	**2 088 994**
Current			
Inventories	8	92 104	70 160
Trade and other receivables	9	713 157	777 431
Subsidies receivable	10	24 841	11 190
Other assets	11	70 047	31 924
Short-term financial assets	7	1 765	-
Cash and cash equivalents	12	52 534	48 618
		954 448	**939 323**
Total Assets		**3 608 283**	**3 028 317**
Equity			
Share capital	13	23 714	23 714
Treasury shares	13	(2 592)	(2 592)
Share premium	13	333 846	333 846
Revaluation reserve		702 360	702 360
Retained earnings		603 395	369 347
Total Equity		**1 660 723**	**1 426 675**
LIABILITIES			
Non-current			
Loans and borrowings	14	739 928	521 215
Lease liabilities	16	48 674	-
Deferred tax liabilities	15	264 912	216 956
		1 053 514	**738 171**
Current			
Loans and borrowings	14	201 033	256 818
Lease liabilities	16	13 607	-
Trade and other payables	17	496 862	496 314
Other liabilities	18	182 544	110 339
		894 046	**863 471**
Total Liabilities		**1 947 560**	**1 601 642**
Total Equity and Liabilities		**3 608 283**	**3 028 317**

The consolidated financial statements were approved by the Management and signed on 29 April 2020.

General Director
CCS-Group

Российская Федерация Публичное Акционерное Общество «ККС - Групп» ОГРН 1097154022547 ИНН 7730183529 город Тула

Finance Director
CCS-Group

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	2019 RUB'000	2018 RUB'000
Sales revenue	19	3 703 548	3 568 601
Government subsidies	19	159 022	138 231
Cost of sales	20	(2 968 926)	(3 006 758)
Gross profit		**893 644**	**700 074**
Selling and marketing expenses	21	(9 395)	(9 664)
Administrative expenses	22	(336 827)	(318 192)
Wages and salaries under option scheme	13,22	(5 236)	(5 236)
Other operating expenses, net	23	(28 277)	(22 630)
Operating profit		**513 909**	**344 352**
Net finance costs	24	(94 892)	(108 923)
Other expenses, net	25	(132 055)	(39 476)
Profit before income tax		**286 962**	**195 953**
Income tax expense	15,26	(50 441)	(51 770)
Profit for the period		**236 521**	**144 183**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
IFRS 16 adoption		(7 709)	-
Changes in asset revaluation reserve		-	849
Deferred tax write-off due to disposal of revalued assets		-	212
Other comprehensive (expenses)/ income for the period, net of tax		**(7 709)**	**1 061**
Total comprehensive income for the period		**228 812**	**145 244**
Earnings per share		**0,00004824**	**0,00003062**
Diluted earnings per share		**0,00004679**	**0,00002970**

Consolidated Statement of Cash Flows

	Notes	2019 RUB'000	2018 RUB'000
Cash flows from operating activities			
Profit for the period before taxation		**286 962**	**195 953**
Adjustments for:			
Depreciation and amortization other than IFRS 16	20,22	223 455	149 722
Net foreign exchange (gain) / loss	24	1 596	(2 326)
Impairment of doubtful trade and other receivables and prepayments	25	152 840	209 956
Recovery of accounts receivable for ATEK	25	-	(152 220)
Share-based payment reserve	13	5 236	5 236
Loss from sale of shares	24	336	13 272
Interest income	24	(7 447)	(2 288)
Interest expense	24	88 933	86 518
Loss from disposal of property, plant and equipment		(844)	(5 964)
VAT non-deductable	23	3 080	3 103
Deferred income under concession agreement	18	20 872	-
Provision for unused vacation	18	9 061	2 261
		784 079	**503 232**
Adjustments for:			
Change in inventories in course of operational activities		(21 945)	(389)
Change in trade and other receivables in course of operational activities		(129 433)	(207 447)
Change in subsidies receivable		(13 651)	2 212
Change in trade and other payables in course of operational activities		30 973	(208)
Interest paid		(76 814)	(74 980)
Interest received		7 447	2 288
Income taxes paid		(61 445)	(67 591)
Net cash used in operating activities		**519 211**	**157 117**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(661 814)	(261 610)
(Purchase of investments) / Proceeds from investment disposal		(2 694)	829
Net cash received from investing activities		**(664 508)**	**(260 781)**
Cash flows from financing activities			
Proceeds from loans and borrowings		2 783 432	2 379 181
Repayment of loans and borrowings		(2 618 951)	(2 330 160)
Dividend payment		-	(13 517)
IFC income participation fee		(5 087)	(4 611)
IFC, EBRD costs reimbursement		(8)	-
Interest expense on lease liabilities		(8 577)	-
Net cash used in financing activities		**150 809**	**30 893**
Effect of exchange rate changes on cash and cash equivalents		**(1 596)**	**2 326**
Net change in cash and cash equivalents		**3 916**	**(70 445)**
Cash and cash equivalents at beginning of the period	12	48 618	119 063
Cash and cash equivalents at end of the period	**12**	**52 534**	**48 618**

Consolidated Statement of Changes in Equity

	Share capital RUB'000	Treasury shares RUB'000	Share premium RUB'000	Asset revaluation reserve RUB'000	Retained earnings (restated) RUB'000	**Total RUB'000**
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 13 "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**
Balance at 1 January 2019	**23 714**	**(2 592)**	**333 846**	**702 360**	**369 347**	**1 426 675**
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	-	-	-	-	236 521	236 521
Other comprehensive loss	-	-	-	-	(7 709)	(7 709)
Total comprehensive income for the period					**228 812**	**228 812**
Balance at 31 December 2019	**23 714**	**(2 592)**	**333 846**	**702 360**	**603 395**	**1 660 723**

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 2019 was 1,604 (31 December 2018: 1,640).

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 34 "Subsidiaries".

As at 31 December 2019 and 31 December 2018 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 9 "Trade and other receivables";
- Impairment of other assets as described in Note 3.8 "Impairment";
- Revaluation of property, plant and equipment as described in Note 5 "Property, plant and equipment";
- Tax contingencies as described in Note 32.3 "Contingencies";
- Deferred tax assets and liabilities in Note 15.

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 2019. Subsidiaries are those enterprises and businesses controlled by the Group. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised gains and losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the consolidated financial statements have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

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

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

3.2 Transactions eliminated on consolidation

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

3.3 Property, plant and equipment

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

3. Summary of significant accounting policies (continued)

3.3 Property, plant and equipment (continued)

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

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

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

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

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

Buildings	15 – 100 years
Modular boiler-houses	7 – 20 years
Machinery and equipment	3 – 15 years
Vehicles	5 – 7 years
Furniture, fixture and fittings	2 – 5 years
Right-of-use assets	2 – 10 years

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

Assets in the form of a right of use are initially measured at historical cost and amortized to the earlier of the following dates: the expiration date of the useful life of the asset in the form of a right of use or the expiration date of the lease. The initial cost of an asset in the form of a right of use includes the amount of the initial measurement of the lease liability, lease payments made before or at the date the lease commenced, and initial direct costs. Once recognized, right-of-use assets are carried at historical cost less accumulated depreciation and any accumulated impairment losses. Assets in the form of right of use are presented in the statement of financial position as a separate article.

The lease liability is initially measured at the present value, rental payments that have not yet been made at the start of the lease and are subsequently measured at amortized cost, with interest recognized in finance costs in the consolidated statement of profit or loss and other comprehensive income. Lease obligations are presented in the statement of financial position as part of the lease obligations (long-term and short-term).

3. Summary of significant accounting policies (continued)

3.3 Property, plant and equipment (continued)

The main rental objects of the Group are facilities used to provide the population with heat supply, electricity and other utilities (heating networks, heating mains, boiler houses, buildings, equipment, etc.) and land.

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.

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. Summary of significant accounting policies (continued)

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.

3.7 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.

3. Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

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

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

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

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

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

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

HTM investments
HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Group has the intention and ability to hold them until maturity.
HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes in the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

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

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

3. Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

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.

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.

3. Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

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.

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»).

3. Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

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.

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 judgment to estimate the amount of any impairment loss.

3. Summary of significant accounting policies (continued)

3.8 Impairment (continued)

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.

3.9 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. Summary of significant accounting policies (continued)

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.

3.13 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. Summary of significant accounting policies (continued)

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

IFRS 15 provides for a model to recognize revenue from contracts with customers, i.e. from production and distribution of heat energy to population and commercial customers, that includes five stages and requires that revenue should be recognized in an amount reflecting the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires that entities apply judgments and consider all relevant facts and circumstances while applying each stage of the model in respect of the contracts with customers. The standard also requires recognizing incremental costs of obtaining a contract and costs to fulfill a contract. Besides, the standard requires making more extensive disclosures.

The Group applied IFRS 15 retrospectively using the cumulative effect recognition method as at the date of initial recognition of January 1, 2018. The adoption of this standard has had no material impact on the consolidated financial statements of the Group.

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

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

3.17 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 13.
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 2018, except for the adoption of new standards and interpretations effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 Leases

The Group applies, for the first time, IFRS 16 Leases, the nature and effect of these changes are disclosed below.

IFRS 16 supersedes existing lease accounting requirements. For the lessee, the new standard provided for significant changes in accounting compared to previous IFRS. In accordance with the new standard, the distinction between operating and financial leases is eliminated: an asset and a liability are recognized by the lessee for virtually all leases (with some exceptions). The Group applied this standard using a modified retrospective approach, which means that the cumulative effect of the initial application of the standard is recognized in retained earnings as at 1 January 2019, and comparative data are not adjusted.

As a result of the application of IFRS 16, the Group recognized lease obligations for leases that were previously classified as operating leases under IAS 17 Leases. Lease obligations were measured at the present value of the remaining lease payments, discounted at the rate of raising additional borrowed funds as at 1 January 2019. The weighted average rate of attraction of additional borrowed funds as at 1 January 2019 was 9.37%. The application of the standard led to the recognition of obligations under leases that were previously recorded as operating leases in the amount of RUB 62,281 thousand. (Note 16).

4. Application of new and revised International Financial Reporting Standards

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

Right-of-use assets were assessed in an amount equal to the lease obligation, adjusted by the amount of pre-implemented or accrued lease payments in connection with such leases and totaled RUB 53,043 thousand. (Note 5). Recognized right-of-use assets are primarily related to the lease of land and buildings. The impact on retained earnings as at 01.01.2019 in the amount of RUB 7,709 thousand.

The Group has applied the following practical simplifications required by IFRS 16 at the date of initial application:
• for a portfolio of leases with reasonably similar characteristics, a single discount rate was applied;
• an asset in the form of a right to use and a lease liability were not recognized in respect of lease agreements, the lease term of which expires within 12 months after 1 January 2019;
• the initial direct costs at the date of initial application were not included in the valuation of the asset in the form of a right of use.

The Group decided not to reassess whether the contract is a lease or whether the contract contains a lease at the date of initial application. For contracts concluded prior to the date of transition to the new standard, the Group relies on the assessment made in accordance with IAS 17 and the IFRIC 4 clarification "Determining Whether an Arrangement Contains a Lease".

For leases that were previously classified as finance leases. The Group recognized the carrying amount of the asset and lease liability determined immediately before the date of transition to the new standard as the carrying amount of the asset in the form of use and lease obligations at the date of initial application.

IFRS 9 — Financial Instruments (with amendments) - Early repayment terms with potential negative repayments

The amendments address two issues: which financial assets can be measured at amortized cost and how to account for the modification of a financial liability. Changes to the standard allow to evaluate at amortized cost more financial assets than the previous version of IFRS 9, in particular, this applies to some financial assets that provide for early repayment. The amendments specify that when a financial liability is modified at amortized cost that does not result in derecognition, profit or loss is recognized immediately in the income statement. These amendments did not have an impact on the financial position or performance of the Group.

IAS 19 Employee Benefits (with amendments) – amendments to the program, reducing the programs or repayment of liabilities under the program

The amendments clarify the accounting for changes or reductions in the program, as well as for the repayment of program obligations. The amendments specify that organizations should: i) use updated assumptions to determine the cost of services for the current period and the net interest due to changes to the program, reduction of the program, or repayment of program obligations for the remainder of the period; ii) recognize in the statement of profit or loss any decrease in the plan surplus as part of the cost of services of previous periods or as profit or loss from repayment of obligations; iii) separately recognize changes in the effect of the marginal value of assets in other comprehensive income. These amendments will only apply to future changes, program reductions or repayment of program obligations.

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

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 2019:

FRIC 23 clarifies the definition of taxable profit (tax loss), tax base, unused tax losses, unused tax credits and tax rates in case of uncertainty regarding the calculation of income tax in accordance with IAS 12 “Income Taxes". The amendment did not affect the financial position or performance of the Group;

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 reviewed these clarifications and amendments to the standards in preparing the consolidated financial statements. Clarifications and amendments to the standards did not have a material effect on the consolidated financial statements of the Group.

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 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

Amendments to References to the Conceptual Framework in IFRS Standards. Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework. Effective for annual periods beginning on or after 1 January 2020.
The Group is currently assessing the impact of the amendments on its financial position and results of operations.

5. Property, plant and equipment

In thousands of RUB	Land and buildings	Machinery and equipment	Vehicles	Fixtures and fittings	Assets under constructio n	Prepayments for fixed assets	Right-of-use assets	Total
Cost / revalued amount								
At 31 December 2018	1 342 056	260 946	45 703	3 148	544 701	1 689	-	2 198 243
Initial recognition on January 1, 2019	-	-	-	-	-	-	208 999	208 999
Revaluation	-	-	-	-	-	-	-	-
Additions	47 593	11 616	633	1 917	316 381	221 260	1 259	600 659
Transfers	51 832	29 781	-	-	(81 613)	-	-	-
Disposals	(290)	(1 089)	(1 579)	-	(2 540)	(1 459)	-	(6 957)
At 31 December 2019	**1 441 191**	**301 254**	**44 757**	**5 065**	**776 929**	**221 490**	**210 258**	**3 000 944**
Depreciation and impairment								
At 31 December 2018	156 729	84 264	28 844	2 052	-	-	-	271 889
Initial recognition on January 1, 2019	-	-	-	-	-	-	126 446	126 446
Revaluation	-	-	-	-	-	-	-	-
Depreciation charge	111 753	69 070	5 413	1 142	-	-	30 769	218 147
Disposals	(81)	(843)	(1 560)	-	-	-	-	(2 484)
At 31 December 2019	**268 401**	**152 491**	**32 697**	**3 194**	**-**	**-**	**157 215**	**613 998**
Revalued amounts at At 31 December 2019	**1 172 790**	**148 763**	**12 060**	**1 871**	**776 929**	**221 490**	**53 043**	**2 386 946**
At 31 December 2018	1 185 327	176 682	16 859	1 096	544 701	1 689	-	1 926 354

5. Property, plant and equipment (continued)

In thousands of RUB	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	-	-	-	-	-	-	-
Arising on acquisition	78 518	318 767	5 610	567	-	58 112	461 574
Disposals	(459)	(7 475)	(788)	-	(212 919)	(52 856)	(274 497)
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	37 280	28 229	3 398	265	-	-	69 172
Disposals	(310)	(1 021)	(788)	-	(44)	-	(2 163)
At 31 December 2018	**156 729**	**84 264**	**28 844**	**2 052**	**-**	**-**	**271 889**
Revalued amounts at	**1 255 090**	**500 696**	**15 620**	**934**	**66 181**		**1 891 568**
At 31 December 2018						**53 047**	
At 31 Dec 2017	1 214 000	216 613	13 408	632	279 056	47 791	1 771 500

5. Property, plant and equipment (continued)

Assets pledged as security

Land and buildings with a book value of RUB 261,313 thousand (31 December 2018: RUB 211,620 thousand) are pledged to secure bank loans (refer to Note 14 "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 31 December 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 1,799,577 thousand as at 31 December 2019 (31 December 2018: RUB 1,406,916 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 71,448 thousand as at 31 December 2019 (31 December 2018: RUB 49,048 thousand).

The Group applies, for the first time, IFRS 16 Leases, since 01.01.2019 using a modified retrospective approach (Note 4.1).

The depreciation of right-of-use assets for 2019 in the amount of RUB 30,769 thousand; interest expenses on lease obligations for 2019 in the amount of RUB 8,576 thousand; payments under lease agreements for 2019 in the amount of RUB 37,817 thousand; an increase right-of-use assets for 2019 in the amount of RUB 1,260 thousand. (Note 16).

6. Intangible assets

In thousands of RUB	Acquired software licenses	Acquired lease rights	Technical documenta-tion	Concession agreements	Total
Cost					
Cost at 31 December 2018	3 132	4 311	11 591	62 891	81 925
Additions	632	-	-	46 966	47 598
Disposals	-	-	-	-	-
At 31 December 2019	**3 764**	**4 311**	**11 591**	**109 857**	**129 523**
Amortisation and impairment					
At 31 December 2018	2 253	3 318	4 252	2 653	12 476
Amortisation charge	844	383	1 145	2 936	5 308
Disposal	-	-	-	-	-
At 31 December 2019	**3 097**	**3 701**	**5 397**	**5 589**	**17 784**
Carrying value					
At 31 December 2019	**667**	**610**	**6 194**	**104 268**	**111 739**
At 31 December 2018	879	993	7 339	60 238	69 449

In thousands of RUB	Acquired software licenses	Acquired lease rights	Technical documenta-tion	Concession agreements	Total
Cost					
Cost at 31 December 2017	2 324	4 311	11 591	56 486	74 712
Additions	667	-	-	1 752	2 419
Disposals	-	-	-	-	-
At 31 December 2018	**3 132**	**4 311**	**11 591**	**62 891**	**81 925**
Amortisation and impairment					
At 31 December 2017	1 732	2 935	3 108	217	7 992
Amortisation charge	369	287	858	1 809	3 323
Disposal	-	-	-	-	-
At 31 December 2018	**2 253**	**3 318**	**4 252**	**2 653**	**12 476**
Carrying value					
At 31 December 2018	**890**	**1 089**	**7 625**	**56 212**	**65 816**
At 31 Dec 2017	592	1 376	8 483	56 269	66 720

6. Intangible assets (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 companiya (the Operator) is obliged to invest RUR 394,661 thousand including VAT in reconstruction and construction of heating systems in Chernsky region of Tulskaya 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.

In January 2019 the Group signed concession Agreement in which its counterpart is Venevsky region Municipality (the Grantor). According to terms of the Agreement LLC "CCS" (the Operator) is obliged to invest RUR up to 727,469 thousand excluding VAT in reconstruction and construction of heating systems in Venevsky region of Tulskaya oblast during 2019 - 2043.

In June 2019 the Group signed concession Agreement in which its counterpart is Aleksinsky region Municipality (the Grantor). According to terms of the Agreement LLC "Aleksinskaya teplo-energo companiya" (the Operator) is obliged to invest RUR up to 804,674 thousand excluding VAT in reconstruction and construction of heating systems in Aleksinsky region of Tulskaya oblast during 2019 - 2034.

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.

7. Financial assets

7.1 Long-term financial assets

	31 December 2019 RUB'000	31 December 2018 RUB'000
Other long-term financial assets (cession in LLC "TEK Centra")	633	633
Promissory notes (LLC "Aleksinskaya teplo-energo companiya")	594	-
Total long-term financial assets	**1 227**	**633**

7.2 Short-term financial assets

	31 December 2019 RUB'000	31 December 2018 RUB'000
Promissory notes (LLC "CCS")	1 765	-
Total short-term financial assets	**1 765**	**-**

8. Inventories

	31 December 2019 RUB'000	31 December 2018 RUB'000
Raw materials other than coal	60 386	44 373
Heating oil	20 813	20 857
Coal	8 965	4 855
Consumables	1 940	75
Total inventories	**92 104**	**70 160**

Allowance for inventory impairment as at 31 December 2019 and 31 December 2018 was not created, due to the absence of slow-moving inventory items.
As at 31 December 2019 and 31 December 2018 the Group has no inventory in pledge.

9. Trade and other receivables

	31 December 2019 RUB'000	31 December 2018 RUB'000
Trade receivables	1 094 588	1 227 353
Allowance for doubtful trade receivables	(524 400)	(457 519)
Trade receivables, net	**570 188**	**869 834**
Other receivables	146 091	9 394
Allowance for doubtful other receivables	(3 122)	(1 797)
Other receivables, net	**142 969**	**7 597**
Total trade and other receivables	**713 157**	**777 431**

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

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

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

9. Trade and other receivables(continued)

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

	31 December 2019 RUB'000	31 December 2018 RUB'000
Receivables not overdue	592 105	348 472
Receivables overdue	648 574	888 275
Not more than 1 month	63 697	97 756
More than 1 month but not more than 6 months	75 705	308 897
More than 6 months but not more than 9months	119 046	129 752
More than 9 months but not more than 1 year	66 462	16 573
More than 1 year	323 664	335 297
Total	**1 240 679**	**1 236 747**

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 527,522 thousand (31 December 2018: RUB 459,316 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 2019 RUB'000	31 December 2018 RUB'000
More than 3 months but not more than 6 months	17 019	-
More than 6 months but not more than 9 months	119 342	130 209
More than 9 months but not more than 1 year	66 790	16 722
More than 1 year	324 371	312 385
Balance at end of period	**527 522**	**459 316**

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

	2019 RUB'000	2018 RUB'000
Balance at the beginning of the period	459 316	278 967
Charge for the period, net (Note 25)	68 206	180 349
Recovered during the period	-	-
Balance at end of period	**527 522**	**459 316**

10. Subsidies receivable

	31 December 2019 RUB'000	31 December 2018 RUB'000
Subsidies from Kiselevsk Government, Kemerovo Oblast	24 841	11 190
Total subsidies receivable	**24 841**	**11 190**

11. Other assets

	31 December 2019 RUB'000	31 December 2018 RUB'000
Income tax prepayment	9 013	13 235
VAT to be reclaimed	53 818	10 645
Prepayments for materials and supplies	6 807	7 287
Other tax prepayments	409	757
Total other assets	**70 047**	**31 924**

12. Cash and cash equivalents

	31 December 2019 RUB'000	31 December 2018 RUB'000
Cash at bank	7 114	20 180
Short-term deposits	45 169	28 240
Cash in hand	251	198
Total cash and cash equivalents	**52 534**	**48 618**

As of 31 December 2019 total cash and cash equivalents includes bank deposits in Rubles and foreign currency placed in Sberbank the following terms:

Deposit	Currency	Amount in currency	Annual interest rate,	Maturity date
Deposit 1	RUB	17 600 000	4.40%	06.02.2020
Deposit 2	RUB	9 500 000	3.76%	13.01.2020
Deposit 3	RUB	9 000 000	3.69%	13.01.2020
Deposit 4	RUB	5 600 000	3.69%	14.01.2019
Deposit 5	RUB	650 000	3.69%	13.01.2020
Deposit 6	RUB	2 423 000	3.89%	10.01.2020
Deposit 7	RUB	396 000	3.89%	10.01.2020

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

There was no restricted cash as at 31 December 2019 and 31 December 2018.

13. Share Capital

As at 31 December 2019 authorized and issued share capital minus shares owned by subsidiaries (reserved shares) 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 2018).

	31 December 2019	31 December 2018
Shares issued and fully paid	5 261 212 666	5 261 212 666
Shares owned by subsidiaries (reserved shares)	518 429 260	518 429 260
Shares issued and fully paid minus shares owned by subsidiaries	4 742 783 406	4 742 783 406
Total authorised and issued shares	**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 – 2016 and 2018.

According to the Minutes N 18 of General meeting of PJSC "CCS-Group" shareholders dated 03.07.2018, the decision on distribution of net profit of PJSC "CCS-Group" according to the results of the 2017 financial year in the amount of RUB 13 517 thousand on the dividends payment to the shareholders of the Group was made. Dividends payable per share amounted to 0.00285 rubles. During January - June 2019 the Group did not declare or pay dividends.
List of shareholders of the Company is presented below.

Shareholder's name	The part of Share Capital as of 31 December 2019 %	31 December 2018 %
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 2019 and 31 December 2018 the Group had no 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

13. 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 2019.

Share-Based compensation

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

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

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

Qualifying executives will be granted the right to execute options during 3 periods in the following manner:
(a) not more that 30% of the Options granted between 1 July 2016 and 30 September 2018;
(b) not more that 30% of the Options granted between 1 July 2019 and 30 September 2019; and
(c) the rest of the Options granted between 1 July 2022 and 30 September 2022.

The fair value of the share options granted during 2019 is nil (2018: nil). Options were priced using binomial option pricing model. Expenses recognized in 2019 amounted to RUB 5,236 thousand (2018: 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%

14. Loans and borrowings

	31 December 2019 RUB'000	31 December 2018 RUB'000
Non-current		
Loans and borrowings	739 928	521 215
Current		
Loans and borrowings	198 661	213 669
Interest payable	2 372	43 149
Total loans and borrowings	**940 961**	**778 033**

Terms and repayment schedule are as follows:

Loans outstanding as at 31 December 2019:

Lender	Currency	Outstanding principal RUB'000	Nominal annual interest rate	Effective interest rate	Year of maturity
Sberbank	RUB	216 007	9.30%	9.30%	2021
Sberbank	RUB	150 000	8.05%	8.05%	2022
Sberbank	RUB	167 730	9.30%	9.30%	2021
Sberbank	RUB	82 189	10.96%	10.96%	2021
IFC	RUB	150 000	8.49%	12.33%	2022
EBRD	RUB	182 478	11.83%	17.06%	2023

The amortized cost of loans as at 31 December 2019 is RUB 147,470 thousand on a loan from the IFC and RUB 174,135 thousand on a loan from the EBRD.

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.

The table below represents a book value of assets as collateral amounts of loans securities as of 31 December 2019 and 31 December 2018:

	31 December 2019 RUB'000	31 December 2018 RUB'000
Property, plant and equipment (Ref. Note 5)	261 313	211 620

14. 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 1,693,532 thousand and repaid RUB 1,744,478 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 2019 the Group signed the loan agreement with Sberbank for loan facility in the amount of RUB 150,000 thousand. In the current period the Group received RUB 150,000 thousand and repaid RUB 0 thousand. According to the contract full repayment is scheduled for December, 2022. The objective of receiving of these loans was financing of working capital of the Group.

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 725,674 thousand and repaid RUB 628,576 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 213,976 thousand and repaid RUB 131,787 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 100,000,000.

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 167,522 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 “Current ratio” as at 31 December 2018 and the above mentioned IFC loan with the amortized amount of RUB 147,470 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.

29.04.2020 waiver was received from the IFC, in which the IFC agrees not to exercise or apply the right to demand early repayment of the loan with amortized cost of RUB 147,470 thousand in connection with the breach of the covenant "Collection ratio", in relation to the financial year ending 31 December 2019.

Based on the waiver management believes that the IFC loan is effectively long-term as of 31 December 2019 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 1.1 and complies with the conditions of the IFC waiver (see Note 29). A letter was sent to IFC on the applied approach to calculating financial covenants before the date of approval of the consolidated financial statements.

15. Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	31 December 2019 RUB'000	31 December 2018 RUB'000	31 December 2019 RUB'000	31 December 2018 RUB'000	31 December 2019 RUB'000	31 December 2018 RUB'000
Property, plant and equipment	20 637	19 924	(254 043)	(206 795)	**(233 406)**	**(186 871)**
Intangible assets	-	-	(122)	(134)	**(122)**	**(134)**
Investments	2 388	12 799	(117)	(7 340)	**2 271**	**5 459**
Inventories	166	165	(3)	(13)	**163**	**152**
Receivables and prepayments	64 806	-	-	6 754	**64 806**	**6 754**
Payables and accruals	6 547	1 931	(10 627)	(9 428)	**(4 080)**	**(7 497)**
Tax losses carried forward	59 379	57 739	-	-	**59 379**	**57 739**
	153 923	**92 558**	**(264 912)**	**(216 956)**	**(110 989)**	**(124 398)**

	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	(205 603)	(238 718)	**(185 679)**	**(220 591)**
Intangible assets	-	-	(135)	(146)	**(135)**	**(146)**
Investments	11 316	9 279	(6 242)	(4 950)	**5 074**	**4 329**
Inventories	163	163	(20)	(75)	**143**	**88**
Receivables and prepayments	3 483	56 676	-	-	**3 483**	**56 676**
Payables and accruals	602	1 681	(12 435)	(12 471)	**(11 833)**	**(10 790)**
Tax losses carried forward	34 665	34 920	-	-	**34 665**	**34 920**
	70 153	120 846	(224 435)	(256 360)	**(154 282)**	**(135 514)**

The applicable income tax rate for the Russian Group companies is 20% (2018: 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 153,923 thousand of deferred tax assets and total amount of negative net balances resulted in RUB 264,912 thousand of deferred tax liability, as shown in the consolidated statement of financial position as at 31 December 2019 (31 December 2018: 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).

Group companies recognized tax losses of RUB 357,220 thousand which was generated in the following periods:

	Amount, RUB'000
2014	6,240
2015	95,107
2016	66,648
2017	61,874
2018	93,725
2019	26,914
Total	**350,508**

15. Deferred tax assets and liabilities (continued)

During 2019 the Group used tax assets in the amount of RUB 38,798 thousand (2018: RUB 17,515 thousand).

Movements in deferred taxes during the period were as follows:

In thousands of RUB	Property, plant and equipment	Intangibles assets	Investments	Inventories	Receivables and prepayments	Payables and accruals	Tax losses carried forward	Total
Balance as at 1 January 2019	(186 871)	(134)	5 459	152	6 754	(7 497)	57 739	(124 398)
Recognized in income — origination and reversal of timing differences	(46 535)	12	(3 188)	11	58 052	3 417	1 640	13 409
Release of deferred tax from disposal of revalued assets	-	-	-	-	-	-	-	-
Balance as at 31 December 2019	**(233 406)**	**(122)**	**2 271**	**163**	**64 806**	**(4 080)**	**59 379**	**(110 989)**

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

In thousands of RUB	Property, plant and equipment	Intangibles assets	Investments	Inventories	Receivables and prepayments	Payables and accruals	Tax losses carried forward	Total
Balance as at 1 January 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 subsidiaries	212	-	-	-	-	-	-	212
Balance as at 31 December 2018	**(186 871)**	**(134)**	**5 459**	**152**	**6 754**	**(7 497)**	**57 739**	**(124 398)**

16. Lease liabilities

	31 December 2019 RUB'000	31 December 2018 RUB'000
Long-term lease liability	48 674	-
Short-term lease liability	13 607	-
Total trade and other payables	**62 281**	**-**

Carrying amount as at 1 January 2019	**90 262**
Conclusion of new lease agreements	1 260
Advance payment	-
Lease payments	(37 817)
Lease interest	8 576
Disposal of lease agreements	-
Carrying amount as at 31 December 2019	**62 281**

17. Trade and other payables

	31 December 2019 RUB'000	31 December 2018 RUB'000
Trade payables	456 937	469 154
Wages, salaries and other related accruals	23 986	24 017
Other payables	15 939	3 143
Total trade and other payables	**496 862**	**496 314**

18. Other liabilities

	31 December 2019 RUB'000	31 December 2018 RUB'000
VAT payable	71 802	41 926
Other taxes payable	35 054	28 136
Provision for unused vacation	33 596	24 535
Deferred income under concession agreements	20 872	-
Advances from customers	19 454	14 251
Corporate income tax payable	1 766	1 491
Total other liabilities	**182 544**	**110 339**

19. Sales revenue

	2019 RUB'000	2018 RUB'000
Heating	3 206 621	3 286 062
Water supply	289 831	143 625
Electricity	127 749	64 220
Equipment of apartment buildings with metering devices of thermal energy		9 299
Concession agreement	26 434	6 784
Other revenue	52 913	58 611
Total sales revenue	**3 703 548**	**3 568 601**

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 2019, the subsidy amounted to RUB 159,022 thousand (2018: RUB 138,231 thousand).
Revenue from heating includes revenue in the amount of RUB 14,298 thousand (2018: RUB 26,368 thousand) from application of increased rate, approved by resolutions of the Government of the Russian Federation of 16 April 2013 № 344 and December 17, 2014, № 1380, amending the Rules of the establishment and definition of rate of consumption of utilities, approved by the resolution of the Government of the Russian Federation of May 23, 2006 № 306 and order № 66 of 01.07.2015 of the Ministry of construction and housing and communal services of the Tula region and put into effect from 12.07.2015. This revenue is calculated as the difference between the increased rate of consumption of utilities and the base rate in houses not equipped with metering devices.

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

20. Cost of sales

	2019 RUB'000	2018 RUB'000
Raw materials	1 940 981	2 057 026
Wages, salaries and other personnel expenses	327 739	304 698
Electricity	205 815	199 668
Depreciation and amortisation	204 099	132 673
Social security costs	99 445	93 673
Rent, repair and maintenance	93 021	124 608
Fees and services	44 360	59 255
Cost of construction services of concession agreement	26,348	6 376
Communication and other deliveries	21 072	20 497
Utilities	4 968	5 097
Right and insurances	1 045	2 755
Other expenses	33	432
Total cost of sales	**2 968 926**	**3 006 758**

21. Selling and marketing expenses

	2019 RUB'000	2018 RUB'000
Commission	9 395	9 664
Total selling and marketing expenses	**9 395**	**9 664**

22. Administrative expenses

	2019 RUB'000	2018 RUB'000
Wages, salaries and other personnel expenses	227 320	202 896
Social security costs	56 994	50 970
Depreciation and amortisation	19 357	17 049
Rent, repair and maintenance	12 052	25 033
Stationery	9 162	10 774
Consulting and audit services	7 478	8 501
Electricity	1 762	1 617
Transport expenses	1 637	566
Legal expenses	205	30
Other expenses	6 096	5 992
Total administrative expenses	**342 063**	**323 428**

23. Other operating expenses, net

	2019 RUB'000	2018 RUB'000
Taxes	26 041	25 494
VAT non deductible	3 079	3 103
Other operating income	(843)	(5 967)
Total other operating expenses, net	**28 277**	**22 630**

24. Finance costs, net

	2019 RUB'000	2018 RUB'000
Interest income	7 447	2 288
Loss from sale of shares	(336)	(13 272)
Exchange gains/ (losses)	(1 596)	2 326
Interest expense	(88 933)	(86 518)
Other finance costs	(11 474)	(13 747)
Total finance costs, net	**(94 892)**	**(108 923)**

25. Other income/ (expenses), net

	2019 RUB'000	2018 RUB'000
Recovery of accounts receivable for ATEK	-	152 220
Fines to/from suppliers (net)	20 828	19 030
Write-off of inventories	3 693	3 177
Gain on assignment of right of demand	-	1 055
Property tax (INVEK)	-	(1 053)
Loss on trade receivables	(84 634)	(29 616)
Impairment of receivables (Note 9)	(68 206)	(180 349)
State duties (net)	(2 854)	(1 705)
Correction of previous periods revenues	754	333
Charity	-	(1 465)
Legal costs	(1 758)	-
Other income	(390)	1 959
Other expenses	2 220	(3 062)
	(1 708)	
Total other income / (expenses), net	**(132 055)**	**(39 476)**

26. Income tax expense

	2019 RUB'000	2018 RUB'000
Current		
Current income tax expense	63 850	62 674
Deferred		
Effect of utilisation and origination of tax losses carried forward	(1 640)	(22 819)
Origination and reversal of temporary differences	(11 769)	11 915
Total income tax expense	**50 441**	**51 770**

Reconciliation of theoretical income tax expense with actual income tax expenses

	2019 RUB'000	2018 RUB'000
Profit before tax	**286 962**	**195 953**
Income tax using the tax rate (20 %)	57 932	39 191
Tax losses	(6 951)	12 579
Total income tax expense in the consolidated statement of comprehensive income	**50 441**	**51 770**

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

	2019 RUB'000	2018 RUB'000
Total comprehensive income for the period	228 812	145 244
Weighted average number of shares during the year	4 742 783 406	4 742 783 406
Earnings per share	**0,00004824**	**0,00003062**
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	**0,00004679**	**0,00002970**

28. Consolidated EBITDA reconciliation

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.

	2019 RUB'000	2018 RUB'000
Consolidated profit for the period	236 521	144 183
Adjustments for:		
Financial income/ expenses (excluding interest)	11 810	27 019
Income tax expense	50 441	51 770
Interest expense, net	81 486	84 230
Consolidated recurring EBIT	**380 258**	**307 202**
Adjustment for depreciation and amortisation	223 455	149 722
Adjustment for non-recurring operations, including:		
Exchange (gains)/losses	1 596	(2 326)
Share-based compensation	5 236	5 236
Recovery of accounts receivable for ATEK	-	(152 220)
Consolidated recurring EBITDA	**610 545**	**307 614**

28. Consolidated EBITDA reconciliation (continued)

In order to improve comparability with previous periods the Group calculates consolidated recurring EBITDA without effect of IFRS 16 adoption.

	2019 RUB'000	2018 RUB'000
Consolidated profit for the period	238 050	144 183
Adjustments for:		
Financial income/ expenses (excluding interest)	11 810	27 019
Income tax expense	50 441	51 770
Interest expense, net	72 910	84 230
Consolidated recurring EBIT	**373 211**	**307 202**
Adjustment for depreciation and amortisation	192 686	149 722
Adjustment for non-recurring operations, including:		
Exchange (gains)/losses	1 596	(2 326)
Share-based compensation	5 236	5 236
Recovery of accounts receivable for ATEK	-	(152 220)
Consolidated recurring EBITDA	**572 729**	**307 614**

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 14 "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:

	2019 RUB'000	2018 RUB'000
Operating profit	513 909	344 352
Total averaged assets	3 318 300	2 934 415
Return on assets ratio for the year	**15,49%**	**11,73%**

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 2019 RUB'000	31 December 2018 RUB'000
Loans and borrowings	940 961	778 033
Less: Cash and cash equivalents	(52 534)	(48 618)
Net debt	**888 427**	**729 415**
Total equity	**1 660 723**	**1 426 675**
Gearing ratio	**53,50%**	**51,13%**

29. Capital risk management(continued)

As a requirement of investors, the company also monitors the following ratios as at 31.12.2019.

	RUB'000	Benchmark
Current assets	954 448	
- Prepaid expenses	(70 047)	
Current assets less prepaid expenses	884 401	
Current liabilities	794 046	
Current ratio	**1,11**	**1,2 and more**
Total Liabilities	1 947 560	
Equity	1 660 723	
Deferred tax assets	153 923	
Intangible assets	111 739	
Tangible Net Worth	1 395 061	
Tangible Net Worth ratio	**1,40**	**Not exceeding 2**
Profit for the period	236 521	
Non-cash items, including		
depreciation and amortisation	223 455	
Income taxes	50 441	
Payments due on account of interest and other charges on all Financial debt	80 356	
CAPEX	-	
Sub total 1	590 773	
Scheduled payments	175 475	
Historic Debt Service Coverage Ratio	**3,37**	**1,3 and more**
Loans and borrowings	1 003 242	
Less: Cash and cash equivalents	(52 534)	
Net debt	**950 708**	
Consolidated recurring EBITDA	610 545	
Net Debt to EBITDA ratio	**1,56**	**Not exceeding 3**

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 2019 RUB'000	31 December 2018 RUB'000
Financial assets		
Trade and other receivables	713 157	777 431
Subsidies receivable	24 841	11 190
Cash and cash equivalents	52 534	48 618
Financial liabilities		
Trade and other payables	496 862	496 314
Loans and borrowings	940 961	778 033

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 2019	
	RUB'000	Share
Individuals	379 116	53,16%
Aleksin branch of JSC "Tjazhpromarmatura"	9 936	1,39%
LLC "Zhilkomservis"	6 817	0,96%
NGKB GUZ	4 899	0,69%
LLC "Housing Fund"	3 013	0,42%
Total:	**403 781**	**56,62%**
Total trade and other receivables:	**713 157**	

	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**	

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	147 470	8.49	15.09.2020
EBRD	174 135	11.83	07.02.2020

*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.

30. Financial risk management (continued)

30.3 Liquidity risk (continued)

31 December 2019	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	174 135	31 545	35 749	61 491	93 756	-	222 541
Loans received from IFC	147 470	27 689	32 918	56 261	51 957	-	168 825
Loan received from Sberbank (LLC “CCS”)	368 430	-	-	368 430	-	-	368 430
Loan received from Sberbank (LLC “ATEK”)	168 490	-	-	168 490	-	-	168 490
Loan received from Sberbank (LLC “Klintsovskaya TEC”)	82 436	-	-	82 436	-	-	82 436
Trade and other payables and other monetary liabilities	496 862	496 862	-	-	-	-	496 862
Total financial liabilities	**1 437 823**	**556 096**	**68 667**	**737 108**	**145 713**	**-**	**1 507 584**

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)

30.4 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 2019, RUB'000	**Level 1**	**Level 2**	**Level 3**	**Total**
Property, plant and equipment	-	-	2 333 903	**2 333 903**
Loans	-	940 961	-	**940 961**

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**

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 2019 and in 2019 for 2020.

32. Contingencies (continued)

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.

32.3 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 3.0% for 2019 (2018: 4.3%). 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 2018	Debit turnover for 2019	Credit turnover for 2019	Balance as at 31 December 2019
EBRD	Loans received	(231 138)	48 660	-	(182 478)
EBRD	Interest on loans	(4 911)	30 018	(28 360)	(3 253)
IFC	Loans received	(200 000)	50 000	-	(150 000)
IFC	Interest on loans	(5 278)	17 137	(15 609)	(3 750)
IFC	Income participation fee	-	5 087	(5 087)	-
Total		**(441 327)**	**150 902**	**(49 056)**	**(339 481)**

33. Related-party transactions (continued)

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)	(5 278)
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)**

33.2 Transactions with key management personnel

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

	2019 RUB'000	2018 RUB'000
Short-term benefits	38 575	39 912
Share-based compensation	5 236	5 236
Dividends	-	758
Total	**43 811**	**45 906**

	31 December 2019 RUB'000	31 December 2018 RUB'000
Period-end balances		
Trade and other payables	287	796

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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 2018	Debit turnover for 2019	Credit turnover for 2019	Balance as at 31 December 2019
Vektor, LLC	Purchase of services	(282)	3 804	(3 748)	(226)
Total		**(282)**	**3 804**	**(3 748)**	**(226)**

33. Related-party transactions (continued)

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)**

34. Subsidiaries

The following comprise the list of the Group subsidiaries as at 31 December 2019 and 31 December 2018:

Entity	Principal activities	Country of incorpo-ration	Control, %	
			31 December 2019	31 December 2018
KOTK LLC	Heating, Water supply and removal	Russia	100	100
CCS LLC	Delivery, Distribution and production of thermal energy	Russia	100	100
TEK Centra LLC	Delivery, Distribution and production of thermal energy	Russia	100	100
Chernskaya Teplovaya companiya LLC	Heating	Russia	100	100
CCS Capital LLC	Investing	Russia	100	100
INVEK JSC	Consulting services	Russia	100	100
TEK Kiselevska LLC	Delivery, Distribution and production of thermal energy	Russia	100	100
Klintsovskaya TEC LLC	Delivery, distribution and production of electricity, thermal energy	Russia	100	100
Klintsovskaya Teplosetevaya Companiya LLC	Delivery, distribution and production of thermal energy	Russia	100	100
IPK LLC	Activities of the customer-contractor, general contractor	Russia	100	100
ATEK, LLC	Heating	Russia	100	100

36. Events after the reporting period

12.03.2020 LLC Klintsovskaya TEC sign loan agreement with PJSC Sberbank in order to finance the construction of the 2nd stage of the power center of LLC Klintsovskaya TEC in the amount of RUB 560 million.
10.03.2020 LLC CCS terminated credit agreement with PJSC Sberbank № 01210018/86041100/ASRM on opening of a revolving credit line dated 15.05.2018.

In 2020, a significant factor of uncertainty for the dynamics of oil prices and the growth of the world economy as a whole is the development of the situation with the spread of coronavirus, which leads to a decrease in trade between countries, logistics disruption, and a significant depreciation of the ruble against the dollar and the euro. Thus, a decrease in oil prices can have a significant impact on the slowdown of the Russian economy as a whole, which can affect the financial results of the Group. The Group's management assessed the impact of the prevalence of the new coronovirus infection and related economic consequences on the going concern and financial statements of the Group.

The business of the Group is the countercyclical industry. The group does not expect a significant decrease in consumption, which confirms the experience of previous crises. However, a decrease in the purchasing power of the population may manifest itself in a temporary decrease in the level of payment. Possible negative effects include inflation and an increase in interest rates, which will be taken into account in the tariff only in the following regulatory periods.
Management estimates that in a negative scenario, the impact of quarantine measures and an economic decrease could lead to a decrease in collection rates of up to 70% in 2-4 quarters. Management develops measures to minimize the consequences of this situation, in particular, forms an anti-crisis business plan.

Subsequent the reporting date there have been no other material events requiring disclosure.