

Independent auditor's report
on the consolidated financial statements of
PJSC Enel Russia and its subsidiaries
for the year ended 31 December 2019

March 2020

**Independent auditor's report
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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 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (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.

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
<p><i>Sale of Reftinskaya GRES assets</i></p> <p>The Group sold Reftinskaya GRES assets in 2019. Accounting of this transaction was one of the matters of most significance in our audit due to significant effect on the consolidated financial statements, management's judgement related to recognized and derecognized obligations of the Group and determination of the price of the transaction.</p> <p>Information on the financial results recognized by the Group from the sale of Reftinskaya GRES assets is disclosed in Note 5 to the consolidated financial statements.</p>	<p>As a part of audit procedures, we analyzed terms of sale purchase agreement over Reftinskaya GRES assets as well as terms of the related contracts.</p> <p>Our assessment of the Group's liabilities related to the transaction as well as the derecognition of previously existed liabilities included an assessment of the effect of legal and constructive obligations of the Group on the price and the financial result of the transaction as well as on the value of assets disposed as a result of the transaction. We analyzed the underlying assumptions and verified calculations prepared by the Group management in relation to such assets and liabilities.</p> <p>We analyzed the Group's forecast in respect of receipt of contingent payments after the transaction closing date.</p> <p>We examined the terms of operating agreement in relation to Reftinskaya GRES, effective during the transition period and assessed the analysis performed by management in respect of whether the Group acts as a principal or as an agent during the transition period.</p> <p>We considered the disclosure in respect of the financial result from sale of Reftinskaya GRES assets in the consolidated financial statements.</p>

Key audit matter

How our audit addressed the key audit matter

Impairment of property, plant and equipment and other non-current assets

Impairment testing was one of the matters of most significance in our audit because the recoverable amount assessment process is complex and involves estimates. During 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 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.

Information on recoverable amount of property, plant and equipment and other non-current assets is disclosed in Notes 5 and 7 to the consolidated financial statements.

We involved our valuation and business modelling specialists in the analysis of impairment testing performed by the Group. Among other audit procedures, we analysed the assumptions and methodology used by the Group, especially those assumptions that are related to forecasted power and capacity sales, fuel expenses, operation and repair expenses for production facilities, the long-term growth rates and discount rates, as well as forecasted capital expenditures, that depend on the future market and economic conditions in Russian Federation. We verified mathematical accuracy and sensitivity of the model to changes in key assumptions.

We assessed the assumptions used by the Group for measuring recoverable amount of individual items of property, plant and equipment and non-current assets.

We considered information on property, plant and equipment and other non-current assets impairment testing disclosed by the Group in the consolidated financial statements.

Allowance for expected credit loss for trade and other receivables

An allowance for expected credit loss for trade and other receivables was one of the matters of most significance in our audit due to significant balances of trade and other receivables as of 31 December 2019 and the fact that the management's estimation of trade and other receivables recoverability is based on assumptions, particularly, on forecast of the Group's customers solvency.

The Group calculates the allowance for expected credit losses on the basis of past experience of expected credit losses in prior periods with adjustments related to forecasted factors specific to the Group's customers.

Information on the expected credit losses for trade and other receivables is disclosed in Notes 2(d), 8 and 23 to the consolidated financial statements.

We analyzed Group's accounting policy for allowance for expected credit losses for trade and other receivables.

We analyzed the Group's management assumptions and underlying analysis by the Group of credit risks and solvency of customers, trade and other receivables settlement history, payment terms and defaults, and assessment of established levels of trade and other receivables credit risk.

We also considered disclosures in respect of allowance of expected credit losses in the consolidated financial statements of the Group.

Key audit matter

How our audit addressed the key audit matter

Accounting of derivative financial instruments and hedging

The Group uses derivative financial instruments and hedging. The fair value of derivative financial instruments and effectiveness of hedging is determined by application of valuation techniques, which involve the exercise of judgement and the use of assumptions. Due to the significance of derivative financial instruments and results of hedge accounting amounts recognized in the consolidated statement of financial position, as well as the significant judgment and complexity underlying valuation process, it was one of the matters of most significance in our audit.

The information on the Group's derivative financial instruments and hedging is disclosed in Notes 3(c), 4(d) and 22 to the consolidated financial statements.

Our audit procedures included, among other, inspection of the methodology, inputs and assumptions used by the Group in determining fair values of derivative financial instruments, comparing observable inputs into valuation models to externally available market data, and recalculation of the fair value. We also assessed the analysis of hedge effectiveness prepared by management. We considered the information on the fair value of derivative financial instruments disclosed by the Group in the consolidated financial statements.

Other information included in Group's 2019 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 will not express any form of assurance conclusion thereon.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- ▶ 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 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.

We also provide 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 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

17 March 2020

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-regulatory organization of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

PJSC Enel Russia
Consolidated statement of financial position
As at 31 December 2019
Thousands of Russian roubles, unless otherwise stated

	Notes	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	5	41,095,594	62,986,329
Intangible assets	6	315,010	260,720
Financial investments into equity shares		4,880	37,800
Deferred income tax asset	12	316,936	–
Other non-current assets	7	2,357,773	2,526,545
Total non-current assets		44,090,193	65,811,394
Current assets			
Inventories	9	4,173,220	4,108,073
Trade and other receivables	8	10,595,114	6,237,928
Current derivative asset	23	43,418	1,614,080
Cash and cash equivalents	10	11,144,720	6,090,470
Total current assets		25,956,472	18,050,551
Total assets		70,046,665	83,861,945
Equity and liabilities			
Equity			
Share capital	11	35,371,898	35,371,898
Share premium		6,818,747	6,818,747
Fair value reserve		–	20,080
Hedge reserve		(1,528,780)	409,730
(Accumulated deficit) / retained earnings		(2,344,626)	1,986,789
Total equity attributable to equity holders of PJSC Enel Russia		38,317,239	44,607,244
Non-controlling interests		(90,460)	(90,950)
Total equity		38,226,779	44,516,294
Non-current liabilities			
Loans and borrowings	13	13,648,960	16,048,260
Deferred income tax liability	12	–	1,513,930
Employee benefits	14	1,332,320	1,480,790
Provisions	18	189,560	419,270
Other non-current liabilities	17	359,370	–
Total non-current liabilities		15,530,210	19,462,250
Current liabilities			
Loans and borrowings	13	1,666,670	9,417,930
Current derivative liabilities	23	379,768	–
Trade and other payables	15	7,052,189	7,155,935
Current income tax payable		31,241	250,723
Other taxes payable	16	4,964,588	1,302,203
Provisions	18	2,195,220	1,756,610
Total current liabilities		16,289,676	19,883,401
Total liabilities		31,819,886	39,345,651
Total equity and liabilities		70,046,665	83,861,945

General Director

C. Palasciano

Chief Accountant

V.V. Grishachev

17 March 2020

The notes on pages 14 to 47 are an integral part of these consolidated financial statements.

PJSC Enel Russia
Consolidated statement of comprehensive income
For the year ended 31 December 2019
Thousands of Russian roubles, unless otherwise stated

	Notes	For the year ended 31 December 2019	For the year ended 31 December 2018
Revenue	19	65,834,843	73,264,973
Operating expenses	20	(54,325,543)	(60,583,206)
Impairment of property, plant and equipment of Refinskaya GRES	5	(8,605,444)	–
Allowance for expected credit losses of trade and other receivables, net	8	(441,162)	(749,388)
Other operating income		379,400	603,598
Operating profit		2,842,094	12,535,977
Finance income	21	1,279,720	812,850
Finance costs	21	(2,994,820)	(3,480,730)
Profit before income tax		1,126,994	9,868,097
Income tax expense	12	(231,343)	(2,169,493)
Profit for the year		895,651	7,698,604
Other comprehensive income			
Net movement on cash flow hedges	22	(2,423,138)	296,338
Income tax effect	12, 22	484,628	(59,268)
Net other comprehensive (loss)/income to be reclassified to profit and loss in subsequent periods		(1,938,510)	237,070
Net change in the fair value of financial investments into equity shares		–	(3,950)
Income tax effect		–	790
Actuarial (losses)/gains on defined benefits plans	14	(303,197)	190,972
Income tax effect	12, 14	60,639	(38,194)
Net other comprehensive (loss)/income not being reclassified to profit and loss in subsequent periods		(242,558)	149,618
Total comprehensive (loss)/income for the year		(1,285,417)	8,085,292
Profit attributable to:			
Owners of PJSC Enel Russia		895,161	7,706,384
Non-controlling interests		490	(7,780)
Total comprehensive (loss)/income attributable to:			
Owners of PJSC Enel Russia		(1,285,907)	8,093,072
Non-controlling interests		490	(7,780)
Earnings per ordinary share for profit attributable to the equity holders of PJSC Enel Russia – basic and diluted (in Russian roubles per share)	11	0.0253	0.2181

General Director

C. Palasciano

Chief Accountant

V.V. Grishachev

17 March 2020

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PJSC Enel Russia
Consolidated statement of cash flows
For the year ended 31 December 2019
Thousands of Russian roubles, unless otherwise stated

	<u>Notes</u>	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>
Cash flows from operating activities			
Profit before income tax		1,126,994	9,868,097
<i>Adjustments for:</i>			
Depreciation and amortization	5, 6, 20	3,384,877	3,869,460
Loss on disposal of property, plant and equipment		219,390	6,290
Impairment of property, plant and equipment	5	8,649,923	70,659
Finance income	21	(1,279,720)	(812,850)
Finance costs	21	2,994,820	3,480,730
Change in allowance for expected credit losses of trade and other receivables, net	8	441,162	749,388
Change in other provisions	18, 20	386,300	251,411
Changes in defined benefit obligations		(360,727)	(611,071)
Adjustments for other non-cash transactions		12,394	18,474
		<u>15,575,413</u>	<u>16,890,588</u>
Increase in trade and other receivables		(4,686,633)	(1,187,360)
Decrease in inventories		119,124	871,409
Increase/(decrease) in trade and other payables		1,996,796	(3,477,464)
Increase/(decrease) in taxes payable, other than income tax		3,662,385	(21,297)
Net cash flows from operating activities before dividends and income tax paid		<u>16,667,085</u>	<u>13,075,876</u>
Dividends paid	11	(5,004,098)	(5,126,449)
Income tax paid		(1,733,397)	(610,806)
Net cash flows generated from operating activities		<u>9,929,590</u>	<u>7,338,621</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment and other non-current assets		(9,513,357)	(6,409,038)
Interest received		342,963	317,473
Payment on derivatives		(1,605,719)	-
Proceeds from disposal of financial investments into equity shares		37,980	-
Proceeds from disposal of property, plant and equipment	5	16,700,031	-
Net cash flows generated from / (used in) investing activities		<u>5,961,898</u>	<u>(6,091,565)</u>
Cash flows from financing activities			
Proceeds from loans and borrowings		11,296,688	12,672,276
Repayment of loans and borrowings		(20,839,422)	(11,985,647)
Sale of treasury shares	11	-	237,388
Interest paid		(1,711,017)	(2,007,930)
Proceeds from derivatives		416,513	-
Payment on derivatives		-	(51,723)
Net cash flows used in financing activities		<u>(10,837,238)</u>	<u>(1,135,636)</u>
Net increase in cash and cash equivalents		5,054,250	111,420
Cash and cash equivalents at 1 January		6,090,470	5,979,050
Cash and cash equivalents at 31 December	10	<u>11,144,720</u>	<u>6,090,470</u>

General Director

C. Palasciano

Chief Accountant

V.V. Grishachev

17 March 2020

The notes on pages 14 to 47 are an integral part of these consolidated financial statements.

PJSC Enel Russia
Consolidated statement of changes in equity
For the year ended 31 December 2019
Thousands of Russian roubles, unless otherwise stated

	Notes	Attributable to equity holders of PJSC Enel Russia								
		Share capital	Share premium	Treasury shares	Fair value reserve	Hedge reserve	(Accumulated deficit)/retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2018		35,371,898	6,818,747	(411,060)	23,240	172,660	(582,412)	41,393,073	(83,170)	41,309,903
Profit/(loss) for the year		-	-	-	-	-	7,706,384	7,706,384	(7,780)	7,698,604
Other comprehensive income										
Net movement on cash flow hedges, net of tax	22	-	-	-	-	237,070	-	237,070	-	237,070
Net change in fair value of financial investments into equity shares, net of tax		-	-	-	(3,160)	-	-	(3,160)	-	(3,160)
Actuarial gains on defined benefits plans, net of tax		-	-	-	-	-	152,778	152,778	-	152,778
Total other comprehensive income/(loss)		-	-	-	(3,160)	237,070	152,778	386,688	-	386,688
Total comprehensive income/(loss) for the year		-	-	-	(3,160)	237,070	7,859,162	8,093,072	(7,780)	8,085,292
Sale of treasury shares	11	-	-	411,060	-	-	(173,672)	237,388	-	237,388
Distribution of dividends	11	-	-	-	-	-	(5,126,449)	(5,126,449)	-	(5,126,449)
Unclaimed dividends related to previous years		-	-	-	-	-	10,160	10,160	-	10,160
Balance at 31 December 2018		35,371,898	6,818,747	-	20,080	409,730	1,986,789	44,607,244	(90,950)	44,516,294

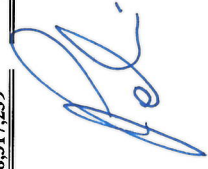
The notes on pages 14 to 47 are an integral part of these consolidated financial statements.

PJSC Enel Russia
Consolidated statement of changes in equity (continued)
For the year ended 31 December 2019
Thousands of Russian roubles, unless otherwise stated

Notes	Attributable to equity holders of PJSC Enel Russia							Total equity
	Share capital	Share premium	Treasury shares	Fair value reserve	Hedge reserve	(Accumulated deficit)/retained earnings	Total	
Balance at 1 January 2019	35,371,898	6,818,747	-	20,080	409,730	1,986,789	44,607,244	44,516,294
Profit/(loss) for the year	-	-	-	-	-	895,161	895,161	895,651
Other comprehensive income								
Net movement on cash flow hedges, net of tax	-	-	-	-	(1,938,510)	-	(1,938,510)	(1,938,510)
Actuarial gains on defined benefits plans, net of tax	-	-	-	-	-	(242,558)	(242,558)	(242,558)
Total other comprehensive income/(loss)	-	-	-	-	(1,938,510)	(242,558)	(2,181,068)	(2,181,068)
Total comprehensive income/(loss) for the year	-	-	-	-	(1,938,510)	652,603	(1,285,907)	(1,285,417)
Sale of financial investments into equity shares	-	-	-	(20,080)	-	20,080	-	-
Distribution of dividends	-	-	-	-	-	(5,004,098)	(5,004,098)	(5,004,098)
Balance at 31 December 2019	35,371,898	6,818,747	-	-	(1,528,780)	(2,344,626)	38,317,239	38,226,779

General Director

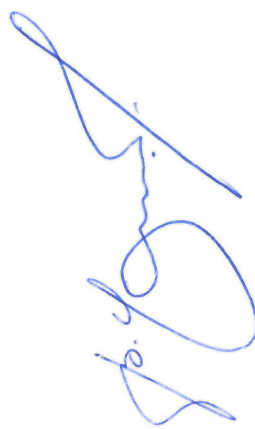
C. Palasciano



Chief Accountant

V. V. Grishachev

17 March 2020



The notes on pages 14 to 47 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.

As of 31 December 2019 Enel S.p.A owns 56.43% of the shares of Enel Russia.

As of 31 December 2019 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 2,716,287,143 ordinary shares (7.68% of share capital).

In January 2020 Prosperity Capital Management Limited decreased its share to 2,031,969,944 ordinary shares or 5.74%.

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:

Company name	Country of incorporation	Ownership / voting shares	
		31 December 2019	31 December 2018
LLC “OGK-5 Finance”	The Russian Federation	–	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%	100%
LLC “Enel Rus Wind Generation”	The Russian Federation	100%	100%
LLC “Enel Rus Wind Kola”	The Russian Federation	100%	100%
LLC “Enel Rus Wind Azov”	The Russian Federation	100%	100%

LLC “OGK-5 Finance” was liquidated in January 2019.

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.

In June 2019 Enel Russia has been awarded a new wind project of over 71 MW of capacity in the 2019 Russian Government renewable energy tender.

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 issued by Government and relative authorities (including Ministry of Energy and the Federal Antimonopoly Service (“FAS”). The operations of all generating facilities are coordinated by JSC “System Operator of Unified Energy System” (SO) in order to meet system requirements in an efficient manner. SO is controlled by the Government.

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.

2. BASIS OF PREPARATION (continued)

b. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments and financial investments classified as equity instruments at fair value through OCI 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

In compliance with IFRS 9, as from 1 January 2018, the Group adopted a new impairment model based on the determination of expected credit losses (ECL) using a forward-looking approach. The provision rates are based on the Group’s historical observed default rates. The Group will calibrate the provision rates to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased expected losses in the manufacturing sector, the expected credit losses are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group’s historical credit loss experience and forecast of economic conditions may also not be representative of customer’s actual default in the future

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 2019 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).

Impairment of non-current non-financial 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.

2. BASIS OF PREPARATION (continued)

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

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 within PJSC Enel Russia two CGUs: thermal generation and renewables.

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.

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, except for new standard which were adopted by the Group starting from the annual period beginning on 1 January 2019: IFRS 16 *Leases*.

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 interests 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Basis of consolidation (continued)

iii. Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with the owners in their capacity of owners. In case of acquisition of non-controlling interests, 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 equity instruments at fair value through OCI.

c. Financial instruments

Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

i. Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

ii. Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Financial instruments (continued)

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables and loans to employees included under other non-current financial assets.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Group has no such instruments.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its equity investments under this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. The Group does not have such instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Financial instruments (continued)

iii. Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Derivative financial instruments

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, and to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised 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 IFRS 9 are recognised 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 the year ended 31 December 2018 or the year ended 31 December 2019.

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 recognised in other comprehensive income.

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 recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised 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 recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement in other financial expenses.

Amounts recognised 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 recognised or when a forecast sale occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Financial instruments (continued)

If the hedged forecast transaction results in the recognition of a non-financial asset (i.e. property, plant and equipment or inventories, etc.) or a non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the amount accumulated in the cash flow reserve shall be removed and included in the initial value (cost or other carrying amount) of the asset or the liability (“basis adjustment”).

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised 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.

Financial liabilities

i. Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

ii. Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

iii. Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

For the transition of the new accounting standard, the Group elect to use the following practical expedients:

- The Group elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.
- Using the modified retrospective approach, the Group recognised the cumulative effect of adopting IFRS 16 as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group presents right-of-use assets that do not meet the definition of investment property in “Property, plant and equipment”, long-term lease liabilities in “Other non-current liabilities”, short-term lease liabilities in “Trade accounts and other payables”.

The Group presents the interest expense on lease liabilities under “Other financial expense” and the depreciation charge on the right-of-use asset under “Depreciation, amortisation and impairment losses”.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

The useful lives of right-of-use assets by types are as follows:

Land	1-50 years
Other	1-6 years

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Leases (continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be of low value, as example, office equipment. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17.

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease using the same classification principle under IAS 17. If a contract contains lease and non-lease components, the Group allocates the consideration in the contract applying IFRS 15. The Group accounts for rental income arising from operating leases on a straight-line basis over the lease terms and it recognizes them as “Other revenue and income”.

g. 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 recognised in the income statement as an operating expense.

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

h. 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.

i. 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.

j. 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*.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k. 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 recognised as an expense.

l. Provisions

A provision is recognised 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 recognised 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.

m. Environmental obligations

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

n. 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 a financial asset classified as fair value through other comprehensive income (OCI) which represent a debt instrument, is calculated by reference to its fair value.

Equity instruments designated at fair value through OCI are not subject to impairment assessment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Impairment (continued)

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.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

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.

o. Revenue

The Group recognizes revenues when (or as) satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. When (or as) a performance obligation is satisfied, the Group recognizes as revenue the amount which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, net of value added taxes.

p. Finance income and costs

Finance income comprises interest income on funds invested (including financial investments into equity shares), dividend income, gains on the disposal of financial investments into equity shares, 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 21). Borrowing costs are recognised in profit or loss using the effective interest method.

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

q. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Income taxes (continued)

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.

r. 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.

s. 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.

t. New and amended standards and interpretations

The Group applied for the first time IFRS 16 *Leases* which is effective for annual periods beginning on or after 1 January 2019. The nature and effect of new standard are disclosed below.

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. 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.

The nature of the changes as a result of adoption of this new accounting standard are described in Note 3.f.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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. Financial investments into equity shares

The fair value of financial assets at fair value through profit or loss or other comprehensive income is determined by reference to their quoted closing bid price at the reporting date if available.

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 2019	106,259,547	15,620,719	746,398	31,411,934	12,706,219	166,744,817
Additions	–	–	–	21,204	10,712,735	10,733,939
Transfers from construction in progress	4,535,489	186,380	9,356	730,516	(5,461,741)	–
Disposal of assets held for sale	(62,331,578)	(4,240,965)	(201,191)	(16,882,540)	(26,927)	(83,683,201)
Other disposals	(123,341)	(119,082)	–	(455,503)	(274)	(698,200)
At 31 December 2019	48,340,117	11,447,052	554,563	14,825,611	17,930,012	93,097,355
Accumulated depreciation and impairment						
At 1 January 2019	69,659,910	9,491,347	583,920	24,019,169	4,142	103,758,488
Depreciation charge	2,082,865	436,812	9,108	668,272	–	3,197,057
Impairment of property, plant and equipment of Reftinskaya GRES	6,852,519	329,002	14,283	1,409,640	–	8,605,444
Impairment	–	–	–	–	44,479	44,479
Disposal of assets held for sale	(46,102,983)	(3,502,266)	(170,978)	(13,322,466)	(11,190)	(63,109,883)
Other disposals	(116,201)	(85,920)	–	(291,429)	(274)	(493,824)
At 31 December 2019	32,376,110	6,668,975	436,333	12,483,186	37,157	52,001,761
Net book value at 1 January 2019	36,599,637	6,129,372	162,478	7,392,765	12,702,077	62,986,329
Net book value at 31 December 2019	15,964,007	4,778,077	118,230	2,342,425	17,892,855	41,095,594

5. PROPERTY, PLANT AND EQUIPMENT (continued)

	<u>Heat and electricity generation</u>	<u>Electricity trans- mission</u>	<u>Heating networks</u>	<u>Other</u>	<u>Construc- tion in progress</u>	<u>Total</u>
Cost						
At 1 January 2018	103,475,107	15,349,050	746,697	30,962,816	10,361,485	160,895,155
Additions	–	–	–	18,927	6,547,518	6,566,445
Transfers from construction in progress	3,396,740	296,922	–	509,122	(4,202,784)	–
Disposals	(612,300)	(25,253)	(299)	(78,931)	–	(716,783)
At 31 December 2018	106,259,547	15,620,719	746,398	31,411,934	12,706,219	166,744,817
Accumulated depreciation and impairment						
At 1 January 2018	67,669,549	9,046,541	576,147	23,335,162	35,140	100,662,539
Depreciation charge	2,569,450	468,167	8,024	714,980	–	3,760,621
Impairment	70,659	–	–	–	–	70,659
Disposals	(639,844)	(23,361)	(251)	(71,875)	–	(735,331)
Transfers from construction in progress	(9,904)	–	–	40,902	(30,998)	–
At 31 December 2018	69,659,910	9,491,347	583,920	24,019,169	4,142	103,758,488
Net book value at 1 January 2018	35,805,558	6,302,509	170,550	7,627,654	10,326,345	60,232,616
Net book value at 31 December 2018	36,599,637	6,129,372	162,478	7,392,765	12,702,077	62,986,329

As at 31 December 2019 construction in progress includes prepayments for property, plant and equipment of RUB 5,279,280 thousand, including prepayments for technical services for wind generation projects in the amount of RUB 3,692,420 thousand (31 December 2018: RUB 2,132,148 thousand, including prepayments for technical services for wind generation projects in the amount of RUB 1,647,037 thousand).

During the year ended 31 December 2019 borrowing costs in the amount of RUB 377,338 thousand were capitalized into construction costs related to wind projects (31 December 2018: RUB 4,171 thousand were capitalized into construction costs related to wind projects).

As at 31 December 2019 and 31 December 2018, there were no any restrictions on title, and no property, plant and equipment were pledged as security for liabilities.

The impairment loss of RUB 44,479 thousand represents the write-down of certain items of construction in progress as a result of technological obsolescence. This was recognised in the statement of comprehensive income as operating expenses.

Assets held for sale

On 20 June 2019 the Company signed a sale-purchase agreement on the disposal of Reftinskaya GRES property plant and equipment to JSC “Kuzbassenergo”, a subsidiary of LLC Siberian Generating Company (SGC).

In 2019, upon the fulfillment of the IFRS 5 requirements, before the sale transaction was completed, property, plant and equipment of Reftinskaya GRES were classified to the held for sale category at fair value less cost to sell. Impairment loss in the amount of RUB 8,605,444 thousand was recognized as a result of reclassification.

On 1 October 2019 the Company completed the transfer of the ownership of Reftinskaya GRES property, plant and equipment with carrying value of RUB 20,573,318 thousand to JSC “Kuzbassenergo”, within the framework of the agreement. The total sale price amounts to RUB 20.7 billion, net of Russian VAT. The deal also envisages a contingent component of up to RUB 3 billion that shall be payable within five years from the sale closing, subject to specific conditions.

Starting from 1 October 2019 the Group operates Reftinskaya GRES power plant in accordance with operating agreement with Kuzbassenergo. Kuzbassenergo is the principal in deriving benefits from the ownership of Reftinskaya GRES, therefore, the Group considered that the net presentation of revenue and expenses are appropriate.

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 projected for the period 2020-2024 and were based on the strategic plan of the Company for 2020-2022 approved by Board of Directors in February 2020 and based on the Company's most recent financial budgets/forecasts for the period till 2024;
- The cash flow forecasts were discounted to their present value at the nominal after tax discount rate of 11% (2018: 11.6%) which is based on weighted average cost of capital;
- Growth rate of the net cash flows amounted to 1.6% in the post-forecasted period (2018: 2.9%).

As a result of impairment test no additional impairment of property, plant and equipment was recognised in 2019.

6. INTANGIBLE ASSETS

	<u>Patents and licenses</u>	<u>Software</u>	<u>Total</u>
Cost			
At 1 January 2019	137,691	587,158	724,849
Additions	46,079	196,031	242,110
Disposals	(55,723)	(43,160)	(98,883)
At 31 December 2019	128,047	740,029	868,076
Accumulated amortization			
At 1 January 2019	88,181	375,948	464,129
Amortization charge	54,569	133,251	187,820
Disposal	(55,723)	(43,160)	(98,883)
At 31 December 2019	87,027	466,039	553,066
Net book value at 1 January 2019	49,510	211,210	260,720
Net book value at 31 December 2019	41,020	273,990	315,010
	<u>Patents and licenses</u>	<u>Software</u>	<u>Total</u>
Cost			
At 1 January 2018	91,002	552,577	643,579
Additions	46,689	44,431	91,120
Disposals	–	(9,850)	(9,850)
At 31 December 2018	137,691	587,158	724,849
Accumulated amortization			
At 1 January 2018	61,601	293,688	355,289
Amortization charge	26,580	82,260	108,840
Disposal	–	–	–
At 31 December 2018	88,181	375,948	464,129
Net book value at 1 January 2018	29,401	258,889	288,290
Net book value at 31 December 2018	49,510	211,210	260,720

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Long-term receivables	65,276	49,776
Other	2,292,497	2,476,769
Total	<u>2,357,773</u>	<u>2,526,545</u>

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

Other non-current assets include strategic spare parts and 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).

8. TRADE AND OTHER RECEIVABLES

	<u>31 December 2019</u>	<u>31 December 2018</u>
Trade receivables	4,791,616	5,322,699
Prepayments to suppliers	213,683	160,073
Other taxes receivables	615,270	451,110
Other receivables	4,974,545	304,046
Total (net of expected credit losses allowance of RUB 5,067,237 thousand at 31 December 2019, RUB 4,669,715 thousand at 31 December 2018)	<u>10,595,114</u>	<u>6,237,928</u>

The major part of Other receivables as at 31 December 2019 represent the next payment installment envisaged by the sale-purchase agreement on the disposal of property, plant and equipment of Reftinskaya GRES.

The table below provides information about the changes in allowance for expected credit losses on receivables:

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>
At 1 January	4,669,715	3,976,281
Charge for the year	441,162	749,388
Utilized	(43,640)	(55,954)
At 31 December	<u>5,067,237</u>	<u>4,669,715</u>

9. INVENTORIES

	<u>31 December 2019</u>	<u>31 December 2018</u>
Fuel supplies	1,992,733	1,820,522
Materials and supplies	2,126,575	2,225,987
Spare parts and other inventories	54,201	61,853
Total inventories	<u>4,173,509</u>	<u>4,108,362</u>
Less: allowance for obsolescence of inventories	(289)	(289)
Total	<u>4,173,220</u>	<u>4,108,073</u>

As at 31 December 2019 and 31 December 2018 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 18,267 thousand (31 December 2018: RUB 9,798 thousand).

10. CASH AND CASH EQUIVALENTS

	<u>31 December 2019</u>	<u>31 December 2018</u>
Cash in bank	3,478,994	3,528,263
Call deposits	7,665,726	2,562,207
Total	<u>11,144,720</u>	<u>6,090,470</u>

As of 31 December 2019 and 2018, cash and cash equivalents were mainly denominated in RUB.

The Group's exposure to credit, interest rate and currency risk is disclosed in Note 23.

11. EQUITY

a. Share capital

The Group's share capital as at 31 December 2019 and 2018 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.

b. Fair value reserve

The reserve comprises the cumulative net change in the fair value of equity instruments at fair value through other comprehensive income until the investments are derecognised. In 2019 most of such investments were derecognized due to the sale. Sale transaction was recognized within equity.

c. Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge instruments related to hedged transactions that have not yet occurred.

d. Dividends proposed

In June 2019, the Shareholders' meeting approved the distribution of dividends for the year 2018 totalling RUR 5,004,098 thousand in the amount of a 0.14147 RUR per ordinary share. The total amount of dividends was fully paid during 2019.

e. Treasury shares

In April 2018, the Group disposed 156,222,914 treasury shares with a loss in the amount of RR 173,672 thousand recognised within equity.

f. 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 2019	For the year ended 31 December 2018
Weighted average number of shares issued, in thousands	35,371,898	35,371,898
Adjustment for weighted average number of treasury shares, in thousands	–	(39,056)
Weighted average number of shares outstanding, in thousands	35,371,898	35,332,842
Profit attributable to shareholders of PJSC Enel Russia	895,161	7,706,384
Profit per share – basic and diluted (RUB per share)	0.0253	0.2181

12. INCOME TAXES

	For the year ended 31 December 2019	For the year ended 31 December 2018
Current income tax expense	1,516,942	987,585
Deferred income tax expense/(benefit)	(1,285,599)	1,181,908
Total income tax expense/(benefit)	231,343	2,169,493

During the year ended 31 December 2019, 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.

12. INCOME TAXES (continued)

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 2019		For the year ended 31 December 2018	
Profit/(loss) before income tax	1,126,994	100%	9,868,097	100%
Income tax at applicable tax rate	(225,399)	(20%)	(1,973,619)	(20%)
Non-deductible expenses, net	(5,944)	(0,52%)	(195,874)	(2,0%)
	(231,343)	(20,52%)	(2,169,493)	(22,0%)

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

	1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2019
Tax effect of deductible temporary differences				
Trade and other receivables	164,132	117,266	–	281,398
Provisions	755,867	47,608	–	803,475
Derivatives	–	(417,089)	484,628	67,538
Loss in Tax accounting	–	390,157	–	390,157
Employee benefits	271,958	(90,675)	60,639	241,922
Lease liability	–	82,910	–	82,910
Other	344,580	142,445	–	487,026
Deferred tax assets	1,536,537	272,622	545,267	2,354,426
Tax effect of taxable temporary differences				
Property, plant and equipment	(2,668,545)	758,445	–	(1,910,100)
Derivatives	(322,820)	322,820	–	–
Other	(59,102)	(68,288)	–	(127,390)
Deferred tax liabilities	(3,050,467)	1,012,977	–	(2,037,490)
Net deferred tax asset/(liability)	(1,513,930)	1,285,599	545,267	316,936
	1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2018
Tax effect of deductible temporary differences				
Trade and other receivables	235,190	(71,058)	–	164,132
Provisions	677,091	78,776	–	755,867
Employee benefits	455,186	(145,034)	(38,194)	271,958
Other	260,625	83,955	–	344,580
Deferred tax assets	1,628,092	(53,361)	(38,194)	1,536,537
Tax effect of taxable temporary differences				
Property, plant and equipment	(1,682,426)	(986,119)	–	(2,668,545)
Derivatives	(158,488)	(105,064)	(59,268)	(322,820)
Other	(21,738)	(37,364)	–	(59,102)
Deferred tax liabilities	(1,862,652)	(1,128,547)	(59,268)	(3,050,467)
Net deferred tax asset/(liability)	(234,560)	(1,181,908)	(97,462)	(1,513,930)

13. LOANS AND BORROWINGS

	<u>Maturity</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Non-current loans and borrowings			
Loans denominated in EUR		–	5,042,625
Loans denominated in RUB	2021	1,666,670	10,333,334
Project financing in RUB	2034	6,982,290	672,301
Commercial papers in RUB	2022	5,000,000	–
Total non-current loans and borrowings		<u>13,648,960</u>	<u>16,048,260</u>
Current loans and borrowings and current portion of non-current loans and borrowings			
Loans denominated in EUR		–	751,263
Loans denominated in RUB		1,666,670	8,666,667
Total current loans and borrowings		<u>1,666,670</u>	<u>9,417,930</u>

As at 31 December 2019 the Group has access to the credit facilities with the available credit limits around RUB 77 billion, as well as RUB 40 billion 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 2019 and for the year ended 31 December 2018. Amounts recognised in the Group's consolidated statement of financial position are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Present value of defined benefit obligation	1,260,173	1,412,313
Net pension liabilities in the statement of financial position	<u>1,260,173</u>	<u>1,412,313</u>

Amounts recognised in profit or loss are as follows:

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>
Current service cost	65,646	133,477
Interest cost	108,924	153,357
Past service cost due to plan amendment	(426,373)	(744,549)
Net expense recognised in profit or loss	<u>(251,803)</u>	<u>(457,715)</u>

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

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>
Present value of defined benefit obligations at the beginning of year	1,412,313	2,307,271
Current service cost	65,646	133,477
Past service cost due to plan amendment	(426,373)	(744,549)
Interest cost	108,924	153,357
Remeasurements recognised in other comprehensive income, including:	303,197	(190,972)
<i>(Gain)/loss due to demographic assumption change</i>	<i>(1,325)</i>	<i>(8,904)</i>
<i>Loss/(gain) due to financial assumption changes</i>	<i>294,607</i>	<i>(217,330)</i>
<i>(Gain)/loss due to experience adjustment</i>	<i>9,915</i>	<i>35,262</i>
Benefits paid	(203,534)	(246,271)
Present value of defined benefit obligation at the end of period	<u>1,260,173</u>	<u>1,412,313</u>

Principal actuarial assumptions are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Nominal discount rate	6.45%	8.77%
Future salary increase	3.94%	4.14%

14. EMPLOYEE BENEFITS (continued)

The mortality data was applied as per Russian table of 2016 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:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Present value of defined benefit obligation	1,260,173	1,412,313
Deficit in plan	1,260,173	1,412,313
Losses arising from experience adjustments on plan liabilities	–	–

Expected benefit payments under the schemes during the year ended 31 December 2020 are RUB 362,972 thousand.

The average duration of the defined benefit plan obligation at the end of the reporting period is 9.58 years (2018: 9.67 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 72,147 thousand as at 31 December 2019 (2018: RUB 68,477 thousand).

A quantitative sensitivity analysis for significant assumptions as at 31 December 2019 is as shown below:

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

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

15. TRADE AND OTHER PAYABLES

	<u>31 December 2019</u>	<u>31 December 2018</u>
Trade payables	5,593,197	6,560,491
Accrued liabilities and other payables	1,284,132	566,264
Interest payable	174,860	29,180
Total	<u>7,052,189</u>	<u>7,155,935</u>

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Value added tax	4,816,508	1,040,663
Property tax	21,410	112,456
Other taxes	126,670	149,084
Total	<u>4,964,588</u>	<u>1,302,203</u>

17. LEASES

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	<u>Land</u>	<u>Other</u>	<u>Total</u>	<u>Lease liabilities</u>
As at 01 January 2019	14,310	418,900	433,210	433,210
Additions	24,690	–	24,690	34,660
Depreciation expense	(3,610)	(67,670)	(71,280)	–
Interest expense	–	–	–	49,910
Payments	–	–	–	(95,980)
As at 31 December 2019	35,390	351,230	386,620	421,800

Long-term Lease liability in the amount of RR 359,370 thousand is included in the non-current liabilities of the Statement of Financial Position, current lease liabilities and Interest accrued in amount in total of RR 62,430 thousand is included in the Trade and other payables (Note 15).

The difference between the operating lease commitments disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2018 and lease liabilities recognized in the statement of financial position at the date of initial application relates to the lease liability of office premises, other equipment and cancelable land plots lease contracts which were not included in the disclose in the Group's annual consolidated financial statements for the year ended 31 December 2018. Weighted average incremental borrowing rate related to the lease contracts used for discounting at the date of initial application is 9%.

The Reconciliation between Minimum lease payments for operating leases as at 31 December 2018 and Lease liabilities as at 1 January 2019 is as shown below:

Minimum lease payments for operating leases as at 31 December 2018	171,523
Lease liability of office premises, other equipment and cancelable land plots lease contracts	495,578
Weighted average incremental borrowing rate as at 1 January 2019	9%
(Discount impact)	(204,891)
(Recognition exemption for short-term leases at transition)	(29,000)
Lease liabilities as at 1 January 2019	433,210

18. PROVISIONS

	<u>Restru- cturing</u>	<u>Onerous contracts</u>	<u>Provision for legal claims</u>	<u>Decom- missioning provision</u>	<u>Personnel related provision</u>	<u>Other</u>	<u>Total</u>
Balance at 1 January 2019	214,923	759,162	170,886	415,087	438,170	177,652	2,175,880
Provisions made during the period	55,031	900,191	23,320	–	586,842	418,088	1,983,472
Unwinding of discount	8,857	–	–	8,710	–	4,457	22,024
Provision reversed / derecognized during the period	–	–	(62,729)	(158,927)	(5,858)	(104,549)	(332,063)
Provisions used during the period	(44,668)	(629,090)	(131,212)	(42,009)	(610,118)	(7,436)	(1,464,533)
Balance at 31 December 2019	234,143	1,030,263	265	222,861	409,036	488,212	2,384,780
Non-current	124,995	–	–	44,881	–	19,684	189,560
Current	109,148	1,030,263	265	177,980	409,036	468,528	2,195,220
Total	234,143	1,030,263	265	222,861	409,036	488,212	2,384,780

18. PROVISIONS (continued)

	Restru- cturing	Onerous contracts	Provision for legal claims	Decom- missioning provision	Personnel related provision	Other	Total
Balance at 1 January 2018	134,269	448,750	238,184	480,919	418,790	41,698	1,762,610
Provisions made during the period	141,133	888,096	69,568	–	747,563	136,134	1,982,494
Unwinding of discount	4,909	–	–	4,523	–	–	9,432
Provision reversed during the period	–	–	(132,918)	(3,606)	(98,469)	–	(234,993)
Provisions used during the period	(65,388)	(577,684)	(3,948)	(66,749)	(629,714)	(180)	(1,343,663)
Balance at 31 December 2018	214,923	759,162	170,886	415,087	438,170	177,652	2,175,880
Non-current	117,784	–	–	213,097	–	88,389	419,270
Current	97,139	759,162	170,886	201,990	438,170	89,263	1,756,610
Total	214,923	759,162	170,886	415,087	438,170	177,652	2,175,880

a. Restructuring

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

b. Onerous contracts

The onerous contracts provision relates to certain core and other revenue contracts in which the cost of their fulfilment will be higher than the economic benefits expected to be obtained from them. The provision is based on estimates of incremental costs associated with these contracts which are higher than economic benefits inflows.

c. Provision for legal claims

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

d. Decommissioning provision

Decommissioning provision relates to the dismantling expenses of certain individual items of property, plant and equipment.

Land remediation provision related to incremental decommissioning cost associated with future restoration of the underlying ash dump was reversed in 2019 as a result of Reftinskaya GRES assets sale (note 5).

e. Other

Other provisions include provision for environmental charges and provisions for uncertain tax position.

19. REVENUE

	For the year ended 31 December 2019	For the year ended 31 December 2018
Power	43,719,412	49,573,253
Capacity	18,137,800	19,609,180
Heating	3,473,070	3,567,650
Water circulation	356,387	331,861
Rent	16,911	20,695
Water for heating network	14,381	18,106
Other	116,882	144,228
Total	65,834,843	73,264,973

20. OPERATING EXPENSES

	<u>Notes</u>	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>
Fuel cost		34,241,557	38,627,631
Purchased electricity		5,171,800	5,492,720
Employee benefits		3,448,630	3,789,029
Depreciation and amortisation of property, plant and equipment and intangible assets	5, 6	3,384,877	3,869,461
Repairs and technical maintenance		1,483,528	1,676,740
Taxes other than income tax and payroll taxes		568,340	1,295,080
Water usage		1,159,560	1,180,830
Raw materials and supplies		607,070	695,080
Fees to Trade System Administrator, Centre of financial settlements and System Operator		1,015,500	1,093,510
Advisory, legal and information services		985,600	809,000
Insurance		244,540	361,850
Security		230,000	245,790
Lease costs		26,128	126,450
Public utilities		140,686	154,450
Pollution cost		75,430	109,180
Transport cost		84,030	89,500
Travel cost		57,560	66,120
Media and communication cost		89,140	69,460
Impairment loss in respect of construction in progress	5	44,479	70,659
Provisions		386,300	251,411
Other		880,788	509,255
Total		54,325,543	60,583,206

Employee benefits expenses comprise the following:

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>
Wages and other benefits to employees and related taxes	3,288,994	3,886,247
Contributions to State Pension Fund	520,363	513,854
Long-term employee benefits expenses (Note 14)	(360,727)	(611,072)
Total	3,448,630	3,789,029

21. FINANCE INCOME AND FINANCE COSTS

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>
Interest income	414,760	332,600
Foreign exchange differences, net	864,960	–
Gain from derivatives, net	–	480,250
Finance income	1,279,720	812,850
Interest expense	(1,497,829)	(1,906,210)
Unwinding of discount	(129,173)	(157,510)
Foreign exchange differences, net	–	(1,189,390)
Loss from derivatives, net	(656,320)	–
Bank fees	(365,651)	(99,730)
Other	(345,847)	(127,890)
Finance costs	(2,994,820)	(3,480,730)

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

Other financial costs in major part relates to charges for cession of receivables.

22. COMPONENTS OF OTHER COMPREHENSIVE INCOME/LOSS

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>
Cash flow hedge		
Reclassification during the year to income statement (net of income tax)	555,426	(384,528)
Net gains/(losses) during the year (net of income tax)	<u>(2,493,936)</u>	<u>621,598</u>
Net movement on cash flow hedges (net of income tax)	<u>(1,938,510)</u>	<u>237,070</u>
Financial investments into equity shares		
Net (losses)/gains arising during the year (net of income tax)	<u>–</u>	<u>(3,160)</u>
Net change in fair value of financial investments into equity shares (net of income tax)	<u>–</u>	<u>(3,160)</u>
Actuarial gains/(losses) on defined benefits plans (net of income tax)	<u>(242,558)</u>	<u>152,778</u>

23. 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

The credit risk is identified by the possibility that an unexpected change in a counterparty's creditworthiness generates an unexpected change in the market value of the counterparty's credit position or a loss when an obligation toward the Group is in place.

It mainly arises from the Group's trade receivables from customers and financial obligations toward the Group.

i. Trade receivables

The Group's exposure to credit risk is mainly determined by the financial characteristics of third parties, individually evaluated or clustered by similar characteristics (such as financials, external official ratings, geographic location, credit ageing, etc.).

The Group has defined methodological criteria, even formalized in internal documentation, to calculate the creditworthiness (probability of defaults or default rates) for the third parties with potential significant credit exposure.

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.

Generations companies operating on the WECM are obliged by the regulation to conclude such contracts, even with insolvent contractors. In such cases, to mitigate the risk the Group has activated a structured process to directly recover the potential losses and moreover has established accounting criteria to determine adequate allowances if the contractor is excluded from the list of WECM players and (possibly) becomes bankrupt in the future.

In particular, the Group established an allowances for expected credit losses, based on the estimation of probability of default or default rates, the recovery in case of bankruptcy and the credit exposure at the reference date.

Last, integrating the quantitative analysis to determine the expected credit losses amounts with a qualitative analysis of the commercial portfolio, the majority of customers have been transacting with the Group for over several years, and losses have been usually mitigated by structured processes and recovery actions. The Group establishes an allowance for expected credit losses 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.

23. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

b. Credit risk (continued)

ii. 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.

iii. 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:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Financial investments into equity shares	4,880	37,800
Trade receivables	4,791,616	5,322,699
Other receivables	4,974,545	304,046
Cash and cash equivalents	11,144,720	6,090,470
Long-term trade and other receivables	<u>65,276</u>	<u>49,776</u>
Total	<u>20,981,037</u>	<u>11,804,791</u>

The aging of Trade receivables at the reporting date was as follows:

	<u>31 December 2019</u>		<u>31 December 2018</u>	
	<u>Gross</u>	<u>Expected credit losses allowance</u>	<u>Gross</u>	<u>Expected credit losses allowance</u>
Not past due	4,773,807	–	4,725,117	–
Past due for less than 3 months	377,999	377,910	389,585	94,099
Past due for 3 to 12 months	1,146,886	1,143,714	1,467,622	1,212,308
Past due for more than one year	<u>3,071,228</u>	<u>3,056,680</u>	<u>3,122,159</u>	<u>3,075,377</u>
Total	<u>9,369,920</u>	<u>4,578,304</u>	<u>9,704,483</u>	<u>4,381,784</u>

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 15 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 will be able to redeem all its financial liabilities in full. Access to the credit facilities of the Group as at 31 December 2019 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.

23. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

c. Liquidity risk (continued)

i. Non-derivative financial liabilities

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>
At 31 December 2019					
Bank and other loans	10,315,630	10,470,258	1,666,670	3,544,572	5,259,016
Commercial papers	5,000,000	5,000,000	–	5,000,000	–
Trade and other payables	7,052,189	7,052,189	7,052,189	–	–
Total	<u>22,367,819</u>	<u>22,522,447</u>	<u>8,718,859</u>	<u>8,544,572</u>	<u>5,259,016</u>
At 31 December 2018					
Bank and other loans	25,466,190	25,493,833	9,417,930	13,452,885	2,623,018
Commercial papers	–	–	–	–	–
Trade and other payables	7,155,935	7,155,935	7,155,935	–	–
Total	<u>32,622,125</u>	<u>32,649,768</u>	<u>16,573,865</u>	<u>13,452,885</u>	<u>2,623,018</u>

ii. Derivatives

<u>Fair values</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Currency and interest rate swap	–	1,366,198
Forwards	1,340	247,882
Options	42,078	–
Derivative assets	<u>43,418</u>	<u>1,614,080</u>
Currency and interest rate swap	–	–
Forwards	379,768	–
Derivative liabilities	<u>379,768</u>	<u>–</u>

Swaps were measured at fair value through other comprehensive income and were designated as hedging instruments in cash flow hedges of EUR-denominated borrowings. In 2019 the Group realized all swaps.

In order to comply with Group's foreign exchange risk management strategy, the changes in future cash flows arising from the highly probable capital expenditure outflows in a foreign currency attributable to foreign exchange rate movements are hedged. Forward exchange contracts and options are designated as hedging instruments in cash flow hedges of capital expenditures in a foreign currency related to wind and thermal generation projects.

These hedges were assessed to be effective and net change of RUB 1,938,510 thousand, including the forward element amounting to RUB 49,820 thousand, with a deferred tax of RUB 484,628 thousand are included within other comprehensive income for 2019 (2018: change at the amount of RUB 237,070 thousand, including the forward element of RUB (292,170) thousand and RUB 59,268 thousand of deferred tax, 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 payments to contractors when such are denominated in currencies other than the functional currency of the Company.

23. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

d. Market risk (continued)

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

	31 December 2019				31 December 2018	
	USD	EUR	CFH	CNY	USD	EUR
Cash and cash equivalents	413	3,033	–	–	34	73,104
Bank and other loans	–	–	–	–	–	(5,811,452)
Trade and other payables	(68)	(2,334,596)	–	–	(53)	(1,816,418)
Gross exposure	345	(2,331,563)	–	–	(19)	(7,554,766)
Interest rate swaps used for hedging	–	–	–	–	–	5,811,452
Forward exchange contracts	–	12,571,073	85,097	–	–	11,065,734
Options	241,432	1,421,482	–	5,563,684	–	–
Net exposure	241,777	11,660,992	85,097	5,563,684	(19)	9,322,420

The following exchange rates applied during the period:

RUB	Average rate		Spot rate	
	For the year ended 2019	For the year ended 2018	31 December 2019	31 December 2018
USD	64.6184	62.9264	61.9057	69.4706
EUR	72.3187	74.1330	69.3406	79.4605

Sensitivity analysis

A strengthening of RUB against USD and EUR at 31 December 2019 (2018: a weakening of RUB against USD and EUR) 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 2018, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below.

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

	Decrease in profit
At 31 December 2019	
EUR (10 percent RUB weakening)	(1,023,951)
USD (10 percent RUB weakening)	(35)
At 31 December 2018	
EUR (10 percent RUB weakening)	(932,242)
USD (10 percent RUB weakening)	2

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 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 2019	31 December 2018
Fixed rate instruments		
Financial assets	7,665,726	2,562,207
Financial liabilities	(8,333,340)	(24,793,889)
	(667,614)	(22,231,682)
Variable rate instruments		
Financial liabilities	(6,982,290)	(672,301)
	(6,982,290)	(672,301)

Cash flow sensitivity analysis for interest rate instruments

A change of 100 basis points in interest rates at the reporting date would not have materially increased (decreased) profit or loss.

23. 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 2019 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:

	<u>2019</u>	<u>2018</u>
Derivatives	5.27%-8.83%	7.00%-9.59%
Loans and borrowings	7.15%-9.65%	1.56%-10.49%

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).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets measured at fair value at 31 December 2019				
Financial investments into equity shares	–	–	4,880	4,880
	<u>–</u>	<u>–</u>	<u>4,880</u>	<u>4,880</u>
Interest rate swaps used for hedging	–	–	–	–
Forward exchange contracts	–	1,340	–	1,340
Options	–	42,078	–	42,078
	<u>–</u>	<u>43,418</u>	<u>–</u>	<u>43,418</u>
Liability measured at fair value at 31 December 2019				
Forward exchange contracts	–	379,768	–	379,768
	<u>–</u>	<u>379,768</u>	<u>–</u>	<u>379,768</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets measured at fair value at 31 December 2018				
Financial investments into equity shares	37,800	–	–	37,800
	<u>37,800</u>	<u>–</u>	<u>–</u>	<u>37,800</u>
Interest rate swaps used for hedging	–	1,366,198	–	1,366,198
Forward exchange contracts	–	247,882	–	247,882
	<u>–</u>	<u>1,614,080</u>	<u>–</u>	<u>1,614,080</u>

23. 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 2019				
Trade and other receivables	–	–	10,595,114	10,595,114
Loans given	–	–	57,900	57,900
	–	–	10,653,014	10,653,014
Liability not measured at fair value at 31 December 2019				
Trade and other payables	–	–	6,940,298	6,940,298
Bank and other loans	–	10,315,630	–	10,315,630
Commercial papers	–	5,111,891	–	5,111,891
	–	15,427,521	6,940,298	22,367,819
	Level 1	Level 2	Level 3	Total
Assets not measured at fair value at 31 December 2018				
Trade and other receivables	–	–	6,237,928	6,237,928
Loans given	–	–	43,090	43,090
	–	–	6,281,018	6,281,018
Liability not measured at fair value at 31 December 2018				
Trade and other payables	–	–	7,155,935	7,155,935
Bank and other loans	–	25,466,190	–	25,466,190
	–	25,466,190	7,155,935	32,622,125

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 2019, the Company 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.

23. 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.

	<u>31 December 2019</u>	<u>31 December 2018</u>
Total borrowings (Note 13)	15,315,630	25,466,190
Less: cash and cash equivalents (Note 10)	<u>(11,144,720)</u>	<u>(6,090,470)</u>
Net debt	4,170,910	19,375,720
Equity	<u>38,226,779</u>	<u>44,516,294</u>
Debt to equity ratio	<u>10.91%</u>	<u>43.53%</u>

24. COMMITMENTS

a. Fuel supply contracts

The Group has entered into several long-term gas 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.

b. Capital commitments

Future capital expenditure for which contracts have been signed amounted to RUB 23,724,005 thousand at 31 December 2019 (at 31 December 2018: RUB 29,665,352 thousand), including RUB 21,881,115 (2018: RUB 26,959,099 thousand) for the wind generation projects.

25. 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 is negatively impacted by the sanctions pressure. This have resulted in overall 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 coverage includes both obligatory and voluntary types of insurance with regard to assets, 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 from those risks which are out of existing insurance coverage.

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.

d. Tax contingency

The taxation system in the Russian Federation 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.

25. CONTINGENCIES (continued)

d. Tax contingency (continued)

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 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, 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 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 these financial statements.

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

26. 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.

Transactions with Enel Group

For the year ended 31 December 2019 the Group had the following transactions with Enel Group entities:

	For the year ended 31 December 2019	For the year ended 31 December 2018
Sale of electricity	887,030	701,844
Other revenue	10,686	23,494
Purchases (technical and other services)	(1,633,599)	(892,742)

26. RELATED PARTIES DISCLOSURES (continued)

Transactions with Enel Group (continued)

As at 31 December 2019 the Group had the following balances with Enel Group entities:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Trade and other receivables	152,093	150,487
Trade and other payables	(2,812,513)	(2,071,157)

Transactions with other related parties

In 2019 transactions with other related parties represent transactions with the non-state pension fund.

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>
Benefits paid	200,234	242,044

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 includes 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 2019 and 2018 was as follows:

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>
Remuneration	147,350	154,172

During the year ended 31 December 2019 the loans on market conditions were provided to key management personnel amounting to RUR 7,000 thousand.

The employee benefit obligations in the consolidated statement of financial position includes payables attributable to key management personnel at the amount of RUR 72,147 thousand for the year ended 31 December 2019 (2018: RUR 68,477 thousand).

At 31 December 2019 there were 11 members of the Board of Directors and 4 members of the Management Board (2018: 11 members of the Board of Directors and 4 members of the Management Board).

27. 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 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 is effective for reporting periods beginning on or after 1 January 2021. This standard is not applicable to the Group.

The Conceptual Framework for Financial Reporting

The IASB issued *The Conceptual Framework* in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. *The Conceptual Framework* includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. *The Conceptual Framework* is effective for annual periods beginning on or after 1 January 2020. The changes to *The Conceptual Framework* may affect the application of IFRS in situations where no standard applies to a particular transaction or event.

27. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Amendments to IFRS 3 Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

In September 2019, the IASB issued amendments to IFRS 7 *Financial instruments: Disclosures* and IFRS 9 *Financial Instruments* which provide relief from certain requirements of hedge accounting, as their fulfillment can lead to discontinuation of hedge accounting due to uncertainty caused by the reform. The amendments are effective on or after 1 January 2020; earlier application is permitted. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

Amendments to IAS 1 Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to clarify the requirements for classifying liabilities as current or non-current. The amendments are effective on or after 1 January 2022; earlier application is permitted. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

28. SUBSEQUENT EVENTS

At the beginning of March 2020 the world financial markets are experiencing a sharp decline in crude oil prices, as well as a devaluation of the Russia Ruble against world currencies. At the date of issuance of the consolidated financial statements management was in the process of assessment of the impact on the Group's consolidated financial statements for 2020.

General Director

C. Palasciano

Chief Accountant

V.V. Grishachev

17 March 2020