PJSC Enel Russia

Interim Condensed Consolidated Financial Statements

for the six months ended 30 June 2016 (unaudited)

Contents

Совершенствуя бизнес,
улучшаем мир

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Report on review of the interim condensed consolidated financial statements

To the shareholders and the Board of Directors of
PJSC Enel Russia

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Public Joint-Stock Company Enel Russia and its subsidiaries (hereinafter collectively referred to as the "Company"), comprising the interim consolidated statement of financial position as at 30 June 2016 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

28 July 2016

Moscow, Russia

Thousands of Russian roubles, unless otherwise stated

	Note	30 June 2016 (unaudited)	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	5	53,012,558	51,887,794
Intangible assets		329,564	327,594
Available-for-sale financial assets		35,670	30,000
Non-current derivative assets	9	1,003,300	1,523,220
Deferred income tax asset		1,941,412	2,090,223
Other non-current assets		2,290,232	2,178,083
Total non-current assets		**58,612,736**	**58,036,914**
Current assets			
Inventories		4,934,790	5,640,834
Trade and other receivables		6,902,940	8,009,174
Income tax receivable	7	1,250	1,175,280
Current derivative assets	9	1,397,490	3,054,710
Cash and cash equivalents	6	7,941,340	10,445,150
Total current assets		**21,177,810**	**28,325,148**
TOTAL ASSETS		**79,790,546**	**86,362,062**
EQUITY AND LIABILITIES			
Equity			
Share capital	8	35,371,898	35,371,898
Share premium		6,818,747	6,818,747
Treasury shares		(411,060)	(411,060)
Fair value reserve	8	18,650	11,780
Hedge reserve	8	453,992	191,434
Accumulated deficit	8	(10,216,436)	(10,909,549)
Total equity attributable to equity holders of PJSC Enel Russia		**32,035,791**	**31,073,250**
Non-controlling interest		(49,530)	(42,960)
TOTAL EQUITY		**31,986,261**	**31,030,290**
Non-current liabilities			
Loans and borrowings	10	29,049,420	31,606,493
Employee benefits		2,194,060	2,013,640
Provisions		944,040	804,004
Other non-current liabilities		540	540
Total non-current liabilities		**32,188,060**	**34,424,677**
Current liabilities			
Loans and borrowings	10	3,728,130	3,385,157
Trade and other payables		8,751,502	14,492,831
Current derivative liabilities	9	592,070	–
Other taxes payable		742,790	1,063,910
Provisions		1,801,733	1,965,197
Total current liabilities		**15,616,225**	**20,907,095**
Total liabilities		**47,804,285**	**55,331,772**
TOTAL EQUITY AND LIABILITIES		**79,790,546**	**86,362,062**

General Director C. Palasciano

Chief Accountant V.V. Grishachev

28 July 2016

The notes on pages 6 to 14 are an integral part of these Interim Condensed Consolidated Financial Statements.

Thousands of Russian roubles, unless otherwise stated

	Note	For the six months ended 30 June 2016 (unaudited)	For the six months ended 30 June 2015 (unaudited)
Revenue		33,169,960	34,547,310
Operating expenses		(28,974,284)	(33,667,103)
Other operating income		166,830	913,120
Operating profit		**4,362,506**	**1,793,327**
Finance income	11	2,465,240	2,889,788
Finance expenses	11	(5,888,080)	(5,862,033)
Profit/(loss) before income tax		**939,666**	**(1,178,918)**
Income tax (expense)/benefit		(152,245)	198,058
Profit/(loss) for the period		**787,421**	**(980,860)**
Other comprehensive income/(loss)			
Net change in the fair value of available-for-sale financial assets		8,198	9,876
Income tax effect		(1,328)	(1,646)
		6,870	**8,230**
Net movement on cash flow hedges	8	313,315	(685,638)
Income tax effect		(50,757)	137,128
		262,558	**(548,510)**
Net other comprehensive income/(loss) to be reclassified to profit and loss in subsequent periods		**269,428**	**(540,280)**
Actuarial (losses)/gains on defined benefits plans		(119,036)	–
Income tax effect		18,158	–
Net other comprehensive (loss)/income not being reclassified to profit and loss in subsequent periods		**(100,878)**	**–**
Total comprehensive income/(loss) for the period		**955,971**	**(1,521,140)**
Profit/(loss) attributable to:			
Owners of PJSC Enel Russia		793,991	(973,830)
Non-controlling interest		(6,570)	(7,030)
Total comprehensive income/(loss) attributable to:			
Owners of PJSC Enel Russia		962,541	(1,514,110)
Non-controlling interest		(6,570)	(7,030)
Earnings per ordinary share for profit/(loss) attributable to the equity holders of PJSC Enel Russia – basic and diluted (in Russian Roubles per share)		**0.0225**	**(0.0277)**

General Director — C. Palasciano

Chief Accountant — V.V. Grishachev

28 July 2016

Thousands of Russian roubles, unless otherwise stated

	Note	For the six months ended 30 June 2016 (unaudited)	30 June 2015 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before income tax		**939,666**	**(1,178,918)**
Adjustments for:			
Depreciation and amortisation		1,609,911	3,319,643
Loss on disposal of property, plant and equipment		–	535,980
Finance income		(2,465,240)	(2,889,788)
Finance expenses		5,888,080	5,862,033
Increase in allowance for impairment of trade and other receivables		68,250	660,100
Change in other provisions		(83,987)	(133,612)
Adjustments for other non-cash transactions		943	33,697
Operating cash flows before working capital changes		**5,957,623**	**6,209,135**
Decrease/(increase) in trade and other receivables		1,221,868	237,911
Decrease/(increase) in inventories		588,795	(63,822)
Increase/(decrease) in trade and other payables		(5,132,568)	(3,060,921)
Increase/(decrease) in taxes payable, other than income tax		(321,120)	136,535
Net cash inflows from operating activities before income tax paid		**2,314,598**	**3,458,838**
Income tax received		1,120,224	28,543
Net cash from operating activities		**3,434,822**	**3,487,381**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(3,874,205)	(3,498,460)
Interest received		513,647	563,879
Net cash used in investing activities		**(3,360,558)**	**(2,934,581)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from current loans and borrowings		–	4,000,000
Proceeds from non-current loans and borrowings		10,000,000	5,000,000
Repayment of loans and borrowings		(10,704,082)	(5,005,787)
(Payments on)/proceeds from derivatives		(447,617)	1,387,767
Interest and bank fees paid		(1,426,375)	(733,400)
Net cash (used in)/from financing activities		**(2,578,074)**	**4,648,580**
Net (decrease)/increase in cash and cash equivalents		**(2,503,810)**	**5,201,380**
Cash and cash equivalents at 1 January	6	**10,445,150**	**7,557,580**
Cash and cash equivalents at 30 June	6	**7,941,340**	**12,758,960**

General Director C. Palasciano

Chief Accountant V.V. Grishachev

28 July 2016

Thousands of Russian roubles, unless otherwise stated

	Attributable to equity holders of PJSC Enel Russia								
	Share capital	Share premium	Treasury shares	Fair value reserve	Hedge reserve	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance at 1 January 2015	35,371,898	6,818,747	(411,060)	(5,010)	973,140	41,005,043	83,752,758	(36,190)	83,716,568
Loss for the period	–	–	–	–	–	(973,830)	**(973,830)**	(7,030)	**(980,860)**
Other comprehensive income									
Net movement on cash flow hedges, net of tax	–	–	–	–	(548,510)	–	**(548,510)**	–	**(548,510)**
Net change in fair value of available-for-sale financial assets, net of tax	–	–	–	8,230	–	–	**8,230**	–	**8,230**
Total other comprehensive income	–	–	–	**8,230**	**(548,510)**	–	**(540,280)**	–	**(540,280)**
Total comprehensive income/(loss)	–	–	–	**8,230**	**(548,510)**	**(973,830)**	**(1,514,110)**	**(7,030)**	**(1,521,140)**
Distribution of dividends	–	–	–	–	–	**(2,855,600)**	**(2,855,600)**	–	**(2,855,600)**
Balance at 30 June 2015 (unaudited)	**35,371,898**	**6,818,747**	**(411,060)**	**3,220**	**424,630**	**37,175,613**	**79,383,048**	**(43,220)**	**79,339,828**
Balance at 1 January 2016	**35,371,898**	**6,818,747**	**(411,060)**	**11,780**	**191,434**	**(10,909,549)**	**31,073,250**	**(42,960)**	**31,030,290**
Profit/(loss) for the period	–	–	–	–	–	793,991	**793,991**	(6,570)	**787,421**
Other comprehensive income/(loss)									
Net movement on cash flow hedges, net of tax	–	–	–	–	262,558	–	**262,558**	–	**262,558**
Net change in fair value of available-for-sale financial assets, net of tax	–	–	–	6,870	–	–	**6,870**	–	**6,870**
Actuarial losses	–	–	–	–	–	(100,878)	**(100,878)**	–	**(100,878)**
Total other comprehensive income/(loss)	–	–	–	**6,870**	**262,558**	**(100,878)**	**168,550**	–	**168,550**
Total comprehensive income/(loss)	–	–	–	**6,870**	**262,558**	**693,113**	**962,541**	**(6,570)**	**955,971**
Distribution of dividends	–	–	–	–	–	–	–	–	–
Balance at 30 June 2016 (unaudited)	**35,371,898**	**6,818,747**	**(411,060)**	**18,650**	**453,992**	**(10,216,436)**	**32,035,791**	**(49,530)**	**31,986,261**

General Director C. Palasciano

Chief Accountant V.V. Grishachev

28 July 2016

The notes on pages 6 to 14 are an integral part of these Interim Condensed Consolidated Financial Statements.

1. BACKGROUND

(a) Organisation and operations

Public Joint-Stock Company "Enel Russia" (the "Company" or "Enel Russia", previously known as Open Joint Stock Company "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. On 8 August 2014 Open Joint-Stock Company "Enel OGK-5" was renamed into Open Joint-Stock Company "Enel Russia". On 25 June 2015 OJSC Enel Russia was renamed to Public Joint-Stock Company Enel Russia (PJSC Enel Russia).

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

On 11 May 2012 PFR Partners Fund I Limited purchased 9,350,472,893 (26.43%) of voting shares of Enel OGK-5 OJSC from Inter RAO UES OJSC and became minority shareholder of the Company. PFR Partners Fund I Limited is non-public investment fund incorporated in Cyprus.

In 2015 European Bank for reconstruction and development sold its interest in Enel Russia share capital comprising 5.18% of voting shares, whereas Prosperity Capital Management Limited has acquired a right for 6.33% in Enel Russia capital.

In May 2016 VTB bank (public joint stock company) increased its interest in Enel Russia share capital to 7.69%. Share of PFR Partners Fund I Limited in Enel Russia share capital decreased to 19.03%.

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:

- a wholly-owned subsidiary LLC "OGK-5 Finance";
- a wholly-owned subsidiary LLC "Health resort-preventorium "Energetik";
- a wholly-owned subsidiary LLC "Prof-Energo";
- 60% interest in subsidiary OJSC "Teploprogress". The State Property Committee of Sredneuralsk holds the remaining 40% ownership interest in OJSC "Teploprogress".

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.

(b) Regulatory environment

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

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

Tariffs for sales of electricity for householders, heat and other products are calculated on the basis of legislative documents, which regulate pricing of heat and electricity. Tariffs are calculated in accordance with the "Cost-Plus" method and "Indexation" method. Costs are determined under the Regulations on Accounting and Reporting of the Russian Federation, a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS").

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

The Group's interim condensed consolidated financial statements are presented in thousands of Russian roubles ("RR"), unless otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption, where applicable, of new standards and interpretations effective as of 1 January 2016.

No one of new standards and interpretations effective as of 1 January 2016 had impact on interim condensed 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.

Seasonality of operations

The Company's operations are not seasonal. Income and expenses are recognized on a straight-line basis throughout the year.

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.

4. DETERMINATION OF FAIR VALUES

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

(a) Investments in equity and debt securities

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

(b) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, 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, if available. If broker quotes are not available then fair value is determined 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.

Thousands of Russian roubles, unless otherwise stated

5. PROPERTY, PLANT AND EQUIPMENT

(a) Acquisitions and disposals

During six months ended 30 June 2016 the Group acquired assets with a total cost of RR 2,718,510 thousand.

During six months ended 30 June 2015 the Group acquired assets with a total cost of RR 2,785,093 thousand.

At 30 June 2016 Group's Property, plant and equipment includes capital advances in amount of RR 257,867 thousand (30 June 2015: RR 711,727 thousand).

(b) Capital commitments

Future capital expenditures for which contracts have been signed amount to RR 3,508,392 thousand at 30 June 2016 (30 June 2015: RR 4,404,734 thousand).

6. CASH AND CASH EQUIVALENTS

	30 June 2016	31 December 2015
Current accounts	1,147,729	1,214,981
Call deposits	6,793,611	9,230,169
Total	**7,941,340**	**10,445,150**

The currency of cash and cash equivalents is the Russian roubles and euro.

7. INCOME TAX RECEIVABLE

Income tax receivable decreased from RR 1,175,280 thousand to RR 1,250 thousand mainly as a result of reimbursement of overpayment to the Budget accumulated for the previous years.

8. EQUITY

(a) Share capital

The Group's share capital as at 30 June 2016 and 31 December 2015 was RR 35,371,898 thousand comprising 35,371,898,370 ordinary shares with a par value of RR 1.00. All shares authorised are issued and fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders of the Company.

(b) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired.

(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

On 29 June 2016, the Shareholders' meeting approved the allocation of the Company's IFRS net ordinary profit for the previous years to cover the losses in the amount RR 1,803 million and no payment of dividends on ordinary shares in 2016 financial year.

Thousands of Russian roubles, unless otherwise stated

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management believes that the fair value of the Group's financial assets and liabilities at 30 June 2016 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 yield curve at the reporting date plus an adequate credit spread, and were as follows:

	30 June 2016	**31 December 2015**
Derivatives	5.76%-9.92%	5.76%-9.92%
Loans and borrowings	1.56%-12.5%	1.56%-6.70%

The table below provides details regarding the composition of derivative financial assets and liabilities, measured at fair value:

Fair values	**30 June 2016**	**31 December 2015**
Currency and interest rate swap	2,400,790	3,857,656
Forwards	–	720,274
Derivative assets	**2,400,790**	**4,577,930**
Currency and interest rate swap	56,810	–
Forwards	535,260	–
Derivative liabilities	**592,070**	**–**

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

These hedges were assessed to be effective and net unrealised gain of RR 262,558 thousand, net of deferred tax effect of RR 50,757 thousand are included within other comprehensive income during the period ended 30 June 2016 (6 months ended 30 June 2015: loss of RR 548,510 thousand net of deferred tax effect of RR 137,128 thousand). No significant element of ineffectiveness required recognition in the interim consolidated statement of comprehensive income.

While the Group also enters into other foreign exchange forward contracts with the intention to reduce the foreign exchange risk, these other contracts are not designated as hedge relationships and are measured at fair value through profit and loss.

Thousands of Russian roubles, unless otherwise stated

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
30 June 2016				
Financial assets measured at fair value				
Available-for-sale financial assets	35,670	–	–	35,670
Forward exchange contracts	–	–	–	–
Interest rate swaps used for hedging	–	2,400,790	–	2,400,790
	35,670	**2,400,790**	**–**	**2,436,460**
Financial liabilities measured at fair value				
Interest rate swaps used for hedging	–	56,810	–	56,810
Forward exchange contracts	–	535,260	–	535,260
	–	**592,070**	**–**	**592,070**

	Level 1	Level 2	Level 3	Total
31 December 2015				
Financial assets measured at fair value				
Available-for-sale financial assets	30,000	–	–	30,000
Forward exchange contracts	–	720,274	–	720,274
Interest rate swaps used for hedging	–	3,857,656	–	3,857,656
	30,000	**4,577,930**	**–**	**4,607,930**
Financial liabilities measured at fair value				
Interest rate swaps used for hedging	–	–	–	–
Forward exchange contracts	–	–	–	–
	–	–	**–**	**–**

There have been no transfers between Level 1 and Level 2 during the period of six months ended 30 June 2016.

Thousands of Russian roubles, unless otherwise stated

10. LOANS AND BORROWINGS

Due to the early-repayment of RBS loan, the structure of loans and borrowings changed as follows:

	Currency	Maturity	30 June 2016	31 December 2015
Non-current loans				
Royal Bank of Scotland	EUR	2022	–	8,282,642
EBRD	EUR	2021	3,545,165	4,464,629
EIB	EUR	2025	7,504,255	8,859,222
Gazprombank	RUB	2021	8,000,000	–
Commercial papers	RUB	2018	10,000,000	10,000,000
			29,049,420	**31,606,493**

	Currency	30 June 2016	31 December 2015
Current borrowings and current portion of non-current borrowings			
Current portion of non-current loans (Royal Bank of Scotland)	EUR	–	1,451,071
Current portion of non-current loans (EBRD)	EUR	899,500	1,006,700
Current portion of non-current loans (EIB)	EUR	828,630	927,386
Gazprombank	RUB	2,000,000	–
Total current borrowings		**3,728,130**	**3,385,157**

11. FINANCE INCOME AND EXPENSES

Financial income and expenses of the Group largely relate to foreign exchange gains and losses originating from revaluation of assets and liabilities denominated in foreign currencies, interest income and expenses, gains and losses from derivative financial instruments.

	For the period ended 30 June 2016	For the period ended 30 June 2015
Interest income	465,080	414,450
Exchange differences	2,000,160	2,475,338
Finance income	**2,465,240**	**2,889,788**
Interest expense	(1,412,406)	(804,843)
Loss on the extinguishment of RBS loan	(423,917)	–
Effect of discounting, net	(164,220)	(300,110)
Losses from derivatives, net	(3,430,820)	(4,253,900)
Other	(456,717)	(503,180)
Finance costs	**(5,888,080)**	**(5,862,033)**

Financial expenses of the Company for the first half of 2016 comprise one-off effect of an amortized cost derecognition in relation to long-term RBS loan which was early repaid in April 2016 (see Note 10).

12. CONTINGENCIES

(a) Operating environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia.

Russia is continuing to institute economic reforms and develop 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 taken by the Russia government.

The fall in crude oil prices, significant devaluation of the Russian ruble and sanctions imposed on Russia had an adverse impact on the Russian economy in 2015. In 2015, ruble interest rates rose significantly after the CBR raised the key interest rate. Together, these trends have resulted in reduced capital availability, higher costs of capital, growing inflation and uncertainty regarding economic growth, which could adversely affect the Group’s financial position, performance and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

(b) Insurance

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

(c) Legal proceedings

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

(d) Tax contingency

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

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

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

In 2015 and 2014 the Group determined its tax liabilities arising from “controlled” transactions using actual transaction prices.

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

Overall, management believes that the Group has paid or accrued all taxes that are applicable. 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.

Thousands of Russian roubles, unless otherwise stated

12. CONTINGENCIES (continued)

(e) Environmental matters

The Group and its predecessor have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations.

The Company is a material subsidiary of the Enel Group, which pays special attention to environmental and safety matters, and this reduces the risks of the Company.

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. Under the 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. A provision has been recognized for incremental decommissioning cost associated with future restoration of the underlying ash dump in the amount of RR 157,243 thousand as of 30 June 2016 (as of 31 December 2015: RR 138,790 thousand). Provision in respect of dismantling expenses of certain individual items of property, plant and equipment was accrued in the amount of RUR 500,145 thousand (as of 31 December 2015: RR 509,565 thousand). Other environmental provision as of 30 June 2016 comprise RR 129,170 thousand (as of 31 December 2015: RR 127,955 thousand).

(f) Restructuring provision

As at 31 December 2015, a restructuring provision of RR 270,067 thousand has been recognized for the optimization of organizational structure and redundancy of employees. Expenditures of RR 17,089 thousand were charged against the provision during the first six months of 2016.

13. 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 companies of Enel Group.

Transactions with Enel S.p.A and its subsidiaries (Enel Group)

For the period ended 30 June 2016 the Group had the following transactions with Enel Group entities:

	For the six months ended	
	30 June 2016	**30 June 2015**
Sale of electricity	178,310	705,955
Other revenue	51,187	8,102
Purchases	(534,089)	(975,907)

As at 30 June 2016 the Group had the following balances with Enel Group entities:

	30 June 2016	**31 December 2015**
Trade and other receivables	581,552	804,638
Advances issued for capital construction	27,318	32,235
Trade and other payables	(1,904,385)	(3,607,523)

Transactions with other related parties

Transactions with other related parties represent transactions with VTB pension fund.

	For the six months ended	
	30 June 2016	**30 June 2015**
Other expenses	92,975	76,440

As at 30 June 2016 the Group had no balances with other related parties.

Thousands of Russian roubles, unless otherwise stated

13. RELATED PARTIES DISCLOSURES (continued)

Transactions with key management personnel

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

Total remuneration incudes all type of remuneration such as wages, salaries, bonuses, non-monetary benefits, other.

Total remuneration paid to the members of the Board of Directors and Management Board for the period ended 30 June 2016 and 2015 was as follows:

	For the six months ended	
	30 June 2016	**30 June 2015**
Remuneration	74,490	66,937
Social security fees	2,848	2,004

There were no loans provided to key management personnel during six months ended 30 June 2016.

At 30 June 2016 there were 11 members of the Board of Directors and 5 members of the Management Board.