Independent auditor's report
on the consolidated financial statements of
PJSC Enel Russia and its subsidiaries
for the year ended 31 December 2017

March 2018

Contents

Совершенствуя бизнес,
улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditor's report

To the Shareholders and Board of Directors of
PJSC Enel Russia

Opinion

We have audited the consolidated financial statements of PJSC Enel Russia and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity 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 31 December 2017 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

A member firm of Ernst & Young Global Limited

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of property, plant and equipment and other non-current assets	
Annual impairment testing was one of the most significant matters for our audit because the recoverable amount assessment process is complex and involves estimates. In the impairment testing of property, plant and equipment and other non-current assets the Group used various assumptions, in particular, the forecasted net power output and installed capacity, forecasted electricity and capacity tariffs, gas and coal prices, operation and maintenance expenses for production facilities and forecasted capital expenditures, which in turn depend on the future market and economic conditions in the Russian Federation. The information on the impairment test in respect of property, plant and equipment is disclosed in Note 5 to the consolidated financial statements. Information on recoverable amount of other non-current assets is disclosed in Note 7 to the consolidated financial statements.	We involved our valuation and business modelling specialists in the analysis of management's testing of impairments. Among other audit procedures, we assessed the assumptions and methodology used by the Group, especially those that are related to forecasted power and capacity sales, fuel expenses, the long-term growth rates and discount rates. We analysed mathematical accuracy and sensitivity of the model to changes in key assumptions as well as assessed completeness of information disclosed on assumptions that have a significant influence over the results of the impairment test, i.e. those that have a significant effect on the recoverable amount of property, plant and equipment and other non-current assets. Additionally, we assessed the assumptions used by the Group for measuring recoverable amount of individual non-current assets.
Fair value of derivative financial instruments	
The Group uses derivative financial instruments, the valuation of which is determined through the application of valuation techniques which involve the exercise of judgement and the use of assumptions and estimates. Due to the significance of derivative financial instruments recognized in the consolidated statement of financial position, as well as the related estimation of assumptions, it was one of the matters of most significance in our audit. The information on the Group's derivative financial instruments is disclosed in Notes 3c, 4e and 22 to the consolidated financial statements.	Among others, our audit procedures included assessment of the methodologies, inputs and assumptions used by the Group in determining fair values; comparing observable inputs into valuation models to externally available market data, and recalculation of the fair value, as well testing of hedge effectiveness. Additionally, we assessed the completeness of information disclosed on derivative financial instruments' fair value in the consolidated financial statements.

A member firm of Ernst & Young Global Limited

Key audit matter	How our audit addressed the key audit matter
Recognition, measurement and disclosure of provisions and contingencies	
Recognition, measurement and disclosure of provisions and contingencies concerning legal issues, regulatory bodies' actions and counterparties' claims require significant judgment. Due to significance of provisions and contingent liabilities and difficulties in estimating their consequences, it was one of the matters of most significance in our audit. The information on the Group's accrued provision and contingent liabilities is disclosed in Notes 17 and 24 to the consolidated financial statements.	Our audit, among other procedures, included an analysis of court decisions and related correspondence, a discussion of these matters with the Group's legal department personnel and Group management, together with an analysis of the consequences of possible claims from counterparties and regulatory bodies.

Other information included in Group's 2017 Annual report

Other information consists of the information included in the Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available 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.

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 Audit Committee of the Board of Directors are responsible for overseeing the Group's financial reporting process.

A member firm of Ernst & Young Global Limited

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:

- 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.
- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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.
- 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.
- 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 Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A member firm of Ernst & Young Global Limited

Совершенствуя бизнес,
улучшаем мир

We also provide the Audit Committee of 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 Audit Committee of 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 partner in charge of the audit resulting in this independent auditor's report is T.L. Okolotina.

T.L. Okolotina
Partner
Ernst & Young LLC

15 March 2018

Details of the audited entity

Name: PJSC Enel Russia
Record made in the State Register of Legal Entities on 27 October 2014, State Registration Number 1046604013257.
Address: Russia 620014, Sverdlovsk region, Yekaterinburg, Kokhryakova str., 10.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

A member firm of Ernst & Young Global Limited

PJSC Enel Russia
Consolidated statement of financial position
As at 31 December 2017
Thousands of Russian roubles, unless otherwise stated

	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	5	60,232,616	56,517,784
Intangible assets	6	288,290	336,300
Available-for-sale financial assets		41,240	48,030
Non-current derivative assets	22	637,360	566,260
Deferred income tax asset	12	–	1,156,289
Other non-current assets	7	2,322,768	2,310,080
Total non-current assets		**63,522,274**	**60,934,743**
Current assets			
Inventories	9	5,194,109	4,982,610
Trade and other receivables	8	6,021,599	5,640,374
Income tax receivable		118,556	–
Current derivative asset	22	155,090	–
Cash and cash equivalents	10	5,979,050	5,750,770
Total current assets		**17,468,404**	**16,373,754**
Total assets		**80,990,678**	**77,308,497**
Equity and liabilities			
Equity	11		
Share capital		35,371,898	35,371,898
Share premium		6,818,747	6,818,747
Treasury shares		(411,060)	(411,060)
Fair value reserve		23,240	30,030
Hedge reserve		172,660	204,944
Accumulated deficit		(582,412)	(6,689,046)
Total equity attributable to equity holders of PJSC Enel Russia		**41,393,073**	**35,325,513**
Non-controlling interest		(83,170)	(48,250)
Total equity		**41,309,903**	**35,277,263**
Non-current liabilities			
Loans and borrowings	13	11,066,230	23,356,620
Deferred income tax liability	12	234,560	–
Employee benefits	14	2,346,330	2,346,270
Provisions	17	415,154	873,956
Other non-current liabilities		270	270
Total non-current liabilities		**14,062,544**	**26,577,116**
Current liabilities			
Loans and borrowings	13	12,801,360	2,742,530
Current derivative liabilities	22	–	370,120
Trade and other payables	15	10,145,915	9,603,868
Current income tax payable		–	78,688
Other taxes payable	16	1,323,500	1,044,613
Provisions	17	1,347,456	1,614,299
Total current liabilities		**25,618,231**	**15,454,118**
Total liabilities		**39,680,775**	**42,031,234**
Total equity and liabilities		**80,990,678**	**77,308,497**

General Director C. Palasciano

Chief Accountant V. Grishachev

15 March 2018

The notes on pages 13 to 45 are an integral part of these consolidated financial statements.

PJSC Enel Russia
Consolidated statement of comprehensive income
For the year ended 31 December 2017
Thousands of Russian roubles, unless otherwise stated

	Notes	For the year ended 31 December 2017	For the year ended 31 December 2016
Revenue	18	74,399,944	72,211,396
Operating expenses	19	(60,919,562)	(62,783,409)
Other operating income		489,635	905,980
Operating profit		**13,970,017**	**10,333,967**
Finance income	20	393,780	4,025,271
Finance costs	20	(3,431,250)	(8,861,684)
Profit before income tax		**10,932,547**	**5,497,554**
Income tax expense	12	(2,388,287)	(1,110,672)
Profit for the year		**8,544,260**	**4,386,882**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		(8,488)	22,813
Income tax effect		1,698	(4,563)
Net movement on cash flow hedges	21	(40,355)	16,888
Income tax effect	21	8,071	(3,378)
Net other comprehensive (loss)/income to be reclassified to profit and loss in subsequent periods		**(39,074)**	**31,760**
Actuarial losses on defined benefits plans	14	(74,344)	(214,586)
Income tax effect	14	14,869	42,917
Net other comprehensive loss not being reclassified to profit and loss in subsequent periods		**(59,475)**	**(171,669)**
Total comprehensive income for the year		**8,445,711**	**4,246,973**
Profit attributable to:			
Owners of PJSC Enel Russia		8,579,180	4,392,172
Non-controlling interest		(34,920)	(5,290)
Total comprehensive income attributable to:			
Owners of PJSC Enel Russia		8,480,631	4,252,263
Non-controlling interest		(34,920)	(5,290)
Earnings per ordinary share for profit attributable to the equity holders of PJSC Enel Russia – basic and diluted (in Russian roubles per share)	11	**0.2436**	**0.1247**

General Director C. Palasciano

Chief Accountant V.V. Grishachev

15 March 2018

The notes on pages 13 to 45 are an integral part of these consolidated financial statements.

PJSC Enel Russia
Consolidated statement of cash flows
For the year ended 31 December 2017
Thousands of Russian roubles, unless otherwise stated

	Notes	For the year ended 31 December 2017	For the year ended 31 December 2016
Cash flows from operating activities			
Profit/(loss) before income tax		**10,932,547**	**5,497,554**
Adjustments for:			
Depreciation and amortization	5, 6, 19	3,497,787	3,106,310
Loss/(gain) on disposal of property, plant and equipment	19	12,640	(6,590)
Impairment of property, plant and equipment and other non-current assets	5	61,213	–
Finance income	20	(393,780)	(4,025,271)
Finance costs	20	3,431,250	8,861,684
Change in allowance for impairment of trade and other receivables	8	202,930	468,363
Change in other provisions	17	12,320	94,198
Adjustments for other non-cash transactions		96,728	105,669
		17,853,635	**14,101,917**
(Increase)/decrease in trade and other receivables		(415,692)	1,935,053
(Increase)/decrease in inventories		(213,430)	534,580
Decrease in trade and other payables		(2,166,385)	(5,394,792)
Increase/(decrease) in taxes payable, other than income tax		278,887	(19,297)
Net cash inflow from operating activities before income tax paid		**15,337,015**	**11,157,461**
Dividends paid	11	(2,413,071)	–
Income tax (paid)/returned from budget		(1,240,454)	1,120,224
Net cash from operating activities		**11,683,490**	**12,277,685**
Cash flows from investing activities			
Acquisition of property, plant and equipment and other non-current assets		(6,209,892)	(8,534,995)
Interest received		401,926	936,000
Net cash used in investing activities		**(5,807,966)**	**(7,598,995)**
Cash flows from financing activities			
Proceeds from the issue of non-current loans and borrowings		–	10,000,000
Repayment of loans and borrowings		(2,764,010)	(16,342,222)
Interest paid		(2,109,804)	(2,719,501)
Payment on derivatives		(773,430)	(311,347)
Net cash used in financing activities		**(5,647,244)**	**(9,373,070)**
Net increase/(decrease) in cash and cash equivalents		**228,280**	**(4,694,380)**
Cash and cash equivalents at 1 January		5,750,770	10,445,150
Cash and cash equivalents at 31 December	10	**5,979,050**	**5,750,770**

General Director C. Palasciano

Chief Accountant V.V. Grishachev

15 March 2018

The notes on pages 13 to 45 are an integral part of these consolidated financial statements.

PJSC Enel Russia
Consolidated statement of changes in equity
For the year ended 31 December 2017
Thousands of Russian roubles, unless otherwise stated

		Attributable to equity holders of PJSC Enel Russia								
	Notes	Share capital	Share premium	Treasury shares	Fair value reserve	Hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2016		**35,371,898**	**6,818,747**	**(411,060)**	**11,780**	**191,434**	**(10,909,549)**	**31,073,250**	**(42,960)**	**31,030,290**
Profit/(loss) for the year		–	–	–	–	–	4,392,172	**4,392,172**	(5,290)	**4,386,882**
Other comprehensive income										
Net movement on cash flow hedges, net of tax	21	–	–	–	–	13,510	–	**13,510**	–	**13,510**
Net change in fair value of available-for-sale financial assets, net of tax		–	–	–	18,250	–	–	**18,250**	–	**18,250**
Actuarial gains on defined benefits plans, net of tax	14	–	–	–	–	–	(171,669)	**(171,669)**	–	**(171,669)**
Total other comprehensive income/(loss)		–	–	–	**18,250**	**13,510**	**(171,669)**	**(139,909)**	–	**(139,909)**
Total comprehensive income/(loss) for the year		–	–	–	**18,250**	**13,510**	**4,220,503**	**4,252,263**	**(5,290)**	**4,246,973**
Balance at 31 December 2016		**35,371,898**	**6,818,747**	**(411,060)**	**30,030**	**204,944**	**(6,689,046)**	**35,325,513**	**(48,250)**	**35,277,263**

The notes on pages 13 to 45 are an integral part of these consolidated financial statements.

PJSC Enel Russia
Consolidated statement of changes in equity (continued)
For the year ended 31 December 2017
Thousands of Russian roubles, unless otherwise stated

		Attributable to equity holders of PJSC Enel Russia								
	Notes	Share capital	Share premium	Treasury shares	Fair value reserve	Hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2017		**35,371,898**	**6,818,747**	**(411,060)**	**30,030**	**204,944**	**(6,689,046)**	**35,325,513**	**(48,250)**	**35,277,263**
Profit/(loss) for the year		–	–	–	–	–	8,579,180	**8,579,180**	(34,920)	**8,544,260**
Other comprehensive income										
Net movement on cash flow hedges, net of tax	21	–	–	–	–	(32,284)	–	**(32,284)**	–	**(32,284)**
Net change in fair value of available-for-sale financial assets, net of tax		–	–	–	(6,790)	–	–	**(6,790)**	–	**(6,790)**
Actuarial losses on defined benefits plans, net of tax	14	–	–	–	–	–	(59,475)	**(59,475)**	–	**(59,475)**
Total other comprehensive income/(loss)		–	–	–	**(6,790)**	**(32,284)**	**(59,475)**	**(98,549)**	–	**(98,549)**
Total comprehensive income/(loss) for the year		–	–	–	**(6,790)**	**(32,284)**	**8,519,705**	**8,480,631**	**(34,920)**	**8,445,711**
Distribution of dividends	11	–	–	–	–	–	(2,413,071)	**(2,413,071)**	–	**(2,413,071)**
Balance at 31 December 2017		**35,371,898**	**6,818,747**	**(411,060)**	**23,240**	**172,660**	**(582,412)**	**41,393,073**	**(83,170)**	**41,309,903**

General Director C. Palasciano

Chief Accountant V.V. Grishachev

15 March 2018

The notes on pages 13 to 45 are an integral part of these consolidated financial statements.

1. BACKGROUND

a. Organisation and operations

Public Joint Stock Company "Enel Russia" (the "Company" or "Enel Russia", previously known as OJSC "The Fifth Generating Company of the Wholesale Electric Power Market", Open Joint-Stock Company "Enel OGK-5", Open Joint-Stock Company "Enel Russia") was established on 27 October 2004 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Government of the Russian Federation on 1 September 2003.

The Company is registered by the Lenin District Inspectorate of the Russian Federation Ministry of Taxation of Yekaterinburg, Sverdlovsk region. The Company's office is located at bld. 1, 7, Pavlovskaya, 115093, Moscow, Russia.

Enel Investment Holding B.V. is a parent company with share in the Share capital of the Company amounted to 56.43%. Ultimate parent company is Enel S.p.A., listed on Milan Stock Exchange.

As of 31 December 2017 PFR Partners Fund I Limited owns 6,732,340,483 ordinary shares (19.03% of share capital of Enel Russia); Prosperity Capital Management Limited owns 2,910,893,393 ordinary shares (8.23% of share capital).

The Enel Russia Group (the "Group") operates 4 State District Power Plants ("SDPP") and its principal activity is electricity and heat generation. Furthermore, the Company owns the following subsidiaries:

		Ownership / voting shares	
Company name	**Country of incorporation**	**31 December 2017**	**31 December 2016**
LLC "OGK-5 Finance"	The Russian Federation	100%	100%
LLC "Health resort-preventorium "Energetik"	The Russian Federation	100%	100%
OJSC "Teploprogress"	The Russian Federation	60%	60%
LLC "Reftinskaya GRES"	The Russian Federation	100%	–
LLC "Enel Rus Wind Generation"	The Russian Federation	100%	–
LLC "Windlife Kola Vetro LL1"	The Russian Federation	100%	–
LLC "Azovskaya WPS"	The Russian Federation	100%	–

LLC "Reftinskaya GRES" was incorporated by the Company in 2017.

In June 2017 Enel Russia has been awarded two wind generation projects for a total capacity of 291 MW within the framework of the Russian Government tender for the construction of wind capacity. The expected overall investment in the two wind farms (Azov, Murmansk) amounts to approximately 405 million euros. Contractual capital commitments are disclosed in Note 23.

In August 2017 the Company acquired for cash 100% share in LLC "Enel Rus Wind Generation" and two its wholly owned subsidiaries LLC "Windlife Kola Vetro LL1" and LLC "Azovskaya WPS". Entities were acquired for further implementation of wind generation projects. Acquired identifiable assets mainly represent prepayments for technical services for wind generation projects (refer to Note 5, Note 25).

b. Relations with the State and its influence on the Group's activities

The Group's customer base includes a large number of entities controlled by or related to the state.

The Government of the Russian Federation directly affects the Group's operations through regulation by the Federal Antimonopoly Service ("FAS"), with respect to its sale of energy and capacity, and by the Regional Energy Commissions ("RECs") or by the Regional Tariff Commission ("RTC"), with respect to its heat energy and other products. The operations of all generating facilities are coordinated by OJSC "System Operator − the Central Dispatch Unit of Unified Energy System" ("SO-CDU") in order to meet system requirements in an efficient manner. SO-CDU is controlled by NP "Administrator of trade system".

Tariffs for sales of electricity for householders, heat and other products are calculated on the basis of legislative documents, which regulate pricing of heat and electricity. Tariffs are calculated in accordance with the "Cost-Plus" method and "Indexation" method.

2. BASIS OF PREPARATION

a. Statement of compliance

These consolidated financial statements ("Financial statements") have been prepared in accordance with International Financial Reporting Standard ("IFRS"). Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

b. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, investments at fair value through profit or loss, financial investments classified as available-for sale are stated at fair value.

c. Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble ("RUB"), which is the Company's functional currency and the currency in which these financial statements are presented.

All financial information presented in RUB has been rounded to the nearest thousand, except where otherwise indicated. Each entity in the Group determines the same functional currency and items included in the financial statements of each entity are measured using that functional currency.

d. Use of judgments, estimates and assumptions and changes thereof

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual outcomes may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the consolidated financial statements is described below:

Impairment of trade accounts receivable

Management believes that the majority of customers, the balances of which are included in trade receivables, comprise a single class, as they bear the same characteristics. Those customers belong to the same wholesale market of electric power, which is regulated by NP ATS (Non-commercial Partnership "Administrator of Trade System").

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analysis of expected future cash flows. Further details are given in Note 8.

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates. The Group policy is to periodically review the estimated useful lives of its property plant and equipment. In 2017 Group did not revise the estimated useful lives for any category of property, plant and equipment.

Further details about the useful lives applied are given in Note 3 (e).

2. BASIS OF PREPARATION (continued)

d. Use of judgments, estimates and assumptions and changes thereof (continued)

Impairment of non-current assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to disposal and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted as arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the management approved budgets for the next five years. The recoverable amount is highly and mostly sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes in a terminal period.

In identifying CGUs, management took account of the specific nature of its assets and the business in which it is involved (geographical area, regulatory framework, etc.), verifying that the cash inflows of a given group of assets were largely interdependent with other groups of assets. The Company defines PJSC Enel Russia as a single CGU.

Pension benefits

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency of benefits payment and with maturities approximating the terms of the related benefit liabilities.

Further details about the assumptions used are given in Note 14.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Further details about the assumptions used are given in Note 4.

Acquisition of assets that does not constitute a business

The Company determines whether a transaction or other event is a business combination by applying the definition in IFRS 3 *Business Combinations*, which requires that the assets acquired and liabilities assumed constitute a business. Sometimes it may be difficult to determine whether or not an acquired group of assets is a business, and judgement will be required to be exercised based on the particular circumstances. If the assets acquired are not a business the Company accounts for the transaction or other event as an asset acquisition. In such case the cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such transaction does not give rise to a goodwill.

The Company analyzed particular circumstances and concluded that entities acquired in 2017 (LLC "Enel Rus Wind Generation", LLC "Windlife Kola Vetro LL1" and LLC "Azovskaya WPS") do not constitute a business, otherwise a group of assets which are mainly represented by prepayments for technical services for wind generation projects (refer to Note 5).

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a. Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The non-controlling interest has been presented as part of equity.

ii. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

iii. Transactions with non-controlling interest

The Group applies a policy of treating transactions with non-controlling interest as transactions with the owners in their capacity of owners. In case of acquisition of non-controlling interest, the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is recognised in equity.

b. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

c. Financial instruments

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables are represented by trade receivables (Note 8), long-term loans issued (Note 7), bank deposits and bank bills of exchange.

Cash and cash equivalent comprises cash in hand and call deposits. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

Held-to-maturity investments

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Financial instruments (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Regular purchases and sales of financial assets are recognised on the trade date − the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Held to maturity investments and loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the profit or loss within finance items (net), in the period in which they arise. Interest income from financial assets at fair value through profit or loss is recognised in the comprehensive income as part of finance income when the Group's right to receive payments is established.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit or loss as gains and losses from investment securities.

Dividends on available-for-sale equity instruments are recognised in the comprehensive income as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the comprehensive income. Impairment losses recognised in the comprehensive income on equity instruments are not reversed through profit or loss.

Except for loans and receivables and available-for-sale investments, the Group did not have other financial assets in the year ended 31 December 2016 or the year ended 31 December 2017.

Derivative financial instruments

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative under IAS 39 are recognized in the income statement in cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the group's expected purchase, sale or usage requirements are held at cost. Group has no commodity derivatives in in the year ended 31 December 2016 or the year ended 31 December 2017.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Financial instruments (continued)

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the income statement in other financial expenses.

Amounts recognized as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the nonfinancial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

d. Equity

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared (approved by shareholders) before or on the reporting date. Dividends are disclosed when they are declared after the reporting date, but before the financial statements are authorized for issue.

e. Property, plant and equipment

i. Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Property, plant and equipment (continued)

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss.

ii. Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

iii. Depreciation

Depreciation property, plant and equipment is calculated on a straight-line basis over the estimated useful lives of the asset when it is available for use.

The estimated useful lives of assets by type of facility are as follows:

Electricity and heat generation	9-60 years
Electricity transmission	8-33 years
Heating networks	15-41 years
Other	6-63 years

Social assets are not capitalized as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

f. Intangible assets

i. Patents and licenses

Patents and licenses that are acquired by the Group are measured on initial recognition at cost at the acquisition date.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

ii. Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on brands, is recognised in the profit or loss as incurred.

The amortization charge on all intangible assets with finite useful lives is accrued on a straight-line basis over their useful life starting from the month following the month in which the asset is available for use.

The amortization charge is recognized in the income statement as an operating expense.

The useful life of intangible assets is 5-10 years.

g. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

i. Borrowings

Borrowings are recognised initially at their fair value. Fair value is determined using the prevailing market rate of interest for similar instruments, if significantly different from the transaction price. In subsequent periods, borrowing are stated at amortised cost using the effective interest rate; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the debt obligation.

The Group capitalises borrowing costs in qualifying assets in accordance with IAS 23 *Borrowing Costs*.

j. Employee benefits

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions related to defined benefit pension plans are recorded in other comprehensive income.

Gains or losses resulting from a plan amendment or a curtailment and related to defined benefit pension plans shall be recognized as an expense.

k. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

i. Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for (see Note 17).

ii. Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Environmental obligations

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

m. Impairment

i. Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

ii. Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only 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.

n. Revenue

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer of electricity and heat or non-utility goods and services. Revenue is measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services sold/provided. Revenue is stated net of value added tax.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and impairment losses on financial assets other than trade receivables (see Note 22). Borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

p. Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity, such as items recognised in equity at preparing the Group's first set of consolidated IFRS financial statements, or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

q. Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

r. Segment reporting

The Group has a single reportable segment − the generation of electric power and heat in the Russian Federation as the management does not review profit measures for individual SDPPs or any other components in order to make a decision about allocation of resources. The Group generates its revenues from the generation of electricity and heat in the Russian Federation. The Group holds assets in the same geographical area − the Russian Federation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

s. New and amended standards and interpretations

The Group applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2017.

The nature and the impact of each new standards and amendments is described below:

IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The application of these amendments did not have an impact in the consolidated financial statements.

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The application of these amendments did not have an impact in the consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The application of these amendments did not have an impact in the consolidated financial statements.

4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a. Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

b. Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes only.

c. Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

d. Derivatives

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

5. PROPERTY, PLANT AND EQUIPMENT

	Heat and electricity generation	Electricity trans-mission	Heating networks	Other	Construc-tion in progress	Total
Cost						
At 1 January 2017	**97,909,180**	**14,920,580**	**747,247**	**29,989,219**	**12,495,722**	**156,061,948**
Additions	–	–	–	13,319	7,154,320	**7,167,639**
Transfers from construction in progress	5,706,927	433,419	–	1,201,211	(7,341,557)	–
Disposals	(141,000)	(4,949)	(550)	(240,933)	–	**(387,432)**
At 31 December 2017	**103,475,107**	**15,349,050**	**746,697**	**30,962,816**	**12,308,485**	**162,842,155**
Accumulated depreciation and impairment						
At 1 January 2017	**62,666,035**	**8,614,961**	**568,577**	**22,841,619**	**4,852,972**	**99,544,164**
Depreciation charge	2,212,732	436,317	8,108	727,317	–	**3,384,474**
Impairment	46,707	–	–	–	14,506	**61,213**
Disposals	(139,453)	(4,737)	(538)	(235,584)	–	**(380,312)**
At 31 December 2017	**64,786,021**	**9,046,541**	**576,147**	**23,333,352**	**4,867,478**	**102,609,539**
Net book value at 1 January 2017	**35,243,145**	**6,305,619**	**178,670**	**7,147,600**	**7,642,750**	**56,517,784**
Net book value at 31 December 2017	**38,689,086**	**6,302,509**	**170,550**	**7,629,464**	**7,441,007**	**60,232,616**

	Heat and electricity generation	Electricity trans-mission	Heating networks	Other	Construc-tion in progress	Total
Cost						
At 1 January 2016	**92,554,474**	**14,733,837**	**741,997**	**28,774,835**	**12,306,708**	**149,111,851**
Additions	–	–	–	12,950	7,677,038	**7,689,988**
Transfers from construction in progress	5,995,279	204,084	5,250	1,283,411	(7,488,024)	–
Disposals	(640,573)	(17,341)	–	(81,977)	–	**(739,891)**
At 31 December 2016	**97,909,180**	**14,920,580**	**747,247**	**29,989,219**	**12,495,722**	**156,061,948**
Accumulated depreciation and impairment						
At 1 January 2016	**61,044,526**	**7,617,952**	**575,234**	**23,172,932**	**4,813,413**	**97,224,057**
Depreciation charge	1,963,504	420,479	7,760	662,649	–	**3,054,392**
Reclassifications	285,353	592,965	(14,417)	(903,460)	39,559	–
Disposals	(627,348)	(16,435)	–	(90,502)	–	**(734,285)**
At 31 December 2016	**62,666,035**	**8,614,961**	**568,577**	**22,841,619**	**4,852,972**	**99,544,164**
Net book value at 1 January 2016	**31,509,948**	**7,115,885**	**166,763**	**5,601,903**	**7,493,295**	**51,887,794**
Net book value at 31 December 2016	**35,243,145**	**6,305,619**	**178,670**	**7,147,600**	**7,642,750**	**56,517,784**

As at 31 December 2017 construction in progress includes prepayments for property, plant and equipment of RUB 1,792,787 thousand (31 December 2016: RUB 1,162,495 thousand), including prepayments for technical services for wind generation projects in the amount of RUB 327,813 thousand.

During the years ended 31 December 2017 and 2016 the Group capitalized no borrowing costs into property, plant or equipment.

As at 31 December 2017 and 31 December 2016, there were no any restrictions on title, and no property, plant and equipment were pledged as security for liabilities.

In 2017 the impairment loss of RUR 61,213 thousand represented the write-down of certain property, plant and equipment and construction in progress as a result of technological obsolescence. This was recognized in the statement of comprehensive income as operating expenses.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Recoverable amount

According to IAS 36 *Impairment of Assets* the Group at the end of reporting period assessed whether there is any indication that assets may be impaired (or impairment loss recognised in prior periods may no longer exist or may have decreased) considering both external and internal sources of information.

The Company used the following key assumptions for determining the recoverable amount (value in use) of the property, plant and equipment and other noncurrent assets:

- Forecast cash flows were prepared for the period 2018-2022 and were based on the strategic plan of the Company for 2018-2020 approved by Board of Directors in November 2017 and based on the Company's most recent financial budgets/forecasts for the period till 2022;
- The cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital of 11.4% (2016: 12.5%);
- Growth rate of the net cash flows amounted to 2.9% in the post-forecasted period (2016: 2.9%).

As a result of impairment test no additional impairment of property, plant and equipment was recognized in 2017.

Operating leases

The assets transferred to the Group upon privatization did not include the land on which the Company's buildings and facilities are situated. The Group holds operating lease agreements in respect of these land plots with local governments.

The leases typically run for an initial period of 5 to 45 years with an option to renew. The lease payments are subject to regular reviews that may result in adjustments to reflect market conditions.

Non-cancellable operating lease rentals are payable for land plots as follows:

	31 December 2017	31 December 2016
Not later than one year	15,536	39,468
Later than one year and not later than five years	47,332	27,938
Later than five years	114,723	73,178
Total	**177,591**	**140,584**

6. INTANGIBLE ASSETS

	Patents and licenses	Software	Total
Cost			
At 1 January 2017	**69,390**	**550,886**	**620,276**
Additions	36,542	315,848	**352,390**
Disposals	(14,930)	(314,157)	**(329,087)**
At 31 December 2017	**91,002**	**552,577**	**643,579**
Accumulated amortization			
At 1 January 2017	**51,250**	**232,726**	**283,976**
Amortization charge	25,281	88,032	**113,313**
Disposal	(14,930)	(27,070)	**(42,000)**
At 31 December 2017	**61,601**	**293,688**	**355,289**
Net book value at 1 January 2017	**18,140**	**318,160**	**336,300**
Net book value at 31 December 2017	**29,401**	**258,889**	**288,290**

6. INTANGIBLE ASSETS (continued)

	Patents and licenses	Software	Total
Cost			
At 1 January 2016	**134,770**	**1,339,100**	**1,473,870**
Additions	8,805	65,510	**74,315**
Disposals	(74,185)	(853,724)	**(927,909)**
At 31 December 2016	**69,390**	**550,886**	**620,276**
Accumulated amortization			
At 1 January 2016	**102,906**	**1,043,370**	**1,146,276**
Amortization charge	22,530	29,386	**51,916**
Disposal	(74,186)	(840,030)	**(914,216)**
At 31 December 2016	**51,250**	**232,726**	**283,976**
Net book value at 1 January 2016	**31,864**	**295,730**	**327,594**
Net book value at 31 December 2016	**18,140**	**318,160**	**336,300**

Intangible assets include the costs associated with SAP/R3 implementation and new software for optimization of the workflows in procurement and finance.

7. OTHER NON-CURRENT ASSETS

	31 December 2017	31 December 2016
Long-term receivables	57,950	65,120
Other	2,264,818	2,244,960
Total	**2,322,768**	**2,310,080**

Long-term receivables include mostly long-term RUB loans given to the Group's employees for 10-15 years.

As at 31 December 2017 and 31 December 2016 other non-current assets included the equipment related to suspended construction project in the amount of RUB 1,712,751 thousand (net of accumulated impairment of RUB 3,753,863 thousand) which is stored as an equipment for the purposes of the Company's power plants (also as a spare parts).

8. TRADE AND OTHER RECEIVABLES

	31 December 2017	31 December 2016
Trade receivables	5,296,270	4,942,869
Prepayments to suppliers	305,222	414,128
Other taxes receivables	238,068	226,734
Other receivables	182,039	56,643
Total (net of impairment allowance of RUB 3,976,281 thousand at 31 December 2017, of RUB 3,790,261 thousand at 31 December 2016)	**6,021,599**	**5,640,374**

The table below provides information about the changes in allowance for impairment of receivables:

	For the year ended 31 December 2017	For the year ended 31 December 2016
At 1 January	**3,790,261**	**3,471,211**
Charge for the year	202,930	894,083
Unused amounts reversed	–	(425,720)
Utilized	(16,910)	(149,313)
At 31 December	**3,976,281**	**3,790,261**

9. INVENTORIES

	31 December 2017	31 December 2016
Fuel supplies	2,683,807	2,524,619
Materials and supplies	2,433,838	2,359,330
Spare parts and other inventories	76,753	98,971
Total inventories	**5,194,398**	**4,982,920**
Less: allowance for obsolescence of inventories	(289)	(310)
Total	**5,194,109**	**4,982,610**

As at 31 December 2017 and 31 December 2016 none of the inventories were pledged as collateral under loan agreements. Advances issued to fuel suppliers are included into Fuel supplies line and comprise RUB 46,462 thousand (31 December 2016: RUB 477,852 thousand).

10. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash in bank	1,021,886	292,809
Call deposits	4,957,164	5,457,961
Total	**5,979,050**	**5,750,770**

As of 31 December 2017 and 2016, cash and cash equivalents were mainly denominated in RUB.

The Group's exposure to credit, interest rate and currency risk is disclosed in Note 22.

11. EQUITY

a. Share capital

The Group's share capital as at 31 December 2017 and 2016 was RUB 35,371,898 thousand comprising 35,371,898,370 ordinary shares with a par value of RUB 1.00. All shares authorised are issued and fully paid.

The holders of ordinary shares are entitled to receive dividends in accordance with the dividend policy and are entitled to one vote per share at the Shareholders' meetings of the Company.

On 15 June 2017 the Shareholders' meeting approved the allocation of dividends for the year 2016 totalling RUR 2,413,071 thousand in the amount of a 0.068 RUR per ordinary share. The total amount of dividends was fully paid during 2017.

b. Treasury shares

The nominal value of treasury shares as at 31 December 2017 and 2016 was RUB 156,222 thousand comprising 156,222,914 ordinary shares with a par value of RUB 1.00.

c. Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below.

	For the year ended 31 December 2017	For the year ended 31 December 2016
Weighted average number of shares issued, in thousands	35,371,898	35,371,898
Adjustment for weighted average number of treasury shares, in thousands	(156,223)	(156,223)
Weighted average number of shares outstanding, in thousands	**35,215,675**	**35,215,675**
Profit attributable to shareholders of PJSC Enel Russia	8,579,180	4,392,172
Profit per share − basic and diluted (RUB per share)	**0.2436**	**0.1247**

12. INCOME TAXES

	For the year ended 31 December 2017	For the year ended 31 December 2016
Current income tax expense	974,498	137,200
Deferred income tax expense	1,413,789	973,472
Total income tax expense	**2,388,287**	**1,110,672**

During the year ended 31 December 2017, the Group entities were subject to 20% income tax rate on taxable profits. This rate was used for the calculation of the deferred tax assets and liabilities.

A reconciliation of the theoretical income tax, calculated at the tax rate effective in the Russian Federation, to the amount of actual income tax expense recorded in the statement of comprehensive income, is as follows:

	For the year ended 31 December 2017		For the year ended 31 December 2016	
Profit before income tax	**10,932,547**	**100%**	**5,497,554**	**100%**
Income tax at applicable tax rate	(2,186,509)	(20%)	(1,099,511)	(20%)
(Non-deductible expenses) / non-taxable income, net	(201,778)	(1.8%)	(11,161)	(0.2%)
	(2,388,287)	**(21.8%)**	**(1,110,672)**	**(20.2%)**

The tax effects of temporary differences that give rise to deferred taxation are presented below:

	1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2017
Tax effect of deductible temporary differences				
Trade and other receivables	944,159	38,129	–	982,288
Provisions	816,515	(139,424)	–	677,091
Employee benefits	455,878	(15,561)	14,869	455,186
Other	440,048	(179,423)	–	260,625
Deferred tax assets	**2,656,600**	**(296,279)**	**14,869**	**2,375,190**
Tax effect of taxable temporary differences				
Property, plant and equipment	(655,375)	(1,027,051)	–	(1,682,426)
Derivatives	(113,221)	(53,338)	8,071	(158,488)
Trade and other receivables	(703,899)	(43,199)	–	(747,098)
Other	(27,816)	6,078	–	(21,738)
Deferred tax liabilities	**(1,500,311)**	**(1,117,510)**	**8,071**	**(2,609,750)**
Net deferred tax asset/(liability)	**1,156,289**	**(1,413,789)**	**22,940**	**(234,560)**

12. INCOME TAXES (continued)

	1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2016
Tax effect of deductible temporary differences				
Trade and other receivables	859,837	84,322	–	944,159
Property, plant and equipment due to Impairment recognition	749,294	(749,294)		–
Provisions	871,901	(55,386)	–	816,515
Employee benefits	388,302	24,659	42,917	455,878
Other	856,721	(416,673)	–	440,048
Deferred tax assets	**3,726,055**	**(1,112,372)**	**42,917**	**2,656,600**
Tax effect of taxable temporary differences				
Property, plant and equipment	–	(655,375)	–	(655,375)
Derivatives	(915,586)	805,744	(3,379)	(113,221)
Trade and other receivables	(578,031)	(125,868)	–	(703,899)
Other	(142,215)	114,399	–	(27,816)
Deferred tax liabilities	**(1,635,832)**	**138,900**	**(3,379)**	**(1,500,311)**
Net deferred tax	**2,090,223**	**(973,472)**	**39,538**	**1,156,289**

13. LOANS AND BORROWINGS

			31 December 2017		31 December 2016	
	Currency	Maturity	Carrying value	Face value	Carrying value	Face value
Non-current loans and borrowings						
EIB	EUR	2026	6,064,509	6,088,451	6,356,620	6,384,011
Gazprombank	RUB	2021	5,000,000	5,000,000	7,000,000	7,000,000
Commercial papers	RUB	2018	–	–	10,000,000	10,000,000
Other	EUR	2022	1,721	1,721	–	–
Total non-current loans and borrowings			**11,066,230**	**11,090,172**	**23,356,620**	**23,384,011**

		31 December 2017		31 December 2016	
	Currency	Carrying value	Face value	Carrying value	Face value
Current loans and borrowings and current portion of non-current loans and borrowings					
Current portion of non-current borrowings (EIB)	EUR	801,360	801,360	742,530	742,530
Gazprombank	RUB	2,000,000	2,000,000	2,000,000	2,000,000
Commercial papers	RUB	10,000,000	10,000,000	–	–
Total current loans and borrowings and current portion of non-current loans and borrowings		**12,801,360**	**12,801,360**	**2,742,530**	**2,742,530**

During 2017 the interest rates varied from 1.48% to 2.37% (2016: 1.48% to 2.37%) for borrowings nominated in EUR and from 8.45% to 12.1% (2016: 10.75% to 12.1%) for borrowings nominated in RUR. All loans and borrowings are unsecured.

As at 31 December 2017 the amount of undrawn borrowing facilities was RUB 83,000,000 thousand (including RUR 45,000,000 thousand of commercial papers program).

14. EMPLOYEE BENEFITS

The Group operates a defined benefit pension plan under Collective labour agreement, which requires contributions to be made to a separately administered fund.

The tables below provide information about the employee benefit obligations and actuarial estimations used for the year ended 31 December 2017 and for the year ended 31 December 2016. Amounts recognised in the Group's consolidated statement of financial position are as follows:

	31 December 2017	31 December 2016
Present value of defined benefit obligation	2,307,271	2,309,260
Net pension liabilities in the statement of financial position	**2,307,271**	**2,309,260**

Amounts recognised in profit or loss are as follows:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Current service cost	128,775	125,282
Interest cost	175,743	180,283
Net actuarial loss recognized in the period	–	1,294
Past service cost due to plan amendment	(38,209)	39,852
Net expense recognized in profit or loss	**266,309**	**346,711**

Changes in the present value of the Group's employee benefit obligations are as follows:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Present value of defined benefit obligations at the beginning of year	**2,309,260**	**1,971,524**
Current service cost	128,775	125,282
Past service cost due to plan amendment	(38,209)	39,852
Interest cost	175,743	180,283
Remeasurements recognized in other comprehensive income, including:	74,344	214,588
(Gain)/loss due to demographic assumption change	*(2,072)*	*64,081*
Loss/(gain) due to financial assumption changes	*89,463*	*107,260*
(Gain)/loss due to experience adjustment	*(13,047)*	*43,247*
Benefits paid	(342,642)	(223,563)
Immediate recognition of losses arising during the year	–	1,294
Present value of defined benefit obligation at the end of period	**2,307,271**	**2,309,260**

Principal actuarial assumptions are as follows:

	31 December 2017	31 December 2016
Nominal discount rate	7.18%	8.36%
Future salary increase	4.22%	4.84%

The mortality data was applied as per Russian table of 2013 with application of 20% improvement within 10 years.

The retirement schedule was based on the Company's statistics on retirements.

Funded status of the plan is as follows:

	31 December 2017	31 December 2016
Present value of defined benefit obligation	2,307,271	2,309,260
Deficit in plan	2,307,271	2,309,260
Losses arising from experience adjustments on plan liabilities	–	–

Expected benefit payments under the schemes during the year ended 31 December 2018 are RUB 342,536 thousand.

The average duration of the defined benefit plan obligation at the end of the reporting period is 7.78 years (2016: 7.62 years).

Included in the employee benefits in the consolidated statement of financial position are the amounts payable under the long term employee's incentive plan of RUB 39,059 thousand as at 31 December 2017 (2016: RUB 37,010 thousand).

14. EMPLOYEE BENEFITS (continued)

A quantitative sensitivity analysis for significant assumptions as at 31 December 2017 is as shown below:

Assumptions	Discount rate		Inflation rate		Salary increase	
Sensitivity level	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on the net defined benefit obligation	(161,146)	186,995	8,496	(7,082)	179,844	(157,490)

Assumptions	Turnover		Life expectancy	
Sensitivity level	1% increase	1% decrease	1 year increase	1 year decrease
Impact on the net defined benefit obligation	(71,859)	79,089	11,433	(12,066)

15. TRADE AND OTHER PAYABLES

	31 December 2017	31 December 2016
Trade payables	9,591,623	9,148,858
Accrued liabilities and other payables	332,902	236,460
Interest payable	221,390	218,550
Total	**10,145,915**	**9,603,868**

Management believes that the majority of suppliers, balances of which are included into trade payables, comprise a single class, as they bear the same characteristics. Those suppliers are mainly providers of fuel, repair and maintenance services.

16. OTHER TAXES PAYABLE

	31 December 2017	31 December 2016
Value added tax	897,878	666,000
Property tax	291,178	246,013
Other taxes	134,444	132,600
Total	**1,323,500**	**1,044,613**

17. PROVISIONS

	Restructu-ring	Onerous contract	Provision for legal claims	Decom-missioning provision	Personnel related provision	Other	Total
Balance at 1 January 2017	**197,922**	**448,473**	**46,374**	**641,941**	**447,308**	**706,237**	**2,488,255**
Provisions made during the period	–	150,100	250,982	(192,913)	808,331	3,445	**1,019,945**
Unwinding of discount	8,025	23,327	–	52,314	–	–	**83,666**
Provision reversed during the period	–		(22,580)	–	–	(3,564)	**(26,144)**
Provisions used during the period	(71,678)	(173,150)	(36,592)	(20,423)	(836,849)	(664,420)	**(1,803,112)**
Balance at 31 December 2017	**134,269**	**448,750**	**238,184**	**480,919**	**418,790**	**41,698**	**1,762,610**
Non-current	80,694	–	–	334,460	–	–	**415,154**
Current	53,575	448,750	238,184	146,459	418,790	41,698	**1,347,456**
Total	**134,269**	**448,750**	**238,184**	**480,919**	**418,790**	**41,698**	**1,762,610**

17. PROVISIONS (continued)

	Restructu-ring	Onerous contract	Provision for legal claims	Decom-missioning provision	Personnel related provision	Other	Total
Balance at 1 January 2016	**270,067**	**607,596**	**66,957**	**648,355**	**482,773**	**693,453**	**2,769,201**
Provisions made during the period	–	71,167	58,202	–	904,464	478,684	**1,512,517**
Unwinding of discount	7,947	42,141	–	17,280	–	3,774	**71,142**
Provision reversed during the period	–	(115,497)	(18,847)	–	(134,541)	(90,238)	**(359,123)**
Provisions used during the period	(80,092)	(156,934)	(59,938)	(23,694)	(805,388)	(379,436)	**(1,505,482)**
Balance at 31 December 2016	**197,922**	**448,473**	**46,374**	**641,941**	**447,308**	**706,237**	**2,488,255**
Non-current	95,536	293,614	–	484,806	–	–	**873,956**
Current	102,386	154,859	46,374	157,135	447,308	706,237	**1,614,299**
Total	**197,922**	**448,473**	**46,374**	**641,941**	**447,308**	**706,237**	**2,488,255**

a. Restructuring

Restructuring provision relates to the ongoing plan of optimization of organizational structure and redundancy of employees.

b. Onerous contract

The onerous contract provision relates to supplies to certain customers from the Caucasus region. The provision is based on estimates of incremental costs associated with electricity supplies for the next year (2016: next three years).

c. Provision for legal claims

Legal provision at the year end relates to individually minor litigations.

d. Decommissioning provision

Decommissioning provision relates to the dismantling expenses of certain individual items of property, plant and equipment. According to the current plan dismantling are going to take place in 2018-2019.

Land remediation provision of RUR 183,751 thousand as of 31 December 2017 (as of 31 December 2016: RUR 165,330 thousand) relates to incremental decommissioning cost associated with future restoration of the underlying ash dump.

e. Other

Other provisions include provision for environmental charges and provisions of tax risks.

18. REVENUE

	For the year ended 31 December 2017	For the year ended 31 December 2016
Power	50,195,821	52,488,755
Capacity	20,069,521	15,437,054
Heating	3,634,100	3,801,470
Water circulation	308,034	308,973
Rent	21,098	20,936
Water for heating network	20,620	18,605
Other	150,750	135,603
Total	**74,399,944**	**72,211,396**

19. OPERATING EXPENSES

	Notes	For the year ended 31 December 2017	For the year ended 31 December 2016
Fuel cost		38,515,730	39,373,058
Purchased electricity		5,539,299	6,424,311
Employee benefits		4,311,680	4,517,851
Depreciation and amortisation of property, plant and equipment and intangible assets	5	3,497,787	3,106,310
Repairs and technical maintenance		1,740,770	1,713,490
Taxes other than income tax and payroll taxes		1,256,270	1,382,720
Water usage		1,177,380	1,111,590
Raw materials and supplies		1,170,240	1,278,530
Fees to Trade System Administrator, Centre of financial settlements and System Operator		1,072,820	1,083,610
Advisory, legal and information services		871,840	665,254
Insurance		356,230	263,200
Security		237,260	243,280
Allowance for impairment of trade and other receivables, net	8	202,930	468,363
Lease costs		175,060	250,910
Public utilities		137,670	144,210
Pollution cost		118,890	163,790
Transport cost		93,400	87,950
Travel cost		87,340	76,470
Media and communication cost		71,010	64,830
Impairment loss in respect of property, plant and equipment	5	61,213	–
Loss on disposal of property, plant and equipment		12,640	–
Provisions		12,320	94,198
Other		199,783	269,484
Total		**60,919,562**	**62,783,409**

Employee benefits expenses comprise the following:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Wages and other benefits to employees and related taxes	3,711,412	3,900,411
Contributions to State Pension Fund	471,493	490,864
Non-governmental pension fund expenses (Note 14)	128,775	126,576
Total	**4,311,680**	**4,517,851**

20. FINANCE INCOME AND FINANCE COSTS

	For the year ended 31 December 2017	For the year ended 31 December 2016
Interest income	393,780	950,740
Exchange differences, net	–	3,074,531
Finance income	**393,780**	**4,025,271**
Interest expense	(2,084,950)	(2,730,341)
Unwinding of discount	(251,750)	(288,520)
Loss on the extinguishment of long-term loans	–	(467,917)
Foreign exchange differences, net	(630,390)	–
Loss from derivatives, net	(105,450)	(4,710,050)
Bank fees	(108,290)	(339,282)
Other	(250,420)	(325,574)
Finance costs	**(3,431,250)**	**(8,861,684)**

Interest income arose from change in interest accrued on call deposits, maintained with commercial banks.

In 2017 financial expenses of the Group mainly comprise interest charges on commercial papers and bank loans.

Financial expenses of the Company for 2016 comprise one-off effect for unamortized cost derecognition in relation to long-term loans from RBS and EBRD which were early repaid during 2016.

21. COMPONENTS OF OTHER COMPREHENSIVE INCOME/LOSS

	For the year ended 31 December 2017	For the year ended 31 December 2016
Cash flow hedge		
Reclassification during the year to income statement (net of income tax)	84,360	2,265,948
Net (losses)/gains during the year (net of income tax)	(116,644)	(2,252,438)
Net movement on cash flow hedges (net of income tax)	**(32,284)**	**13,510**
Available-for-sale financial assets		
Net (losses)/gains arising during the year (net of income tax)	(6,790)	18,250
Net change in fair value of available-for-sale financial assets (net of income tax)	**(6,790)**	**18,250**
Actuarial losses on defined benefits plans (net of income tax)	**(59,475)**	**(171,669)**

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

a. Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's activities expose it to a variety of financial risks, including the effects of changes in interest rates, forex risk and the collectability of receivables.

b. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

i. Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or group of customers with similar characteristics.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references.

On the wholesale electricity and capacity market (WECM) the assignment of contractors for electricity and/or capacity sales contracts is done on the basis of a model created by the Commercial Operator of the WECM. Every generating company operating on the WECM is obliged to conclude such contracts. In some cases it is impossible to avoid insolvent contractors. However, this risk can be mitigated through direct work with the debtors and through creation of adequate allowances if the contractor gets eliminated from the list of WECM players and (possibly) becomes bankrupt in the future.

Majority of the Group's customers have been transacting with the Group for over several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the impairment of receivables already recorded.

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

b. Credit risk (continued)

ii. Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a high credit rating. Given this management does not expect any existing counterparty to fail to meet its obligations.

iii. Cash balances and deposits

The majority of cash balances and short-term deposits are held with reliable banks or financial institutions. The Group places funds in financial institutions characterized by a quite stable financial status.

iv. Exposure to credit risk

The carrying amount of non-derivative financial assets represents the maximum of credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2017	31 December 2016
Available-for-sale financial assets	41,240	48,030
Trade receivables	5,296,270	4,942,869
Cash and cash equivalents	5,979,050	5,750,770
Long-term trade and other receivables	57,950	65,120
Total	**11,374,510**	**10,806,789**

The aging of financial assets, excluding cash and cash equivalents, at the reporting date was as follows:

	31 December 2017		31 December 2016	
	Gross	Impairment allowance	Gross	Impairment allowance
Not past due	4,371,711	–	4,349,855	–
Past due for less than 3 months	342,255	106,890	521,086	187,150
Past due for 3 to 12 months	1,304,950	915,926	940,999	754,445
Past due for more than one year	2,940,319	2,640,149	2,607,869	2,535,345
Total	**8,959,235**	**3,662,965**	**8,419,809**	**3,476,940**

c. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities, ability of the Group to fulfil the current obligations. In order to implement the main investment projects the Group have already attracted long-term financing for up to 9 years. The short term financing for not more than 1 year is attracted for operating activity. The acquisition of financial liabilities by terms enables to ensure that:

- At the required moment the Group has the needed amount of monetary funds to fulfill all required financial liabilities of the Group;
- At the required moment the Group will be able to redeem all its financial liabilities in full. Access to the credit facilities of the Group as at 31 December 2017 is disclosed in Note 13.

The following are the contractual maturities of financial liabilities, excluding estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

c. Liquidity risk (continued)

i. Non-derivative financial liabilities

	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
At 31 December 2017					
Bank and other loans	13,867,590	13,891,532	2,801,359	8,207,158	2,883,015
Commercial papers	10,000,000	10,000,000	10,000,000	–	–
Trade and other payables	10,145,915	10,145,915	10,145,915		–
Total	**34,013,505**	**34,037,447**	**22,947,274**	**8,207,158**	**2,883,015**
At 31 December 2016					
Bank loans	16,099,150	16,126,541	2,742,530	9,970,117	3,413,894
Commercial papers	10,000,000	10,000,000	–	10,000,000	–
Trade and other payables	9,603,868	9,603,868	9,603,868	–	–
Total	**35,703,018**	**35,730,409**	**12,346,398**	**19,970,117**	**3,413,894**

Fair values	**31 December 2017**	**31 December 2016**
Currency and interest rate swap	792,450	566,260
Derivative assets	**792,450**	**566,260**
Currency and interest rate swap	–	370,120
Derivative liabilities	**–**	**370,120**

Swaps measured at fair value through other comprehensive income and are designated as hedging instruments in cash flow hedges of EUR-denominated borrowings.

These hedges were assessed to be effective and net change of RUB 32,284 thousand, with a deferred tax liability of RUB 8,071 thousand are included within other comprehensive income for 2017 (2016: change at the amount of RUB 13,510 thousand and RUB 3,378 thousand of deferred tax assets, respectively). No significant element of ineffectiveness required recognition in the consolidated statement of comprehensive income.

d. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The risk management strategy of the Group is aimed to minimize currency risks to which the Group is exposed to. For this reason, the hedging strategy is implemented through derivative transactions, whereby the major risk is attributed to borrowings and other liabilities when such are denominated in currencies other than the functional currency of the Company.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	31 December 2017		31 December 2016	
	USD	EUR	USD	EUR
Cash and cash equivalents	208	53,433	1,320	280,176
Bank and other loans	–	(6,891,533)	–	(7,126,541)
Trade and other payables	(1,721)	(1,448,715)	(15,981)	(1,106,389)
Gross exposure	**(1,513)**	**(8,286,815)**	**(14,661)**	**(7,952,754)**
Interest rate swaps used for hedging	–	6,889,811	–	7,126,541
Net exposure	**(1,513)**	**(1,397,004)**	**(14,661)**	**(826,213)**

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

d. Market risk (continued)

The following exchange rates applied during the period:

	Average rate		Reporting date spot rate	
RUB	**For the year ended 2017**	**For the year ended 2016**	**31 December 2017**	**31 December 2016**
USD	58.2982	66.8335	57.6002	60.6569
EUR	66.0305	73.9924	68.8668	63.8111

Sensitivity analysis

A weakening of the Russian rouble against USD and strengthening against EUR at 31 December 2017 (2016: weakening of the Russian rouble against EUR and USD) would have decreased profit of the Group by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below.

Effect in thousands of Russian rubles to the statement of comprehensive income

	Decrease in profit
At 31 December 2017	
EUR (10 percent RUB weakening)	139,700
USD (10 percent RUB weakening)	151
At 31 December 2016	
EUR (10 percent RUB weakening)	110,639
USD (10 percent RUB weakening)	1,598

A change of the exchange rate of the Russian rouble to EUR and USD at 31 December 2017 and 2016 would have had the equal but opposite effect in the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group does not have debt obligations with floating interest rates. The financing strategy of the Group envisages appropriate hedging against interest rate risk.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount	
	31 December 2017	**31 December 2016**
Fixed rate instruments		
Financial assets	4,957,164	5,411,909
Financial liabilities	(23,867,590)	(26,099,150)
	(18,910,426)	**(20,687,241)**

Cash flow sensitivity analysis for interest rate instruments

A change of 100 basis points in interest rates at the reporting date would not have increased (decreased) profit or loss because the Group uses the cross currency interest rate swaps to transform variable rate liability into fixed-rate liability.

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

e. Fair value of financial instruments

Management believes that the fair value of the Group's financial assets and liabilities at 31 December 2017 approximates their carrying value.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government bonds yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2017	2016
Derivatives	7.00%-11.37%	5.76%-11.37%
Loans and borrowings	1.56%-12.10%	1.56%-12.10%

Fair value hierarchy

The table below analyses financial instruments 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).

	Level 1	Level 2	Level 3	Total
Assets measured at fair value at 31 December 2017				
Available-for-sale financial assets	41,240	–	–	**41,240**
	41,240	**–**	**–**	**41,240**
Interest rate swaps used for hedging	–	792,450	–	**792,450**
	–	**792,450**	**–**	**792,450**

	Level 1	Level 2	Level 3	Total
Assets measured at fair value at 31 December 2016				
Available-for-sale financial assets	48,030	–	–	**48,030**
	48,030	**–**	**–**	**48,030**
Interest rate swaps used for hedging	–	566,260	–	**566,260**
	–	**566,260**	**–**	**566,260**
Liability measured at fair value at 31 December 2016				
Interest rate swaps used for hedging	–	370,120	–	**370,120**
	–	**370,120**	**–**	**370,120**

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

e. Fair value of financial instruments (continued)

The table below analyses financial assets and liabilities not measured at fair value but for which fair value is disclosed:

	Level 1	Level 2	Level 3	Total
Assets not measured at fair value at 31 December 2017				
Trade and other receivables	–	–	6,021,599	**6,021,599**
Loans given	–	–	50,690	**50,690**
	–	**–**	**6,072,289**	**6,072,289**
Liability not measured at fair value at 31 December 2017				
Trade and other payables	–	–	10,145,915	**10,145,915**
Bank and other loans	–	13,867,590	–	**13,867,590**
Commercial papers	10,000,000	–	–	**10,000,000**
	10,000,000	**13,867,590**	**10,145,915**	**34,013,505**

	Level 1	Level 2	Level 3	Total
Assets not measured at fair value at 31 December 2016				
Trade and other receivables	–	–	5,640,374	**5,640,374**
Loans given	–	–	61,740	**61,740**
	–	**–**	**5,702,114**	**5,702,114**
Liability not measured at fair value at 31 December 2016				
Trade and other payables	–	–	9,603,868	**9,603,868**
Bank and other loans	–	16,099,150	–	**16,099,150**
Commercial papers	10,000,000	–	–	**10,000,000**
	10,000,000	**16,099,150**	**9,603,868**	**35,703,018**

f. Capital risk management

The following capital requirements have been established for public companies by the legislation of the Russian Federation:

- Share capital cannot be lower than RUB 100 thousand;
- If the share capital of the entity is greater than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- If the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation, if not rectified within 6 months after the year end.

As at 31 December 2017, the Group has been in compliance with the above share capital requirements.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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.

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

f. Capital risk management (continued)

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings, as shown in the statement of financial position, less cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

	31 December 2017	31 December 2016
Total borrowings (Note 13)	23,867,590	26,099,150
Less: cash and cash equivalents (Note 10)	(5,979,050)	(5,750,770)
Net debt	**17,888,540**	**20,348,380**
Equity	41,309,903	35,277,263
Debt to equity ratio	**43.30%**	**57.68%**

23. COMMITMENTS

a. Fuel supply contracts

The Group has entered into several long-term gas and coal supply contracts. The prices in these contracts are based on market terms and conditions. The long-term contract for gas supply includes “take-or-pay” clause. The Group also is a party to several coal supply contracts.

b. Capital commitments

Future capital expenditure for which contracts have been signed amounted to RUB 3,546,007 thousand at 31 December 2017 (at 31 December 2016: RUB 3,800,305 thousand), including RUB 427,239 thousand for the wind generation projects.

24. CONTINGENCIES

a. Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

b. Insurance

The Group applies the integrated insurance approach. The Group insurance policies portfolio includes both obligatory and voluntary types, and covers Group assets risks, third party liability risks and other insurable risks. Management of the Group takes the appropriate measures to minimize the potential negative external influence on Group property interest, which is exposed to those risks which are out of existing insurance program.

c. Legal proceedings

The Group was not a party to any significant legal proceedings which, upon final disposition, would have a material adverse effect on the financial position of the Group, except those for which provision has been accrued and recorded in these financial statements.

In August 2016 the short circuit in the coupling capacitance of the overhead power transmission line ‘Anna-Reftinskaya SDPP’ activated the protective system of the power plant which prevented from the accident evolution: power generation was automatically stopped and all the outgoing lines from the Reftinskaya SDPP were cut-out. The number of the blackouts were registered in the energy system and customers of the several regions experienced outages. Impact of the event for the purpose of disclosing cannot be measured with sufficient reliability based on the information available to the Group.

24. CONTINGENCIES (continued)

d. Tax contingency

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by the tax authorities who may impose severe fines, penalties and interest charges. Tax authorities are entitled to conduct field tax audits within three calendar years preceding the year when the tax authorities issue a decision to conduct a field tax audit.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities could differ from the position taken by the company and have effect on these consolidated financial statements. If the tax authorities are successful in enforcing their unfavourable interpretations of the tax legislation, the implications for the company could be significant.

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authorities to apply transfer pricing adjustments of income and expenses and impose additional corporate income tax liabilities in respect of all “controlled” transactions if the transaction price differs from the market level of prices. The list of “controlled” transactions includes, inter alia, transactions performed with related parties and certain types of cross-border transactions.

The Group determines its tax liabilities arising from “controlled” transactions using actual transaction prices.

Due to the difference in transfer pricing regulations in European countries and Russia and absence of current practice of application of the current Russian transfer pricing legislation, there is a risk that the Russian tax authorities may challenge the level of prices applied by the Group under the “controlled” transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the “controlled” transactions calculated in accordance with Russian transfer pricing regulations.

Overall, management believes that the Group has paid or accrued all taxes that are applicable. For taxes other than corporate income tax, where uncertainty exists, the Group has accrued tax liabilities based on management’s best estimate of the probable outflow of resources, which will be required to settle these liabilities.

e. Environmental matters

The Group operates in the electric power industry in the Russian Federation. 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 evaluate its obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated. In the current enforcement and given existing legislation, management believes that there are no significant liabilities for environmental damage, except those for which provision has been accrued and recorded in this financial statements (refer to Note 17).

The Company is a subsidiary of Enel Group, which pays special attention to environmental and safety matters.

25. RELATED PARTIES DISCLOSURES

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

In the normal course of business the Group enters into transactions with related parties.

Related parties include shareholders, directors, subsidiaries and enterprises controlled by Enel S.p.A.

25. RELATED PARTIES DISCLOSURES (continued)

Transactions with Enel Group

For the year ended 31 December 2017 the Group had the following transactions with Enel Group entities:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Sale of electricity	572,774	371,139
Other revenue	14,319	53,529
Purchases (technical and other services)	(788,997)	(752,894)

As at 31 December 2017 the Group had the following balances with Enel Group entities:

	31 December 2017	31 December 2016
Trade and other receivables	171,258	463,380
Advances issued for capital construction	–	–
Trade and other payables	(2,095,531)	(1,850,081)

In August 2017 the Company acquired for cash 100% share in LLC “Enel Rus Wind Generation” and two its wholly owned subsidiaries LLC “Windlife Kola Vetro LL1” and LLC “Azovskaya WPS”. 99% share was acquired from “Enel Investment Holding B.V.” for the cash consideration in the amount of RUB 135,256 thousand and 1% share was acquired from “Enel Green Power Partecipazioni Speciali SrL” for the cash consideration in the amount of RUB 1,366 thousand.

Transactions with other related parties

In 2017 transactions with other related parties represent transactions with the non-state pension fund.

	For the year ended 31 December 2017	For the year ended 31 December 2016
Benefits paid	338,225	196,071

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Total remuneration incudes all type of remuneration such as wages, salaries, bonuses, non-monetary benefits, other. Total remuneration paid to the members of the Board of Directors and Management Board for the year ended 31 December 2017 and 2016 was as follows:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Remuneration	104,685	122,901

There were no loans provided to key management personnel during the year ended 31 December 2017.

The employee benefit obligations in the consolidated statement of financial position includes payables attributable to key management personnel at the amount of RUR 39,059 thousand for the year ended 31 December 2017 (2016: RUR 37,012 thousand).

At 31 December 2017 there were 11 members of the Board of Directors and 5 members of the Management Board. At 31 December 2016 there were 11 members of the Board of Directors and 4 members of the Management Board.

26. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed. The Group has disclosed and addressed only those new standards and interpretations that are expected to have an impact on the Group's financial position, performance, and/or disclosures. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date prospectively. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9.

This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and statement of comprehensive income.

(a) Classification and measurement

The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held as available-for-sale (AFS) with gains and losses recorded in other comprehensive income ("OCI") will, instead, be measured at fair value through profit or loss, which will increase volatility in recorded profit or loss. The AFS reserve of RUB 23,240 thousand related to those securities and currently presented in the consolidated statement of changes in equity as fair value reserve, will be reclassified to retained earnings.

The equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during prior periods for these investments. The Group will apply the option to present fair value changes in OCI, and, therefore, the application of IFRS 9 will not have a significant impact.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group has determined that there will not be a material increase of a loss allowance.

(c) Hedge accounting

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

26. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2017.

Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts. However, the Group decided to use the practical expedient provided in IFRS 15, and will not adjust the promised amount of the consideration for the effects of a significant financing components in the contracts, where the Group expects, at contract inception, that the period between the Group transfer of a promised service to a customer and when the customer pays for that good or service will be one year or less.

However, for certain customers with bad payment trends, when IFRS 15 is adopted, adjustments to 2017 revenue are preliminary estimated as revenue derecognition in relation to such customers that will decrease revenue by around of RUB 500,000 thousand and respectively decrease operating expenses (bad debt reserve) in the same amount. The Group expects that the application of IFRS 15 will not have a significant impact on consolidated statement of comprehensive income.

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and increases the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that there will be an impact of some of these disclosures requirements to the Financial statements of the Group. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made in respect to the partially recognized revenue.

In 2017 the Group continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

The recognition and measurement requirements in IFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases − Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees − leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

26. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Annual improvements 2014-2016 cycle (issued in December 2016)

These improvements include:

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. Group does not expect a material effect from applying the Interpretation.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. Group does not expect a material effect from applying the Interpretation.

Other improvements within 2014-2016 cycle that are not relevant to the Group's current operations have also been adopted.

27. SUBSEQUENT EVENTS

There were no significant events after 31 December 2017 to disclose or reflect in the consolidated financial statements.

General Director C. Palasciano

Chief Accountant V. Grishachev

15 March 2018