Independent Auditor’s Report

on Accounting (Financial) Statements of

**Public Joint Stock Company of**

**Power Industry and Electrification of Kuban**

for 2019

February 2020

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Power Industry and Electrification of Kuban for 2019:

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Ernst&Young LLC

Krasnodar Branch

Sovetskaya Street, 30, offices 1106-1108

Krasnodar 350063, Russia

Phone: +7(861) 210 1212

Fax: +7(861) 210 1211

[www.ey.com/ru](http://www.ey.com/ru)

**Independent Auditor’s Report**

To: the shareholders and the Board of Directors

of Public Joint Stock Company of Power Industry

and Electrification of Kuban

**Opinion**

We have audited the accompanying accounting (financial) statements of Public Joint-Stock Company of Power Industry and Electrification of Kuban(hereinafter –the Company) which comprise the balance sheet as of December 31, 2019, Statement of Financial Results for 2019, and appendixes thereto.

In our opinion, the accompanying accounting (financial) statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its accounting performance and cash flows for 2019 in accordance with the accounting (financial) statements preparation rules established by the Russian Federation.

**Basics for Opinion**

We conducted our audit in accordance with the International Standards of Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Accounting Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the accounting (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 the most significance in our audit of the accounting (financial) statements of the current period. These matters were addressed in the context of our audit of the accounting (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 accounting (financial) statements section of our report, including in relation to these matters. Accordingly, our audit included procedures designed to respond to our assessment of the risks of material misstatement of the accounting (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 accounting (financial) statements.

|  |  |
| --- | --- |
| **Key audit matter** | **How the matter was addressed in our audit.** |
| **Recognition and measurement of revenue from electricity transmission services** | |
| Recognition and measurement of revenue from electricity transmission services was one of the most significance in our audit due to certain mechanisms of operation of retail electricity market that stipulate presence of disagreements between network, energy supply and other companies pertaining to the volume and cost of transmitted electricity. The sum of the disputable revenue is considered as material for the accounting (financial) statements of the Company. The assessment by the Company’s management of favorable outcome of the dispute resolution is, to a large extent, subjective. The revenue is recognized when, with regard of assumptions, disputes are resolved in favor of the Company.  Information on the revenue from electricity transmission services is disclosed in Clause ХХ of Notes to the Accounting Statements and Statement of Financial Results. | We have review the Company's policy on recognizing revenue from electricity transmission services; evaluated the system of internal control over revenue recognition; reviewed the accuracy of determined revenue amounts based on concluded electricity transmission contracts; on a sample basis obtained confirmations of accounts receivable balances from the counterparties; analyzed outcomes of litigations in respect of disputed amounts for the provided services, if any; and evaluated exiting procedures for confirming the volume of transmitted electricity. |
| **Impairment of accounts receivable** | |
| In our opinion, **the matter of impairment of accounts receivable** was one of the most significance in our audit due to significant balances of the Company’s accounts receivable as of December 31, 2019 as well as due to the fact that the management estimate of collectability of the receivables is based on the assumptions, in particular, forecasting financial solvency of the Company’s customers.  Information on impairment of accounts receivable is disclosed in Clause ХХ of Notes to the Accounting Statements and Statement of Financial Results. | We have analyzed the adequacy of the Company's policy on reviewing accounts receivable and determining whether accounts receivables impairment allowance should be established, as well as procedures of confirming the reasonableness of the estimates made by the management of the Company, including review of accounts receivable payments, review of maturity dates and overdue debts, review of customers’ financial solvency.  We have performed audit procedures in respect of information used by the Company for determining the impairment of accounts receivable, in respect of classification of accounts receivable by their maturity dates; tested accuracy of calculating the allowance on the basis of the management estimates. |
| |  |  | | --- | --- | | **Key audit matter** | **How the matter was addressed in our audit.** |   **Recognition, measurement and disclosure of provisions and contingent liabilities** | |
| Recognition, measurement and disclosure of provisions and contingent liabilities in respect of   |  | | --- | | litigations and claims of counterparties (including territorial electric grid companies and energy supply companies) were matters of the most significance in our audit because they require a lot of management judgments in respect of significant amounts of balance of payments between counterparties being in dispute in the course of litigations or in the process of pre-trial procedures.  Information on provisions and contingent liabilities are disclosed in Clause ХХ of Notes to the Accounting Statements and Statement of Financial Results. | | The audit procedures included review of court rulings made by courts of different levels, and review of adequacy of management judgments in respect of the assessment of possibility of outflow of economic resources following dispute resolutions, review of conformity of the prepared documentation with the existing contracts and compliance with the law. |

**Other information**

Audit of accounting (financial) statements of Public joint-stock company of power industry and electrification of Kuban for 2017 was conducted by other auditor that expressed unqualified audit opinion concerning the statements on February 22, 2018.

**Other information included in the annual report for 2019**

Other information includes information contained in the annual report for 2019, but does not include accounting (financial) statements and our audit report on it. The Management is responsible for other information. The annual report for 2019 is expected to be provided after the date of this audit report.

Our opinion on the accounting (financial) statements does not apply to other information, and we do not provide a conclusion that provides in any form confidence in this information.

Since we are conducting our audit of the accounting (financial) statements, our responsibility to study other above-mentioned information when it is provided to us, and, in doing so, consider whether the other information is materially inconsistent with the accounting (financial) statements our knowledge obtained in the course of audit or otherwise appears to be materially misstated.

**Responsibilities of Management and the Audit Committee of the Board of Directors for the Accounting (Financial) Statements**

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

In preparing the accounting (financial) statements, the Management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors is responsible for overseeing the preparation of the accounting (financial) statements of the Company.

**Auditor’s responsibility for the Audit of the Accounting (Financial) Statements**

Our objectives are to obtain reasonable assurance on whether the accounting (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 accounting (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 accounting (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 Company'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 Company’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 accounting 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 Company to cease to continue as a going concern;

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

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

From the matters communicated with the Audit Committee of the Board of Directors of the Company, we determine those matters that were of most significance in the audit of the accounting (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.

Manager in charge of the audit resulting in this independent auditor’s report is Kalmykova A.B.

Kalmykova A.B.

Partner

Ernst & Young LLC

Krasnodar

20 February 2020

**Details of the audited entity**

Name: Public Joint-Stock Company of Power Industry and Electrification of Kuban

Record made in the State Register of Legal Entities on 17 September 2002; Primary state registration number 1022301427268

Address: 2A Stavropolskaya Street, Krasnodar 350033, Russia

**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: 77/1 Sadovnicheskaya naberezhnaya, Moscow 115035, Russia

Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

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| --- | --- |
|  | PUBLIC JOINT STOCK  COMPANY OF POWER INDUSTRY  AND ELECTRIFICATION OF KUBAN  (PJSC KUBANENERGO) |

**NOTES TO THE ACCOUNTING STATEMENTS**

**FOR 2019**

Krasnodar

2020

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**BACKGROUND INFORMATION**

PJSC Kubanenergo is the largest electric grid company in the territory of Krasnodar Region and the Republic of Adygeya that transmits and distributes electricity to the distribution grid with a voltage of 110 kV and lower located in populated areas, village settlements, separate cities and neighborhood centre of Krasnodar Region and the Republic of Adygeya, including Sochi.

**Full name:** Public Joint Stock Company of Power Industry and Electrification of Kuban .

**Short name:** PJSC Kubanenergo.

Registered on February 10, 1993.

Entered in the Single State Register of Legal Entities by Inspection of the Federal Tax Service of Russia No. 3 in Krasnodar under No. 1022301427268 of September 17, 2002. Certificate 23 No. 001806938.

**TIN (KPP)**: 2309001660 (997650001).

**Legal form / form of property PJSC Kubanenergo** − Public Joint Stock Company (Code OKOPF 47) / private ownership (Code OKFS 16).

**Registered office (legal address) PJSC Kubanenergo** − 350033, the Russian Federation, Krasnodar, 2А Stavropolskaya Street.

**The core activities of the Company are:**

* providing services for distribution and transmission of energy that is transferred out of the electrical system;
* services for technological connection of consumers to electric networks.

Table 1 – Licences

| **Branch of activities** | **Issuing authority** | **Details** | **Validity period** |
| --- | --- | --- | --- |
| **1** | **2** | **3** | **4** |
| For extraction licence (fresh groundwater mining for household drinking process water supply in Krasnodar) | Ministry of Natural Resources of the Russian Federation | КРД No. 03378 ВЭ | From July 17, 2007 – to July 20,  2034 |
| Permission for construction works, overhaul and refurbishment works | Self-regulatory organization NPO Energostroy | 0212.04-2013-2309001660-С-060 | From December 16,  2013  − unlimited |
| Work permission for preparation of external electrical grid projects with voltage up to 35 kV inclusive and its buildings | Self-regulatory organization NPO Energoproekt | П-0263-03-2010-0274 | From February 3,  2014 − unlimited |
| For extraction licence (fresh groundwater mining for household drinking process water supply) | Ministry of Natural Resources of Krasnodar Region | КРД No. 80380 ВЭ | From October 26,  2015 – January 1,  2035 |
| For the operation of explosion and fire hazardous manufacturing facilities | Federal Service for Environmental, Technological, and Nuclear Supervision | ВП-30-003995  Series АВ No. 087343 | From November 11,  2011– unlimited |

Accounting Statements of PJSC Kubanenergo contain operational performance of all branch offices, representative offices and other business units, as follows:

Table 2 – **Branch offices of PJSC Kubanenergo**

|  |  |  |
| --- | --- | --- |
| **№** | **Name** | **Registered office** |
| 1. | Krasnodar Electrical Networks | 350000, Krasnodar, 131 Pashkovskaya Str. |
| 2. | Sochi Electrical Networks | 354000, Sochi, 42 Konstitutsii USSR Str. |
| 3. | Armavir Electrical Networks | 352900, Armavir, 54 Vorovskogo Str. |
| 4. | Adygeya Electrical Networks | 385000, Maykop, 358 Shovgenova Str. |
| 5. | Timashevsk Electrical Networks | 352700, Timashevsk, 176 Lenina Str. |
| 6. | Tikhoretsk Electrical Networks | 352122, Tikhoretsk, 62 Dzerzhinskogo Str. |
| 7. | Leningrad Electrical Networks | 353745, Leningradskaya village, 6 Divizii 302 Str. |
| 8. | Slavyansk Electrical Networks | 353560, Slavyansk-na-Kubani, 49 Stroitelei Str. |
| 9. | South-West Electrical Networks | 353902, Novorossiysk, 1 Vostochnyy Mol |
| 10. | Labinsk Electrical Networks | 352503, Labinsk, 334 Mira Str. |
| 11. | Ust-Labinsk Electrical Networks | 352232, Ust-Labinsk, 4 Krasnodarskaya Str. |

**The average annual number of employees** in PJSC Kubanenergo for the reporting period amounted to 8,644, in 2018 amounted to 8,611, prior to preceding 2017 amounted to 8,494.

**Company’s auditor:**

|  |  |
| --- | --- |
| Full name: | Limited Liability Company Ernst & Young |
| Legal address: | 115035, Moscow, 77 Sadovnicheskaya naberezhnaya, building 1 |
| Current address: | 115035, Moscow, 77 Sadovnicheskaya naberezhnaya, building 1 |
| TIN: | 7709383532 |
| PSRN: | 1027739707203 |
| Phone/fax: | 8 (495) 755-97-00/8; (495) 755-97-01 |

**Management Board of the Company** is the General Meeting of Shareholders, the Board of Directors of the Company, Management Board (Collegial Executive Body of the Company), General Director (Chief Executive Officer of the Company).

**Chief Executive Officer of the Company**: Sergeev Sergey Vladimirovich.

**Chief accountant of the Company**: Skiba Inna Viktorovna.

Table 3 – **Members of the Board of Directors of the Company (as of December 31, 2019):**

|  |  |  |  |
| --- | --- | --- | --- |
| **No.** | **Full name** | **Principal place of employment and official capacity** | **Position on the Board of Directors of  PJSC Kubanenergo** |
| 1. | Gavrilov  Aleksandr Ilich | Chairman of the Board of Directors of PJSC Kubanenergo | Chairman of the Board of Directors |
| 2. | Sergeeva Olga Andreevna | Member of the Board, Principal Counsellor of PJSC Rosseti | Member of the Board of Directors |
| 3. | Kiryukhin Sergey Vladimirovich | Acting Deputy General Director – Chief of PJSC Rosseti Staff | Member of the Board of Directors |
| 4. | Varvarin Aleksandr Viktorovich | Vice-president for Legal Regulation and Law Enforcement of the Russian Union of Industrialists and Entrepreneurs (RSPP) | Member of the Board of Directors |
| 5. | Larionov Dmitriy Vitalevich | Deputy Director of Department - Head of Department of Agricultural and Property Relations and Disposition of Property of Property Management Department of PJSC Rosseti | Member of the Board of Directors |
| 6. | Osipova Elena Nikolaevna | Head of Department of Financial Analysis and Liquidity Management of Department of Finance of PJSC Rosseti | Member of the Board of Directors |
| 7. | Medvedev Mikhail Vladimirovich | Adviser to the Director General of JSC Avangard | Member of the Board of Directors |
| 8. | Rozhkov  Vasiliy Vladimirovich | Director of the Department of Production Activity – Deputy Chief Engineer of PJSC Rosseti | Member of the Board of Directors |
| 9. | Khokholkova Kseniya Valerevna | Chief Expert of Securities Management and Information Disclosure of Corporate Management Department of PJSC Rosseti | Member of the Board of Directors |
| 10. | Shagina Irina Aleksandrovna | Director of the Department of Tariff Policy of PJSC Rosseti | Member of the Board of Directors |
| 11. | Yavorskiy Viktor Korneevich | Member of the Presidium of the Board of "OPORA RUSSIA" | Member of the Board of Directors |

Table 4– **Composition of Management of the Company (as of December 31,  2019):**

|  |  |  |  |
| --- | --- | --- | --- |
| **No.** | **Full name** | **Principal place of employment and official capacity** | **Status in the Management of  PJSC Kubanenergo** |
| 1. | Sergeev  Sergey Vladimirovich | General Director of PJSC Kubanenergo | Chairman of the Board |
| 2. | Shishigin  Igor Nikolaevich | Deputy General Director for Technical Issues – Chief Engineer of PJSC Kubanenergo | Deputy Chairman of the Board |
| 3. | Ocheredko  Olga Vyacheslavovna | Deputy General Director for Economics and Finance of PJSC Kubanenergo | Member of the Board |
| 4. | Armaganyan  Edgar Garrievich | First Deputy General Director of PJSC Kubanenergo− Branch Manager of PJSC Kubanenergo Sochi Electrical Networks | Member of the Board |
| 5. | Khazikova  Zanda Ivanovna | Deputy General Director for Corporate Management of PJSC Kubanenergo | Member of the Board |
| 6. | Nishchuk  Oleg Fedorovich | Deputy General Director of Implementation Services of PJSC Kubanenergo | Member of the Board |
| 7. | Belenko Roman Alekseevich | Deputy General Director of PJSC Kubanenergo | Member of the Board |
| 8. | Shchepakin  Maksim Mikhailovich | Deputy General Director – Chief of PJSC Kubanenergo Staff. | Member of the Board |
| 9. | Skladchikov  Vladimir Andreevich | Deputy General Director of Development and Utility Connection of PJSC Kubanenergo | Member of the Board |

**The Auditing Committee of the Company** is the supervisory authority for financial and operational activities of the Company.

Table 5 – **Composition of the Company's Auditing Committee (as of December 31,  2019)**:

| **No.** | **Full name** | **Principal place of employment and official capacity** | **Status in the Auditing Committee** |
| --- | --- | --- | --- |
| 1. | Lelekova Marina  Alekseevna | Director of the Internal Control and Risk Management Department of PJSC Rosseti | Chairman of the Auditing Committee |
| 2. | Kim Svetlana Anatolevna | Head of Supervisory Activities Department of the Internal Control and Risk Management Department of PJSC Rosseti | Member of the Auditing Committee |
| 3. | Erandina Elena Stanislavovna | Chief Expert of Monitoring-Expert Management of the Department of Audit Activities of PJSC Rosseti | Member of the Auditing Committee |
| 4. | Kabizskina  Elena Aleksandrovna | Chief Expert of the Internal Control and Risk Management Department of PJSC Rosseti | Member of the Auditing Committee |
| 5. | Malyshev Sergey Vladimirovich | Lead Expert of the of Supervisory Activities Department of the Internal Control and Risk Management Department of PJSC Rosseti | Member of the Auditing Committee |

Table 6 – **The Main Subsidiaries and Affiliates**

|  |  |  |  |
| --- | --- | --- | --- |
| **Name of the subsidiary** | **Participatory interest (%)** | **Registered office** | **Line of business** |
| **1** | **2** | **3** | **4** |
| Joint-Stock Company  Energetik Holiday Facility | 100 | 353490,  Krasnodar Region,  Gelendzhik,  Divnomorskoye village, 4 Pionerskaya Str. | Provision of medical, sanatorium and health-resort, health and fitness services, accommodation services (temporary accommodation services), food and nutrition services and services to the population |
| Joint-Stock Company  Kuban Energoservis | 100 | 350080,  Krasnodar Region, Krasnodar, 47 Novorossiyskaya Str. | Implementation of programs on energy conservation and increasing the energy efficiency of final consumers in the regions by means of implementation of the multilevel system of energy services. |

**FUNDAMENTAL PRINCIPLES OF ACCOUNTING POLICIES**

PJSC Kubanenergo keeps accounting records in accordance with the requirements for Russian Accounting Standards and Federal Law of December 6, 2011 No. 402-FZ “On Accounting” and also in accordance with Corporate Standard of PJSC Rosseti *“Uniform Corporate Accounting Principles for accounting purposes”.*

Data from Accounting Statements are presented in thousands Russian Rubles (if not otherwise mentioned).

**Assets and liabilities in foreign currencies**

The Company does not have assets and liabilities denominated in foreign currency at the beginning and the end of the reporting period.

**Expenses for research, development and technological works (R&D)**

Accounting of expenses for research, development and technological works is incurred in accordance with Accounting Regulation 17/02, approved by Order of the Ministry of Finance of the Russian Federation No. 115н of November 19, 2002 and subsequent changes. Writing off the expenses for each facility of R&D is made using the straight-line method.

**Intangible assets**

Accounting for intangible assets is kept by the Company in accordance with the Accounting Regulation 14/2007 *“Intangible asset accounting”,* approved by Order of the Ministry of Finance of the Russian Federation No. 153н of December 27, 2007.

Straight-line method is used for the amortization of the cost of the intangible assets with definite useful lives.

**Fixed assets and construction in progress**

Accounting for fixed assets is kept by the Company in accordance with the Accounting Regulation 6/01*“Accounting for fixed assets”*, approved by Order of the Ministry of Finance of the Russian Federation No. 26н of March 30, 2001 and Accounting Guidelines on fixed assets, approved by Order of the Ministry of Finance of the Russian Federation No. 91н of October 13, 2003.

Accounting for construction in progress is kept by the Company in accordance with the Regulation of Accounting and Reporting in the Russian Federation, approved by Order of the Ministry of Finance of the Russian Federation No. 34н of July 29, 1998 and in accordance with the Accounting Regulation of long-term investments (letter of the Russian Ministry of Finance No. 160 of December 30, 1993), if not at variance with subsequent regulatory legal acts on accounting.

Items of fixed assets are accepted for recording at original cost, determined according to the method of receipt-purchase for a fee, implementation by own efforts, construction, receiving without compensation and so on.

Assets are recognized as a part of inventories and written-off as manufacturing expenses in accounting and accounting statements as far as they release to production or into operation and to relation of which the terms for attribution of assets to the fixed assets (with the value less than 40,000 rubles inclusive) are fulfilled. The following items are included in the fixed assets regardless of their value:

* transmission lines;
* lands;
* buildings;
* constructions;
* vehicles

Costs on borrowings and loans related to investment asset formation (items of fixed assets, asset groups and other similar assets demanding much time and purchasing costs and (or) construction) are included in the cost of the depreciable asset.

Amortization of the items of fixed assets is calculated using the straight-line method on the basis of their useful lives.

Useful life is regulated by the Committee of the Company on receipt of fixed assets in accordance with the final report of the technical employees taking into consideration the information specified in technical documentation of the construction site.

The following useful lives are determined for accounting purposes in accordance with the technical rules and regulations and instructions for the operation of equipment of manufacturing plants and newly introduced items of fixed assets related to the groups such as “Transmission lines and transmission facilities” and “Vehicles and machinery”.

| **Item of fixed assets** | **Useful life, years** |
| --- | --- |
| ***Material-working machinery and equipment*** | |
| Power transformer | 30 |
| Shunt reactor | 30 |
| Сurrent limiting reactor | 30 |
| Cell of gas-insulated switchgear | 30 |
| Cell of the complete distribution device | 25 |
| Current transformer (CT) | 30 |
| Voltage transformer (VT) | 30 |
| Switch | 30 |
| Disconnector, isolating switch and short-circuiting device | 30 |
| ***Constructions and transfer mechanisms (transmission lines)*** | |
| Overhead transmission lines (OTL) | 35 |
| Cable transmission lines | 30 |
| Overhead and cable transmission lines | 30 |

Fully amortizing (depreciated) fixed assets are not measured at amortized cost.

The result due to retirement, write-off and donation of fixed asset is reflected in the Statement of financial results and as a part of other revenues and expenses.

Fixed asset value has not changed, except for further construction, modernization and reconstruction of fixed assets. Expenses for reconstruction of fixed assets are reflected on the balance sheet of the reporting period to which the expenses relate.

Accounting for the property acquired under leasing is carried out in accordance with the Federal Law No. 164-FZ of October 29, 1998 “On financial lease (leasing)”.

**Inventories**

Inventory accounting is kept by the Company in accordance with the Accounting Regulation 5/01 *“Inventory accounting”*, approved by Order of the Ministry of Finance of the Russian Federation No. 44н of June 9, 2001 and Accounting guidelines on inventory accounting, approved by Order of the Ministry of Finance of the Russian Federation No. 119н of December 28, 2001.

When inventories are included in the accounting, inventory valuation is made by the following ways:

* when purchase for a charge – in the amount of actual expenses for purchasing except for VAT and other recoverable taxes from the budget (Clause 6, Accounting Regulation 5/01);
* during production by own efforts – on the basis of actual expenses related to the production of the current expenses. Accounting and formation of expenses for production of inventories are carried out in accordance with the procedure established for the determination of prime cost of the appropriate types of production (Clause 7, Accounting Regulation 5/01);
* entered against contribution to the charter capital – on the basis of monetary value agreed upon with shareholders (participants), unless otherwise required by the legislation of the Russian Federation in accordance with the actual expenses for delivery of inventories and bring them up to an acceptable standard for use (Clause 8, 11, Accounting Regulation 5/01);
* donation or received under the donation agreement and also remaining after disposal of fixed assets and other property, recognition of inventories that were recognized as the surplus on the results of the inventory count – on the basis of current market value for delivery of inventories and bring them up to an acceptable standard for use (Clause 9, 11, Accounting Regulation 5/01);
* received under the agreements providing for fulfilment of obligations (payment) by non-monetary assets – according to the value of assets transferred or subject to transfer to the Company, established on the basis of the price for which the Company usually identifies the value for the similar assets under comparable circumstances. When it is not possible to establish the value of assets that are transferred or subject to transfer to the Company, the inventory cost according to the agreements providing for fulfilment of obligations (payment) by non-monetary assets is identified on the basis of the price for which the Company usually purchases the similar inventories under comparable circumstances. The actual expenses for delivery of inventories and bring them up to an acceptable standard for use are included in the actual cost of these inventories (Clause 6, 10, 11, Accounting Regulation 5/01);
* cost of inventories received under the barter contracts where the contractual value of barterable property is established, official contractual value is recognized.

Inventories are measured at average cost of every type of inventory when the inventories release to production or their disposal in accordance with Clause 16 and Accounting Regulation 5/01 “Inventory accounting”.

Special clothes before putting into operation are recognized according to the account 10 "Materials" on the separate sub-account “Dedicated tooling and special clothes at stock”. The cost of special clothes that have useful lives more than 12 months is repaid using the straight-line method on the basis of their useful lives according to the industry standards requiring free issue of work clothes, special shoes and other personal protective equipment and in accordance with the Rules of Provision of Employees with special clothes, special shoes and other personal protective equipment, approved by Decree of the Ministry of Health and Social Development of July 1, 2009 No. 290н. Special clothes that have useful lives more than 12 months are reflected on the balance sheet as a part of other non-current assets.

The Company creates the reserve for depreciation of inventories for the account of financial results.

**Deferred expenses**

The principled approach established in the Company is to recognize incurred expense in the balance sheet and accounting as a part of deferred expense and its equating to the asset. This approach is based on the fact that the future economic benefits (temporary benefits) related to the asset and appraisal of the asset value is probable.

The Company has established that the balance of deferred expenses is recorded in the lines “Other non-current assets” and “Other current assets”.

For this purpose the distribution between section [I](consultantplus://offline/ref=F5A6540AE332EE6105F7A1F0C006A5B27AC953EA102D03F001128670428EC11AB951191D640680C7O3OEG) and section [II](consultantplus://offline/ref=F5A6540AE332EE6105F7A1F0C006A5B27AC953EA102D03F001128670428EC11AB951191D640680C0O3O1G) of the balance sheet occurs on the basis of repayment period of the relevant expenses, i.e. the expenses where the repayment period is more than 12 months are to be recorded in the section I of the balance sheet and the other expenses are to be recorded in the section II.

**Financial investment**

Accounting for financial investments is kept by the Company in accordance with the Accounting Regulation 19/02 *“Accounting for financial investments”,* approved by Order of the Ministry of Finance of the Russian Federation No. 126н of December 10, 2002.

Contributions to charter capitals of other organizations are recognized by the financial investments of the organization and recorded in accounting in the amount of actual expenses of the investor, i.e. according to the cost of assets entered against contribution in which the assets were recorded on the balance sheet.

Financial investments in which the current market value is not determined are subject to reflection in accounting and accounting statements at original cost as of reporting date (Clause 21, Accounting Regulation 19/02).

Financial investments in which the current market value is determined are subject to reflection in the accounting statements at the current market value at the end of the reporting period by means of adjustment of evaluation of investments for the previous reporting date (Clause 20, Accounting Regulation 19/02).

Debt securities are reflected at historical cost. Difference between nominal value of acquisition and nominal value of the securities is to be included in other revenues and expenses.

**Borrowings and loans.**

Accounting for borrowings and loans is kept by the Company in accordance with the Accounting Regulation 15/2008 *“Accounting for borrowings and loans”,* approved by Order of the Ministry of Finance of the Russian Federation No. 107н of October 6, 2008.

**Estimated liabilities**

Accounting for estimated liabilities is kept by the Company in accordance with the Accounting Regulation 8/2010 *“Estimated liabilities, contingent liabilities and contingent assets”,* approved by Order of the Ministry of Finance of the Russian Federation No. 167н of December 13, 2010.

**Deferred taxes**

Accounting for deferred taxes is kept by the Company in accordance with the Accounting Regulation 18/02 *“Accounting for corporate income tax”,* approved by Order of the Ministry of Finance of the Russian Federation No. 114н of November 19, 2002.

The amounts of deferred tax asset and liability are to be reflected in expanded form on the balance sheet during the preparation of the accounting statements.

**Revenue and other income**

Accounting for revenue and other income is kept by the Company in accordance with the Accounting Regulation 9/99 *“Organization's income”,* approved by Order of the Ministry of Finance of the Russian Federation No. 32н of May 6, 1999.

Revenue is recognized in accounting of the Company, provided that the following conditions are met:

1. The organization has the right to receive revenue under the specific contract or it should be confirmed by other appropriate means;
2. The amount of revenue is to be defined;
3. There is confidence that there will be increase in economic benefits of the organization as a result of the concrete operation. There is confidence that there will be increase in economic benefits of the organization as a result of the concrete operation when the organization receives an asset in payment or there is no uncertainty about receipt of an asset;
4. If the ownership (possession, use and control) of production (goods) was transferred from the organization to the buyer or the work was accepted by the client (the service was provided);
5. Expenses that were incurred or will be incurred due to this operation may be identified.

Receipts related to the equity interest in other organizations; receipts from sale of fixed assets and other assets; fines, penalties and forfeitures for the breach of contract terms and conditions; receiving of assets without compensation; profit for past years; amounts of accounts payable for which the statute of limitations has expired; exchange differences and other income are the other income of the Company in accordance with the Clause 7, Accounting Regulation 9/99.

Other revenues are recorded in the statement of financial results less the expenses related to these revenues, in case that:

* Corresponding rules of accounting require and do not prohibit such recognition of revenues;
* Revenues and expenses related to them, as a result of one and the same or similar business activity (such as assignment for temporary use (temporary possession and use) of own assets) are not essential for financial characteristics of the Company.

**Cost of goods sold, production, works, services, selling costs, administrative expenses and other expenses.**

Accounting for expenses is kept by the Company in accordance with the Accounting Regulation 10/99 *“Organization's expenses”,* approved by Order of the Ministry of Finance of the Russian Federation No. 33н of May 6, 1999. General business expenses are fully recognized in the cost of goods sold and services in the reporting period and distribution by types of activities is carried out in proportion to the revenue.

Administrative expenses are recorded in the account 26 “General business expenses” showing individual cost centers and nomenclature. Administrative expenses are recorded in the statement of financial results in the line “Administrative expenses”.

**Government assistance**

Accounting for funds received under government assistance is kept by the Company in accordance with the Accounting Regulation 13/2000 *“Accounting for government assistance”*, approved by Order of the Ministry of Finance of the Russian Federation No. 92н of December 16, 2000.

**Associates and affiliates**

Information on associates and affiliates is disclosed by the Company in accordance with the Accounting Regulation 11/2008 *“Information on associates and affiliates”*, approved by Order of the Ministry of Finance of the Russian Federation No. 48н of April 29, 2008.

**Information on segments**

Information on segments is disclosed by the Company in accordance with the Accounting Regulation 12/2010 *“Information on segments”,* approved by Order of the Ministry of Finance of the Russian Federation No. 143н of November 8, 2010.

**Cash flow information**

Cash flow information is disclosed by the Company in accordance with the Accounting Regulation 23/2011 *“Statement of cash flows”,* approved by Order of the Ministry of Finance of the Russian Federation No. 11н of February 2, 2011.

**CHANGES IN ACCOUNTING POICIES IN 2019**

In 2019 PJSC Kubanenergo changed the Accounting policies as to accounting model of fixed assets in accordance with the Federal Accounting Standards.

As of 2019 the Company evaluates the fixed assets after recognition at original cost (historical cost) to improve the quality of information and in accordance with Statutory Accounting Principles (Clause 6, Accounting Regulation 1/2008). Revaluation is not applicable.

Taking into account that it is impossible to identify with sufficient reliability the monetary valuation of effects of changes in accounting policies related to the periods prior to reporting period, changes in accounting will be applied in the future (Clause 15, Accounting Regulation 1/2008). It is understood that the current (recovered) value of fixed assets (that was established up to the date of changes in accounting policies) is taken as deemed cost and the balance of additional capital, formed as of January 1, 2019 from previously fixed asset revaluation is to be transferred to the accumulated profit.

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance sheet line code** | **Before adjustment** | **Adjustment** | **After adjustment** |
| 1340 “Revaluation of non-current assets” | 10 736 476 | (10 736 476) | − |
| 1370 “Accumulated profit (accumulated loss)” | (12 654 441) | 10 736 476 | (1 917 965) |
| 1371 “Accumulated profit (accumulated loss) for past years” | (12 654 441) | 10 736 476 | (1 917 965) |

**CHANGES IN ACCOUNTING POICIES IN 2019**

There were no significant changes in Accounting Policies in 2020.

The new version of Accounting Regulation 18/02 “*Accounting for corporate income tax*” shall come into force from the January 1, 2020.

The Company expects that changes in Accounting Policies due to the new version of the above mentioned Accounting Regulation will have a significant impact on the financial position of the Company and its financial results as of January 1, 2020 and in particular lead to:

* Reduction of the balance sheet line 1730 “Accumulated profit” approximately for the amount of 642,745 thousand rubles;
* Increase of the balance sheet line 1180 “Deferred tax assets” approximately for the amount of 167,015 thousand rubles.
* Increase of the balance sheet line 1420 “Deferred tax liabilities” approximately for the amount of 809,760 thousand rubles.

The Company is in the phase of final evaluation of the amounts that have an impact on indications of Accounting (Financial) Statements as of January 1, 2020.

These changes in the Accounting Regulation will be recorded on the Accounting (Financial) Statements for the first quarter (Q1) of 2020 and will lead to the changes in comparative indicators for the periods prior to reporting period.

**ADJUSTMENTS AND OTHER CHANGES IN ACCOUNTING RELATED TO THE PRIOR PERIODS**

There are no adjustments and other changes in accounting related to the prior periods.

**INFORMATION DISCLOSURE ON SPECIFIC INDICATIONS OF ACCOUNTING STATEMENTS FOR 2019**

**Fixed assets**

Real estate assets accepted for operation and in use undergoing the state registration are recorded in the account 01.06 “Real estate assets the ownership of which is not registered”. As of December 31, 2019 the original value of the real estate assets accepted for operation and in use undergoing the state registration amounted to 5,945,667 thousand rubles.

Fixed assets under the agreements providing for fulfilment of obligations by non-monetary assets were missing for the period from January 1 to December 31, 2019.

Information on fixed asset groups, change in value and usage are specified in Appendices 5.3.1; 5.3.3; 5.3.4.

**Capital investments in-progress**

Amount of advances and advance payment of services related to the construction and purchase of fixed assets without VAT; raw materials intended to be used for the purpose of creation of fixed assets are recorded on the balance sheet of the Company as capital investments in-progress. As of December 31, 2019 the amount of advances and advance payment of services related to the construction and purchase of fixed assets amounted to 30,056 thousand rubles, VAT from advances and advance payment of services related to the construction and purchase of fixed assets is recorded in the line 1260 “Other current assets” in the amount of 5,984 thousand rubles. As of December 31, 2019 the amount of raw materials intended to be used for the purpose of creation of fixed assets amounted to 574,560 thousand rubles.

Information on the presence and flow of construction in progress assets is disclosed in Appendix 5.3.5.

**Fixed assets received for lease**

There are no fixed assets received for lease in the current reporting period. In the coming period lease payments are not planned.

**Other non-current assets and current assets**

As of December 31, 2019, deferred expenses amounted to 265,609 thousand rubles depending of the date of write-off, fixed as of the date of acceptance for recording. These expenses are recorded on the balance sheet:

1. Non-exclusive rights for computer software:

* Useful life more than 12 months (line 1190) amounted to 184,569 thousand rubles;
* Useful life during 12 months (line 1260) amounted to 79,906 thousand rubles.

1. Other:

* Useful life more than 12 months (line 1190) amounted to 931thousand rubles;
* Useful life during 12 months (line 1260) amounted to 203 thousand rubles.

Cost of special clothes with useful lives more than 12 months in the amount of 106,176 thousand rubles is recorded in the line 1190 as a part of non-current assets.

The amount of VAT from advances received amounted to 517,157 thousand rubles is recorded in the line 1260 as a part other current assets.

**Financial investments**

Commission for inspection of depreciation of financial investments of PJSC Kubanenergo had been performed the analysis of financial investments for the presence of impairment indicators as of December 31, 2019. As a result of reserve for decrease in financial investments was restored in the amount of 1,594 thousand rubles and accrued in the amount of 100 thousand rubles. Information on the presence and flow of financial investments is disclosed in Appendices 5.4.1and 5.4.2.

**Government assistance**

The decision was made by the Territorial authorities of Social Insurance Fund of the Russian Federation (SIF RF) concerning the funding for preventive measures to reduce occupational injuries.

Information is disclosed in Appendix 5.9

**Equity and reserves**

At the beginning of 2019 the charter capital of the Company amounted to 30,379,335,000 rubles (thirty billion three hundred and seventy nine million three hundred and thirty five thousand rubles) and consist of 303,793,350 ordinary shares at par value of 100 (one hundred) rubles per share.

PJSC Kubanenergo carried out the issuance of additional shares by means of public subscription in the reporting period. On July 18, 2019 the Bank of Russia carried out the official registration of secondary equity offering in the quantity of 37,477,392 units, 30,864,487 units of which were floated.

On November 28, 2019 the relevant extract of the Bank of Russia of November 19, 2019 No. 28-1-2/6479 from the register of securities was received by the Company. This extract contained information on outstanding stock issue. According to the present extract, 334,657,837 units of the ordinary shares of PJSC Kubanenergo at par value of 100 (one hundred) rubles per share are in circulation at the moment. The total make at par value amounted to 33,465,783,700 rubles (thirty three billion four hundred and sixty-five million seven hundred and eighty-three thousand seven hundred rubles).

As at December 31, 2019 the official registration of amendments to the Charter of PJSC Kubanenergo related to the above-mentioned increase of share capital was not carried out.

Preferred shares did not issued by the Company.

Additional capital of the Company is formed as a result of paid-in capital in excess of par.

The company creates the capital reserve intended for loss coverage. These losses are not specifically defined but may occur in economic turnover. The capital reserve is created out of net profits of the Company.

**Accounts receivable**

Information on the presence and flow of accounts receivable for the reporting period is disclosed in the Table 5.1. Notes to the balance sheet and statement of financial results are represented in a tabular format. Accounts receivable that is arisen and paid off in the one reporting period is not included in the turnover.

Table 7 – **Settlements with the budget**

(thousands of RUB)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Indication** | **Debt as of**  **December 31,  2018** | | **Accrued for**  **2019** | **Paid for**  **2019** | **Debt as of**  **December 31, 2019** | |
| **Debit** | **Credit** | **Debit** | **Credit** |
| VAT | − | 327 621 | 2 593 982 | 2 511 399 | − | 410 204 |
| Property tax | 14 550 | 214 514 | 626 589 | 653 462 | 721 | 173 812 |
| Income tax | 258 102 | − | 421 738 | 388 306 | 224 670 | − |
| Land charge | 1 067 | 1 040 | 4 826 | 4 554 | 857 | 1 102 |
| Personal income tax | 1 | 60 140 | 665 944 | 670 409 | 3 | 55 677 |
| Transport tax | − | 1 971 | 8 083 | 7 951 | − | 2 103 |
| **Total taxes** | **273 720** | **605 286** | **4 321 162** | **4 236 081** | **226 251** | **642 898** |
| Tax Penalties | 2 | − | − | − | 2 | − |
| Fines | 722 | 1 244 | 8 126 | 17 024 | 8 376 | − |
| **Total** | **274 444** | **606 530** | **4 329 288** | **4 253 105** | **234 629** | **642 898** |

The amount of accounts receivable for taxes and dues is decreased for 39,815 thousand rubles in 2019.

There was a considerable decrease in accounts receivable related to the income tax in the amount of 33,432 thousand rubles. Accounts receivable for income tax in the amount of 224,670 thousand rubles arose due to the fact that advance payments (paid in 2019) had exceeded the amount of income tax, calculated for year results.

Table 8 – **Settlements for insurance contributions to compulsory health insurance**

(thousands of RUB)

| **Indication** | **Debt for**  **December 31,  2018** | | **Accrued**  **for 2019** | **Paid**  **for 2019** | **Debt as of**  **December 31, 2019** | |
| --- | --- | --- | --- | --- | --- | --- |
| **Debit** | **Credit** | **Debit** | **Credit** |
| **Insurance contributions − total** | **4 192** | **120 706** | **1 503 032** | **1 467 931** | **5 471** | **157 086** |
| **including:** |  |  |  |  |  |  |
| Pension contribution | 22 | 91 131 | 1 087 513 | 1 060 355 | 2 | 118 269 |
| Compulsory health insurance | − | 25 472 | 262 174 | 252 885 | 1 | 34 762 |
| Social insurance | 4 170 | 4 103 | 153 345 | 154 691 | 5 468 | 4 055 |
| **Penalties − total** | **−** | **−** | **−** | **−** | **−** | **−** |
| **Fines − total** | **2** | **4** | **30** | **36** | **4** | **−** |
| **Total** | **4 194** | **120 710** | **1 503 062** | **1 467 967** | **5 475** | **157 086** |

There are no considerable changes in the dynamics of account receivable and accounts payable related to the insurance contributions to compulsory health insurance in 2019.

Table 9 –**Allocation of taxes, penalties and fines according to the levels of budget.**

(thousands of RUB)

| **Indication** | **Debt for**  **December 31,  2018** | | **Accrued for 2019** | **Paid for 2019** | **Debt for**  **December 31, 2019** | |
| --- | --- | --- | --- | --- | --- | --- |
| **Debit** | **Credit** | **Debit** | **Credit** |
| **Taxes – total** | **273 720** | **605 286** | **4 321 162** | **4 236 081** | **226 251** | **642 898** |
| Federal budget | 38 692 | 387 761 | 3 335 387 | 3 236 923 | 18 352 | 465 885 |
| Regional tax, national tax | 233 961 | 216 485 | 980 951 | 994 603 | 207 040 | 175 912 |
| Local tax | 1 067 | 1 040 | 4 824 | 4 555 | 859 | 1 101 |
| **Penalties – total** | **2** | **−** | **−** | **−** | **2** | **−** |
| Federal budget | 1 | − | − | − | 1 | − |
| Regional tax, national tax | − | − | − | − |  | − |
| Local tax | 1 | − | − | − | 1 | − |
| **Fines – total** | **722** | **1 244** | **8 126** | **17 024** | **8 376** | **−** |
| Federal budget | 578 | 1 206 | 257 | 8 991 | 8 106 | − |
| Regional tax, national tax | 88 | 38 | 7 824 | 8 032 | 258 | − |
| Local tax | 56 | − | 45 | 1 | 12 | − |
| **Total** | **274 444** | **606 530** | **4 329 288** | **4 253 105** | **234 629** | **642 898** |

Accounts receivable of buyers and clients, other accounts receivable are disclosed in Appendices 5.6.1-5.6.3.

**Accounts payable, loans and borrowings**

Information on the presence and flow of accounts payable for the reporting period is disclosed in the Table 5.3. Notes to the balance sheet and statement of financial results are represented in a tabular format. Accounts payable that is arisen and paid off in the one reporting period is not included in the turnover.

The amount of accounts payable for tax payments to the federal budget is increased in 2019. The amount of accounts payable related to the tax payments is increased for 36,368 thousand rubles.

There was a considerable increase in accounts payable related to the value added tax. Accounts payable related to the value added tax increased for 82,583 thousand rubles due to the fact that VAT charges for the fourth quarter (Q4) 2019 in the amount of 465,495 thousand rubles had exceeded the VAT charges in the amount of 324,744 thousand rubles for the fourth quarter (Q4) 2018.

The amount of accounts payable related to the property tax is decreased due to the fact that charges forming ending cash balance had decreased.

The difference between the charges in 2019 versus 2018 amounted to 327,222 thousand rubles due to the fact that changes in the tax legislation have taken place from January 1, 2019. There was an exception of movables out of the objects of taxation with simultaneous increase of tax rate up to 2,2%, used in 2019 in relation to the transmission lines and buildings being an integral part of them in accordance with Clause 1 Section 374 of Tax Code of the Russian Federation. In accordance with Clause 3 Section 380 of Tax Code of the Russian Federation, there was the 1,9% tax rate in 2018 in relation to the such movables.

Table 10 – **Amounts and repayment periods of borrowings and loans of PJSC Kubanenergo as of December 31, 2019**

(thousands of RUB)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name of the bank** | **No. of loan agreement** | **The amount of the actual debt** | **Interest debt** | **Repayment period** |
| PAO Sberbank | № 5400/380 | 0 | 5 052 | less than 1 month |
| PAO Sberbank | № 5400/449 | 0 | 2 548 | less than 1 month |
| PAO Sberbank | № 5400/634 | 0 | 2 548 | less than 1 month |
| PAO Sberbank | № 5400/635 | 0 | 2 008 | less than 1 month |
| VTB Bank (PJSC) | КС-ЦВ-730750/2018/00069 | 0 | 1 249 | less than 1 month |
| VTB Bank (PJSC) | КС-ЦВ-730750/2018/00070 | 0 | 1 249 | less than 1 month |
| VTB Bank (PJSC) | КС-ЦВ-730750/2018/00071 | 0 | 2 499 | less than 1 month |
| VTB Bank (PJSC) | КС-ЦВ-730750/2018/00072 | 0 | 2 499 | less than 1 month |
| Bond-secured loan | 4В02-01-00063-А-001Р | 3 600 000 | 32 940 | less than 1 month |
| **Total line 1510** | **−** | **3 600 000** | **52 592** |  |
| PAO Sberbank | № 5400/380 | 2 746 698 | 0 | 2-3 years |
| PAO Sberbank | № 5400/449 | 2 000 000 | 0 | 3 years |
| PAO Sberbank | № 5400/634 | 2 000 000 | 0 | 2 years |
| PAO Sberbank | № 5400/635 | 1 576 301 | 0 | 2 years |
| Bank GPB (JSC) | № 0719-030-0000-К | 999 734 | 0 | 3 years |
| Bank GPB (JSC) | № 0719-031-0000-К | 1 000 000 | 0 | 3 years |
| VTB Bank (PJSC) | КС-ЦВ-730750/2018/00069 | 1 000 000 | 0 | 1,5 year |
| VTB Bank (PJSC) | КС-ЦВ-730750/2018/00070 | 1 000 000 | 0 | 1,5 year |
| VTB Bank (PJSC) | КС-ЦВ-730750/2018/00071 | 2 000 000 | 0 | 1,5 year |
| VTB Bank (PJSC) | КС-ЦВ-730750/2018/00072 | 2 000 000 | 0 | 1,5 year |
| Bank "RRDB"( JSC) | 355ю | 1 253 174 | 0 | 2-3 years |
| Bank "RRDB"( JSC) | 356ю | 596 004 | 0 | 3 years |
| Bank "RRDB"( JSC) | 357ю | 1 261 000 | 0 | 3 years |
| **Total line 1410** | − | **19 432 911** | **0** |  |

Interest rates for loan portfolio have been formed in the range of 7,60% to 7,75% per annum, rate of coupon yield on bond loan is 10,44% as of December 31, 2019.

Information is disclosed in Appendices 5.6.5-5.6.8.

**Securing obligations**

As of December 31, 2019, the amount of bank guarantees received to insure the fulfilment of obligations under the contractor agreements/supply and repayment (return of advances) amounted to 303,269 thousand rubles on the off-balance sheet item 008 “Fulfilment of obligations and payments received” (Appendix 5.8.). Pledged property under the agreement for purchase and sale of apartments amounted to 107,000 thousand rubles (Appendix 5.8.).

**Information on opportunities of the Company to raise additional cash as of reporting date**

Table 11 – Unused credit facilities by the Company

(thousands of RUB)

|  |  |  |  |
| --- | --- | --- | --- |
| **Creditor bank** | **Name and date of the contract** | **Amount of unutilized limit** | **Termination date of drawdown** |
| PAO Sberbank | № 5400/343 of May 3, 2017 | 2 000 000 | April 30,  2020 |
| PAO Sberbank | № 5400/344 of May 3, 2017 | 2 000 000 | April 30,  2020 |
| PAO Sberbank | № 5400/345 of May 3, 2017 | 1 500 000 | April 30,  2020 |
| PAO Sberbank | № 5400/375 of December 28, 2017 | 500 000 | December 25, 2020 |
| Bank GPB (JSC) | № 0717-035 of December 29, 2017 | 500 000 | December 28,  2020 |
| PAO Sberbank | № 5400/406 of December 29, 2017 | 2 000 000 | December 28,  2020 |
| PAO Sberbank | № 5400/407 of December 29,  2017 | 2 000 000 | December 28,  2020 |
| VTB Bank (PJSC) | № КС-30750/0001/В-19 of March 29, 2019 | 1 000 000 | March 27,  2021 |
| VTB Bank (PJSC) | № КС-30750/0002/В-19 of March 29, 2019 | 1 300 000 | March 27, 2021 |
| VTB Bank (PJSC) | № КС-30750/0003/В-19 of March 29, 2019 | 1 400 000 | March 27, 2021 |
| VTB Bank (PJSC) | № КС-30750/0004/В-19 of April, 22  2019 | 1 300 000 | April 21,  2021 |
| PAO Sberbank | № 5400/380 of September 25,  2017 | 253 302 | September 23, 2022 |
| Bank "RRDB"(JSC) | № 355ю of November 6, 2018 | 7 826 | May 5,  2023 |
| Bank "RRDB"(JSC) | № 356ю of November 6, 2018 | 664 996 | May 5, 2023 |
| Bank GPB (JSC) | № 0719-030-0000-К of September 18, 2019 | 266 | September 18, 2024 |
| Bank GPB (JSC) | № 0719-120-0000-К of November 20, 2019 | 3 000 000 | November 15, 2024 |
| PAO Sberbank | № 5400/635 of November 18, 2019 | 423 699 | November 16, 2024 |
| Bank "RRDB"(JSC) | № 369ю of December 11, 2019 | 1 000 000 | December 11, 2024 |

Available credit limits are opened up by the Company which makes it possible to refund borrowings subject to prompt repayment in 2020. As of December 31, 2019 the total amount of credit limit with termination of drawdown period in 2021-2024 amounted to 10,350,089 thousand rubles, including in the amount of 677,001 thousand rubles – in PAO Sberbank, in the amount of 1,672,822 thousand rubles - in Bank “RRDB” (JSC), in the amount of 5,000,000 thousand rubles – in VTB Bank (PJSC) and in the amount of 3,000,266 thousand rubles in – Bank GBP (JSC). Besides, overdraft limits are opened up by the Company and they are provided by PAO Sberbank and Bank GPB JSC in the total amount of 1,000,000 thousand rubles.

**Information on risks of business activity**

Internal Control Policy and Risk Management Policy are approved by the Board of Directors of the Company (Minutes No. 233/2016 of March 18, 2016), the main objective of which is to recognize and ensure the fulfilment of prevention measures intended to minimize the risks (control procedures) according to the deadlines, with the purpose of reducing the probability of financial and other losses that have an impact on achieving goals of the Company. There are specific core principles in regards to risk management:

1. Creation and protection of values of the Company (risk management contributes to achievement of the goals, performance improvement, maintaining health and human safety, maintaining security for all types of Company’s operations, observation of statutory and regulatory requirements, environment control, improvement of quality of services, operational efficiency, management and company image);
2. Risk management is an integral part of all organizational processes (risk management is not a separate activity that is separated from the core activity and operations of the company; risk management is a part of management commitment including the strategic planning, processes of project management and adjustments);
3. Risk management is a part of decision making procedure;
4. Risk management is a systematic, structured and well timed process;
5. Risk management is based on the best available information;
6. Risk management should be transparent , all-inclusive and respect the interests of concerned parties;
7. Risk management should be dynamic, repeated and adaptable to changes;
8. Risk management contributes to the permanent improvement of the company;
9. Responsibility for risk management – all participants of risk management are responsible for recognition, evaluation, analysis and continuous monitoring of risks as a part of its activities, development and implementation of necessary measures for risk management and continuous monitoring the efficiency of measures for risk management.
10. Principle of optimality is analyzed as relation of costs relating to the implementation of measures for risk management and the impact of the implementation of these measures, including the compliance of degree of complexity of risk management with the importance of the object subject to examination depending of risks.
11. The unity of methodological framework. Risk management (recognition, evaluation, analysis and monitoring of risks, development and monitoring the efficiency of measures for risk management) is carried out on the basis of approaches and standards common to all structural units of the Company.

The Company carries out collection and analysis of information characterizing the external and internal factors that have a negative impact on achieving goals of the Company every three months. The Company has developed and fulfills the measures in order to minimize the consequence of risk realization. These measures are focused on preventing the negative effects. At the same time political and economic factors have an impact on the activity of PJSC Kubanenergo. Because of these factors the Company can’t guarantee that the measures intended to prevent the probability of negative effects will be able to remedy the situation, because these risk factors are out of the Company’s control.

**Industry risks**

*Risks of tariff setting*

In connection with the limitation of tariff growth for services for electric power transmission to the ultimate consumers at the Russian Federation government level, there is a high probability that published tariffs will not cover the full economically justified expenditures for electric power transmission.

To prevent and mitigate the consequences of realization those risks, the Company provides supporting materials to the Regulatory Authorities. These materials confirm the level of economically justified expenditures of the Company. Therefore, the Company maintains its position about necessity of accounting for economically justified expenditures in its entirety, being the power provider for Krasnodar Region and the Republic of Adygeya and also forms and sends the disputes to the Federal Antimonopoly Service of the Russian Federation.

Besides, the Company is subject to the risk of reduction of total revenue due to the changes of the actual structures of electric power transmission concerning the accepted one at the adoption of tariffs, and also the risks related to the legislative amendments in the sphere of tariff setting.

The following events are implemented to minimize the risks:

1) cooperation with tariff regulatory authorities concerning questions related to accounting of losses that were caused by determining at the federal level the sums of falling out income from applying non-regulated price at necessary gross revenue of the Company in the next period of tariff regulation;

2) preparation and submission to state tariff regulatory agencies the propositions on technological electric energy/power consumption taking into account dynamics of productive supply for purposes of forming of consolidated balance forecast for production and delivery of electricity for the next year;

3) development and implementation of the Programme of increasing of electric energy efficiency and its coordination with administration of the regions;

4) formation and implementation of Power Supply Program on improvement of operational efficiency and reduction of costs of PJSC Kubanenergo for 2020-2024.

The Company’s sphere of influence on the tariff regulation agencies is limited, and the Company cannot guarantee that the measures aimed at minimizing the consequences will be as effective as possible.

The Company is subject to the risk of scarcities of source of funding of events on agreements on implementation of technological connection due to approving by regulating authority of paying rate for technological connection lower of economically justified level. One of the factors of this risks arising is introduction of amendments to legislation of the Russian Federation (Federal Law of March 26, 2003 No. 35-FZ “On power industry”) on excluding of power receivers of maximum capacity 150 kW from paying for technological connection of investment component for covering of charges for construction of power supply network facilities (from October 1, 2015 – no more than 50% from amount of specified expenditures, from October 1, 2017 – excluding this expenditures from paying for technological connection).

To minimize risk, the Company cooperates with tariffs regulatory authorities, forms correct scope of obligation on technological connection agreements, develops project documents on scope of obligations on technological connection agreements, submits in regulatory authorities the additional supporting materials, and adopts economic feasibility of paying rate for technological connection.

Risk of antimonopoly legislation is evaluated by Company as medium. The reason of the risk implementation may become non-fulfillment of obligations of the Company on technological connection on concluded agreement on technological connection (because of scarcity of funds and large number of agreements on technological connection). To prevent the risk realization the Company is going to carry out its obligations in its entirety under the agreements of technological connection.

*Risk of reducing the amount of services on electric energy transmission.*

Risk of reducing the amount of services on electric energy transmission is industry risk. The reducing of electric energy consumption can be the consequence of external factors influence such as economy crisis and production decline, construction of electrical generation facilities by customers, extreme weather events, industrial accidents, and industrial disasters. Potential influence of these factors may influence on changing of revenue of the Issuer.

In connection with economic development of the region where the Issuer operates, there is a dynamic of increasing of amounts of electric energy consumption for the last few years. This risk is evaluated as medium. The Company implements monitoring of current and expected economic situation in region and in country, fulfills preparation works for appropriate work of power.

*Operational risks*

In the process of its activity the Issuer is exposed to risks associated with physical deterioration, abuse and critical changes in the parameters of the equipment.

The main ones are:

1) deterioration of performance and economic indicators of electric equipment;

2) threat of failures with partial or full undersupply of electricity with corresponding negative social consequences;

3) failure to comply with the obligations under the contracts for the provision of electricity transmission services;

4) negative environmental effects.

In order to decrease the risk of the group the issuer takes the following steps:

1) scheduled repair and maintenance of equipment

2) technical re-equipment, reconstruction and new construction

3) regular optimization of structure and amount of components and spare parts in reserve and other

4) providing of industrial security and manufacturing control.

The company assesses the level of risk above the average and believes that the negative factors will not materially affect its activities and performance of obligations on its securities.

*Price risks*

Provision of electricity transmission services includes as well the purchase of raw materials, services, equipment and other materials used by the Company in its operations. The price increase is mainly explained by inflationary pressures and the impact of macroeconomic factors. During the economic instability the risk of augmentation of cost for goods and services used by the Company increases.

In order to minimize these risks, the issuer uses the position of a large consumer and purchases the material and technical resources, and selects the service providers through competitive and regulated procurements.

*Risks of financial loss owing to external and political situations and regional risks*

Risks associated with the political and economic situation in the country and region.

The indicators of economic progress in the regions where the Company operates (Krasnodar Region and the Republic of Adygeya) are stable for several years; these regions are attractive for investments.

The worsening of economic and political situation in the country and the region under the influence of external factors (including sanctions) are main risks for the Company. Since the Company operates only on internal market, government of the Russian Federation develops programmes on import substitution including in regions where the Company operates, it leads to increasing of amount of electric energy consumption. Increasing of energy efficiency and adoption of energy-efficient technologies are development priorities of economics.

In the event of significant political instability, which can negatively affect the operations and earnings, the Issuer takes measures of crisis management, reduces as much as possible the expenses, and investment plans.

Additionally, there are risks associated with military conflicts, introduction of a state of emergency, natural disasters that may have consequences as follows:

* deterioration of the whole national economy status and, consequently, of the Issuer’s financial status;
* damage to Company property that may negatively affect its ability to timely and fully fulfil its liabilities to consumers and counterparties.

The regions where the Company operates are politically stable with the risk of a military conflict or a state of emergency occurrence there due to internal causes being minimal. The Company has elaborated and is carrying out target arrangements for protection of the Company’s energy facilities against subversive or terrorist acts. The Company established a permanent working group on combating terrorism in the power distribution facilities in the region. Besides, cooperation with law enforcement authorities is carried out. To compensate for damage of the effect of emergency circumstances associated, inter alia, with natural disasters, the Company concludes property insurance contracts.

Sharp regional scale changes (environmental, political, demographic and social) are unlikely, but their emergence will doubtlessly affect the Company’s activity. Taking into account the level of the region’s transport infrastructure development, the risks of interruption of transport communication due to difficulty of access or remoteness of location are minimal.

In the Company’s opinion, the situation in the region will have a favorable effect on the Issuer’s activity; there is no reason to expect that a change of the situation in the region will entail the Issuer’s failure to fulfil its liabilities.

**Financial risks**

*Interest rate risk*

The Company attracts short-term and long-term borrowings from the Russian financial market. Since Company operates in the Russian Federation, inflation growth in the Russian Federation is one of the factors of overall growth of interest rates. Significant increase in interest rates on loans and borrowings can lead to debt service increase. But nowadays because of low level of inflation and regular decline in key rate, the risk of rising interest rates on loans is estimated as low (since the beginning of 2017 there has been a consistent decline in the interest rate from 10% per annum to 6,25 % per annum by the end of 2019). For optimization of the debt portfolio structure and reduction of its servicing costs, the Company strains after use of loans and borrowings with the fixed interest rate which results in significant reduction of the above risk. The Company’s supposed actions in the event of negative effect of interest rates change on one’s activity: attraction of longer-term loans to avoid negative effect of interest rates short-term fluctuations and diversify funding sources.

*Risk of changes of foreign currencies exchange rates:*

Carrying out its core business activity within the territory of the Russian Federation, the Company has neither investment into foreign companies which value of net assets is exposed to the risk of currency exchange rates fluctuations, nor revenues or expenses expressed in terms of foreign currency. Risks connected with exchange rate fluctuations, are not factors of direct impact on the financial and economic activities of the Company, but may lead to augmentation of prices for energy equipment. In connection with the strengthening of the national currency, as well as a decrease in the volatility of exchange rates, at present this risk is estimated as medium. In order to reduce the risk, the Company is implementing a programme of import substitution. In case of a further weakening of the national currency the issuer plans to analyse the risks and make appropriate decisions in each particular situation

*Risk of reducing the customer prices*

Changes in the consumer price index to some extent affect the Company’s rate of return and one’s financial and business activity results, but their effect is not a direct dependence factor. Indirect dependence of the Company’s rate of return on changes of the consumer price index is mainly conditioned by the fact that tariffs for services for transmission of electric energy cross electric power grids are established by state tariff bodies on the basis of justified expenses on their provision and fully or partially compensate for growth of the Company’s expenses associated with inflation.

Due to the decreasing of inflation rate, the risk is evaluated as moderate.

*Inflation risks*

The current inflation level cannot have a significant effect on the financial status of the Company. The Ministry of Economic Development of the Russian Federation has reviewed the Macroeconomic forecast related to the inflation rate for 2019-2022 in favor of its reduction against the background of forthcoming deceleration of consumer demand level, caused by the loan cycle. According to the data of the Federal State Statistics Service, the rate of the annual inflation continued to decline faster at the end of 2019, than expected by the Bank of Russia. Nevertheless, for minimization of financial risks associated with inflation processes and affecting the financial results of activity, the Company is implementing an integrated programme for analysis of financial risks, planning and appraisal of actual profitability of activity; one identifies return rate indices that are indicative of the Company’s level of cost-efficiency, normative values of financial coefficients characterizing the Company’s solvency and liquidity, which enable one to promptly detect drawbacks in the Company’s work and take measures for their elimination. As well as in accordance with Decree of the Government of the Russian Federation of December 29, 2011 No. 1178 “On price formation in sphere of regulated prices (tariffs) in power industry” when regulating electricity tariffs inflation level should be taken into consideration (consumer price index), that was defined in the prognosis of social and economic development of the Russian Federation. Thus, the Company considers these risks as moderate.

The occurrence of these financial risks can have an impact on the issuer’s financial statements. The indicator which is most affected in the Company’s statements is the index of accounts receivable arising from the inability of counterparties to pay for services of the Company. The probability of this risk is assessed as moderate. The deterioration of the economic situation in Russia may affect the growth of the cost of electricity transmission through electric grids of the Company, which, while maintaining the established tariffs will reduce the profits. To reduce this risk, the Company carries out the work on the management of debt receivable directed to optimization of its amount and repayment of debts.

**Legal risks**

The Company carries out its activity only on domestic market; consequently, the legal risks are considered only from the corresponding point of view.

*Risks associated with tax and environmental legislation and customs and currency regulation*

Since no special taxation mode is applicable to the Company’s activity and the Company has no overdue tax and levy indebtedness to budgets of all levels, the Company’s tax risks are considered as the minimum within the framework of a conscientious taxpayer’s activity.

In the shorter term, the Company does not foresee emergence of any significant risks in its financial and business activity associated with changes in tax and civil legislation.

Changes of currency and customs legislation of the Russian Federation are of no relevance for the Company’s activity and, consequently, do not entail emergence of legal risks.

In case of changes and/or launch of requirements for licensing the Company’s core activity, the Company will take all necessary measures for obtaining the licenses and permissions required.

The Company carries out regular work for prolongation of the licenses necessary for conduction of its business activity. The Company’s exposure to the above risk may be considered insignificant. In case of change of requirements on licensing of the basic kinds of activity, the Issuer will take necessary steps to obtain the appropriate licenses and permits. Risks connected with absence of possibility to extend the license of the Company are minimal and cannot influence on Company’s fulfillment of obligations on outstanding securities.

*Reputational risk*

The risk that the Company incurs losses due to such factors as a reduction in the number of customers (counterparties) because of the formation of negative image of financial stability, the financial position of the issuer, the quality of the work, is considered as minimal. The Company is a natural monopoly, there is an annual increase in the number of electricity consumers. In addition, the Company developed good practice for long-term cooperation with its partners.

*Strategy risk*

The Company, being a part of the unified integrated distribution power grid of Russia, seeks to achieve the objectives defines at the national level. The Strategy for development of integrated power grid of the Russian Federation was approved by the Decree of the Government of the Russian Federation of April 3, 2013 No.511-p. Since the Company is a subsidiary of PJSC Rosseti, the largest Russian systemically important electric grid company, the Company is a participant in implementation of policies and programmes on activities (business processes) of PJSC Rosseti.

The decision to start the implementation of a specific strategy (programme) in the activities of the Company shall be accepted by the Board of Directors.

The probability of the risk of losses arising from errors (defects) made in management decisions, defining the strategy and activities of the Company, is assessed as low.

Measures to prevent the occurrence of this risk are:

* elaboration of proposals and scenarios to improve the implementation of specific policies and programmes;
* analysis of effectiveness of particular strategy, adoption of managerial solutions by the results of analysis;
* development and implementation of key performance indicators to achieve policies, linking them with bonuses of managers of the Company;
* continuous monitoring by the structural units of the Issuer's the ratio of the cost of implementing a specific strategy to the received profit and submission to the Board of Directors of the Company of the information for decision-making (including, by definition, the quantity and quality of resources).

*Risks connected with Company’s activity*

**Risks connected with the current legal trials of the Company**

The Company participates in legal trials the results of which can materially affect its financial and operational activities. The Company regularly monitors the judicial practice that allows to use this information for reaching positive judicial decision for the Company.

Currently there are no changes in judicial practice that can negatively affect at results of current trials and thus on the results of business activity of the Company.

**Risks connected with potential liability of the Issuer on debts of third parties including affiliates of the Company**.

The Company has affiliate joint stock companies with owning of 100% shares in the authorized capital. As the parent Company for subsidiaries and affiliates, the Company can be responsible for their debts. These liabilities can negatively effect on results of financial and operational activities of the Issuer. The possibility of specified risks is evaluated as medium.

*Risks connected with possibility of loss of customers that constitute at least 10% of total revenue from sales of products (work, services) of the Company*

The Company cooperates with main customers and is monopolist in sphere of services rendering on electric energy transmission in the regions of the Issuer’s activity. The possibility of loss of main customers is minimal.

Risks in manufacturing activity of the Company:

1. systematic interruption of power supply of customers in the result of accidents and disturbances at grid sections and substation equipment;
2. violation of requirements of GOST 31144-2013 on providing the quality of electric energy;
3. disturbance of regime of electric energy transmission and reducing of quality of rendered services;
4. non-implementation of maintenance (including diagnosis) and repair on time;
5. emergency situations in related networks, that can breakdown the equipment of the Company;
6. excessive losses of electric power.

To reduce these risks, the Company focuses on development of electric grid complex with using of science based engineering decisions and technologies, tested in operation, modern electric equipment.

Increasing of tariffs on rendered services by the Company, due to increasing of “external” expenses influence on risks: purchased electric energy on losses compensation, changing of amount of payment of services for electric energy transmission of “FGC UES” PJSC and other factors.

*Investment risk*

Implementation of investment programme of the Company demands fund raising both owned and loaned, on conditions satisfying the requirements of tariff system.

One of the investment risks is risk of reduction of sources of financing of Company’s investment programme. Currently this risk is rated as minimal and is determined by influence of the following factors: decline in the ruble, upturn in inflation, and rise in cost of debt capital.

To decrease the investment risk, the investment programmes of the Company are planned taking into account following key criterions of efficiency:

* increasing of reliability and availability of network infrastructure;
* decreasing of amortization and modernization of facilities of power supply network system;
* reaching of high load of commissioned capacity;
* optimization of engineering solutions out of necessity of excluding the usage of imported equipment and materials, cost of which has high dependence from rate of exchange.

To minimize risk of untimely and incorrect implementation of investment programme, the Company approved several local document aimed to fulfillment of control of terms and quality of investment projects.

**Deferred taxes**

In order to recognize revenues and expenses when calculating the income tax, the Company applies accrual method of accounting. The company accounts and includes in the report deferred tax assets and obligations on income tax. Deferred tax assets and obligations are accounted for temporary differences that are incomes and expenditures, which form the profit (loss) in one reporting period and taxable base on income tax in other reporting periods.

Current income tax is tax for taxation purposes defined in accounting on the basis of the amount of conditional tax, adjusted sum of permanent tax assets and liabilities as well as deferred tax assets and liabilities of reporting period. The future (deferred) component of income tax expense is reflected in the Statement of Financial Results.

Current income tax is recognized as obligation to budget equal to the amount of tax payable to the budget for the reporting period.

Income tax expense (qualified income tax) is calculated by multiplying accounting income (loss) by income tax rate, established in accordance with the legislation of the Russian Federation on taxes and dues.

The Company determined the following components of income tax in 2019, thousands of RUB:

Table 12 – **Income tax**

(thousands of RUB)

| **Line item** | **Amount** | **Tax rate** | **Amount** | **Income tax component** |
| --- | --- | --- | --- | --- |
| Profit/(loss) before tax | 3 524 763 | 20% | 704 953 | Income tax expense (qualified income tax) |
| Change of taxable temporary difference | (3 478 291) | 20% | (695 658) | Changes in deferred tax liabilities |
| including: |  |  |  | including: |
| - differences appeared | (3 971 203) | 20% | (794 240) | accrued deferred tax liabilities |
| - differences are repaid | 492 912 | 20% | 98 582 | deferred tax liabilities are repaid |
| Changes in deductible  temporary differences | 205 493 | 20% | 41 099 | Changes in deferred tax liabilities |
| including: |  |  |  | including: |
| - differences appeared | 1 533 640 | 20% | 306 728 | accrued deferred tax liabilities |
| - differences are repaid | (1 328 147) | 20% | (265 629) | deferred tax liabilities are repaid |
| Taxable (deductible) permanent differences | 3 384 191 | 20% | 676 838 | Temporary tax asset (liability) |
| Taxable base | (3 636 158) | 20% | (727 232) | Current tax |

There are no reasons for changes in used tax rates versus the prior reporting period.

Deferred tax liability in the amount of 614 thousand rubles and deferred tax asset in the amount of 13,058 thousand rubles were written off to the profit and loss account in the reporting period due to the retirement of an asset (sale, transfer on a non-repayable basis or liquidation).

Information on profit taxation, deferred taxes flow is disclosed in Appendices 2.3 and 5.7.2.

**Cost of goods sold, production, works, services, selling costs, administrative expenses and other expenses.**

Expenses (costs) are recognized in that reporting period where they occurred, regardless the time of the actual cash payment or another implementation (accrual principle assumption).

Table 13 – **Explanation of the balance item “Miscellaneous expenditures” as a part of prime cost.**

(thousands of RUB)

|  |  |  |  |
| --- | --- | --- | --- |
| **Indication** | | **2018** | **2019** |
| **Line item** | **Line code** |
| Cost of goods sold | 6510 | 41 461 392 | 43 773 854 |
| including |  |  |  |
| Miscellaneous expenditures | 6515 | 22 713 249 | 24 000 216 |
| Including |  |  |  |
| Services of distribution grid companies |  | 12 631 704 | 12 371 771 |
| Services of “FGC UES” PJSC |  | 7 081 576 | 7 647 277 |
| Other expenses |  | 2 999 969 | 3 981 168 |

**Information on costs of energy resources use**

Table 14 – **Information on costs of energy resources use**

| **Ser. No.** | **Accepted target indicators/indicators** | **Measurement unit** | **2018  (fact)** | **2019  (fact)** |
| --- | --- | --- | --- | --- |
| **1.** | **2** | **3** | **4** | **5** |
| **1.1.** | **Electric power losses, including** | **Million rubles with VAT** | **9 091,283** | **9 433,909** |
| **million kWh** | **2 590,145** | **2 426,390** |
| 1.1.1. | Expenditure for electrical substation own needs | Million rubles with VAT | 50,700 | 64,496 |
| million kWh | 17,118 | 16,590 |
| **1.2.** | **Consumption of resources for business needs including according to the type of resources** | **Million rubles with VAT** | **133,484** | **140,730** |
| 1.2.1. | fuel and energy, including | Million rubles with VAT | 130,388 | 137,690 |
| tonne of oil equivalent | 4 488 | 4 166 |
| 1.2.1.1. | electric power | Million rubles with VAT | 119,854 | 128,818 |
| thousand kWh | 30 968,873 | 29 914,193 |
| thousand kWh for sqm of floor area | 0,264 | 0,201 |
| 1.2.1.2. | heat energy | Million rubles with VAT | 9,505 | 8,137 |
| Gcal | 4 369,918 | 3 214,236 |
| Gcal for sqm of floor area | 0,134 | 0,131 |
| 1.2.3. | Hot-water supply | thousand m3 | − | − |
| Million rubles with VAT | − | − |
| 1.2.4. | cold-water supply | thousand m3 | 82,318 | 73,191 |
| Million rubles with VAT | 3,095 | 3,040 |
| 1.2.5. | natural gas | thousand m3 | 127,327 | 101,577 |
| Million rubles with VAT | 1,029 | 0,735 |
| **1.3.** | **Equipped with devices for energy resources accounting, consumed for housekeeping needs of the Company** | **%** | **100** | **100** |
| **1.4.** | **Equipped with smart devices for energy accounting of consumers at the retail market in accordance with the Programme for future development of electricity metering systems** | **%** | **73,1** | **73,25** |

**Information on cash flows**

In accordance with the Accounting Regulation 23/2011, the cash flows of organizations in the form of receipts and payments of value added tax (receipts from the buyers and clients, payments to suppliers and contractors and payments to the budget system of the Russian Federation and reimbursement from it) are recorded as compressed in the line 4129 “Other payments” of the form of balance sheet “Statement of Cash Flows” in the amount of (395,290) thousand rubles including:

* VAT as part of amounts received 7,762,299 thousand rubles;
* VAT as a part of amounts paid (5, 637, 214) thousand rubles;
* VAT, paid to the budget (2,520,375) thousand rubles.

The result: (395,290) thousand rubles

Highly liquid investments (cash equivalents) that can most quickly and easily be converted into previously known cash and subject to low risk of changes in value for the period from January 1, 2019 to December 31, 2019 amounted 12,702,000 thousand rubles (certificate of deposit). Cash transfer into certificate of deposit that is recognized as cash equivalents, is not cash flow and is not reflected in the Statement of Cash Flows.

Table 15 – **The amount of a minimum cash balance on the current accounts of the Company as of December 31, 2019**

(thousands of RUB)

| **Foundation (additional agreement,  trade confirmation)** | **Transaction starting date** | **Transaction expiration date** | **Amount of a minimum cash balance** |
| --- | --- | --- | --- |
| **1** | **2** | **3** | **4** |
| Application No. 254 of December 31, 2019   to the General Agreement No.М3‑0191/2014/007 of September 2, 2014 | December 31, 2019 | January 10, 2020 | 400 000 |
| Application No. 255 of December 31, 2019  to the General Agreement No. М3‑0191/2014/007 of September 2, 2014 | December 31, 2019 | January 10, 2020 | 600 000 |
| Application No. 256 of December 31, 2019 to the General Agreement No. М3‑0191/2014/007 of September 2, 2014 | December 31, 2019 | January 10, 2020 | 80 000 |
| **Total according to JSC Gazprombank** | | | **1 080 000** |
| **Total** | | | **1 080 000** |

There is no overdraft debt of PJSC Kubanenergo as of December 31, 2019.

As of December 31, 2019 there are no guarantees of third-parties received and not used by the Company in order to receive a loan where the amount of cash (raised by the Company) is indicated.

Cash (or cash equivalents) that cannot be used by the Company (for example, letters of credit opened in favour of other organizations related to the transactions in progress as of reporting date) is absent as of December 31, 2019.

**Information on segments**

According to Accounting Regulations 12/2010, the management and decision-making structure of the organization and the internal reporting system were taken as bases of segmentation in the Company.

The Company determined the structure of the reportable segments:

1. Electric power transmission;
2. Technological connection to electric networks.

The Company discloses information in the Accounting Statements only by the reportable segments. The remaining segments are recorded as the other segments in the Accounting Statements. Information on the reportable segments does not contain data on the cash flow from operating, investment and financial operations because of the labour intensity of its presentation in the accounting statements

Table 16 – **Customers, revenue from sales which is less than 10% of the total revenue of the Company**

(thousands of RUB)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **№ п/п** | **Line item (client)** | **Total amount of revenue** | **Including: electric power transmission** | **Including: other services** |
| 1. | Independent Energy Selling Company of Krasnodar Region JSC | 16 061 606 | 16 061 606 | − |
| 2. | TNS Energo Kuban PJSC | 22 075 390 | 21 975 765 | 99 625 |

Besides, information on reportable segments is disclosed in Appendix 5.13.

**Related party disclosure**

**List of related parties**

The operations of PJSC Kubanenergo are strongly affected by following individuals/legal entities, which are affiliated to the Company. In accordance with the legislation of the Russian Federation, PJSC Kubanenergo publishes the lists of affiliates on its website at <http://www.kubanenergo.ru> in the section “For Shareholders and Investors/Lists of Affiliates”, as well as at: <http://www.e-disclosure.ru/portal/company.aspx?id=2827>

Individuals/legal entities affecting the Company’s activity:

* the largest shareholder of the Company – PJSC Rosseti (owns 92,78%[[1]](#footnote-1) of the Company shares);
* persons that are members of the management bodies of the Company (members of the Board of Directors, Management Board members, Chief Executive Officer of PJSC Kubanenergo).

PJSC Kubanenergo supervises the operations of its subsidiaries: Energetik Holiday Facility JSC and Kuban Energoservis JSC by methods of corporate management.

**Operations carried out with related parties and transactions in progress with related parties where the settlements are executed through the bank under the terms of the contracts**

Table 17 – **Revenues and debts related to them for 2018.**

(thousands of RUB)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Contractor** | **As of December 31, 2017** | **Accrued** | **Paid** | **As of December 31, 2018** |
| Energetik Holiday Facility JSC | 38 | 2 660 | (2 438) | 260 |
| Kuban Energoservis JSC \*\*\* | 359 | 68 | (427) | − |
| PJSC Rosseti\*\*\* | − | 1 049 | (1 049) | − |
| Rosseti – Engineering Supervision Centre branch PJSC | − | 350 | (350) | − |
| Main Data Processing Center of Power Engineering JSC | 15 | − | − | 15 |
| PJSC IDGC of Volga | − | 5 658 | (5 658) | − |
| PJSC IDGC of the South | − | 1 000 | (1 000) | − |
| PJSC IDGC of the North Caucasus | − | 42 444 | − | 42 444 |
| PJSC MOESK | 13 252 | − | (13 252) | − |

Table 18 – **Revenues and debts related to them for 2019**

(thousands of RUB)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Contractor** | **As of December 31, 2018** | **Accrued** | **Paid** | **As of December 31, 2019** |
| Energetik Holiday Facility JSC | 260 | 2 694 | (2 916) | 38 |
| Kuban Energoservis JSC \*\*\* | − | 181 | (181) | − |
| PJSC Rosseti | − | 1 422 | (1 422) | − |
| JSC Fiber Optic Transmission Systems Management | − | 19 149 | (19 149) | − |
| Main Data Processing Center of Power Engineering JSC | 15 | − | (15) | − |
| PJSC IDGC of the North Caucasus | 42 444 | 43 464 | (1 000) | 84 908 |

Table 19 – **Expenses, other transactions and debts related to them for 2018**

(thousands of RUB)

| **Contractor** | **As of December 31, 2017** | **Accrued** | **Paid** | **As of December 31, 2018** |
| --- | --- | --- | --- | --- |
| **1** | **2** | **3** | **4** | **5** |
| PJSC IDGC of the South |  |  |  |  |
| - other debts | − | (1 252) | 1 252 | − |
| PJSC IDGC of Centre and the Volga Region\* |  |  |  |  |
| - other debts | − | (413) | 413 | − |
| PJSC Rosseti\*\*\* |  |  |  |  |
| - other debts | (5 297) | (160 736) | 141 827 | (24 206) |
| - dividends | − | (298 340) | 298 340 | − |
| Rosseti – Engineering Supervision Centre branch, PJSC |  |  |  |  |
| - other debts | − | (4 505) | 4 505 | − |
| PJSC FSK EES\* |  |  |  |  |
| - trading transactions | (2 294 001) | (9 639 146) | 10 694 906 | (1 238 241) |
| - other debts | (33 863) | (453 396) | 191 449 | (295 810) |
| - other debts | 197 453 | 1 029 709 | (1 042 486) | 184 676 |
| provision | (168 409) | − | 960 | (167 449) |
| PJSC IDGC of the North Caucasus \* |  |  |  |  |
| - other debts | (54) | − | − | (54) |
| Energetik Holiday Facility JSC\*\*\* |  |  |  |  |
| - other debts | (139) | (11 953) | 12 092 | − |
| Technical Customer Centre JSC\* |  |  |  |  |
| - other debts | (75) | (27 526) | 20 926 | (6 675) |
| IT Energy Service LLC\* |  |  |  |  |
| - other debts | (116) | − | 116 | − |
| JSC Kuban Energoservis\*\*\* |  |  |  |  |
| - other debts | (58 619) | (38 425) | 91 273 | (5 771) |
| - dividends | − | (9 068) | 9 068 | − |
| JSC Engineering Supervision Centre FSK EES\* |  |  |  |  |
| - other debts | − | (50) | 50 | − |
| JSC Fiber Optic Transmission Systems Management\* |  |  |  |  |
| - trading transactions | − | (22 844) | − | (22 844) |
| -other debts | (1 992) | (39 931) | 26 201 | (15 722) |
| JSC Electrosetservis Unified National Electricity Grid\* |  |  |  |  |
| - trading transaction | − | (158 448) | 112 517 | (45 931) |
| - other debts | − | (250 879) | 205 045 | (45 834) |

Table 20 – **Expenses, other transactions and debts related to them for 2019**

(thousands of RUB)

| **Contractor** | **As of December, 31 2018** | **Accrued** | **Paid** | **As of December, 31 2019** |
| --- | --- | --- | --- | --- |
| **1** | **2** | **3** | **4** | **5** |
| PJSC IDGC of the South\* |  |  |  |  |
| - other debts | − | (869) | 869 | − |
| Training Centre "IDGS of Urals" Non-State Privately Owned Educational Institution of Continuing Professional Education \* |  |  |  |  |
| - other debts | − | (150) | 150 | − |
| PJSC IDGC of Urals |  |  |  |  |
| - other debts | − | (2 665) | 2 665 | − |
| PJSC Rosseti\*\*\* |  |  |  |  |
| - other debts | (24 206) | (168 629) | 168 218 | (24 617) |
| - dividends | − | (133 262) | 133 262 | − |
| - settlements with shareholders | − | (3 086 449) | 3 086 449 | − |
| PJSC FSK EES\* |  |  |  |  |
| - trading transactions | (1 238 241) | (10 145 002) | 10 515 684 | (867 559) |
| - other debts | (295 810) | (182 837) | 466 646 | (12 001) |
| - other debts | 184 676 | 7 779 | (181 960) | 10 495 |
| provision | (167 449) | − | 167 449 | − |
| PJSC IDGC of the North Caucasus\* |  |  |  |  |
| - other debts | (54) | − | − | (54) |
| Energetik Holiday Facility JSC\*\*\* |  |  |  |  |
| - other debts | − | (15 098) | 14 968 | (130) |
| Technical Customer Centre JSC\* |  |  |  |  |
| - other debts | (6 675) | (5 722) | 10 190 | (2 207) |
| JSC Kuban Energoservis\*\*\* |  |  |  |  |
| - other debts | (5 771) | (86 680) | 66 376 | (26 075) |
| - dividends | − | (635) | 635 | − |
| JSC Engineering Supervision Centre FSK EES\* |  |  |  |  |
| - other debts | − | (50) | 50 | − |
| JSC Fiber Optic Transmission Systems Management\* |  |  |  |  |
| - trading transactions | (22 844) | (121 366) | 43 191 | (101 019) |
| - other debts | (15 722) | (112 729) | 51 755 | (76 696) |
| JSC Electrosetservis Unified National Electricity Grid\* |  |  |  |  |
| - trading transactions | (45 931) | − | 45 931 | − |
| - other debts | (45 834) | (123 167) | 169 001 | − |

\* The legal entity is a member of the same group of persons to which the Company belongs.

\*\* The legal entity is entitled to manage more than 20% of shares of the Company.

\*\*\* The Company is entitled to manage more than 50% of total votes, attached to the shares that constitute the charter capital, the interest of this legal entity.

Write-off of accounts receivable for which the statute of limitations has expired and other bad debts, including write-off out of provision for doubtful debts, has not been made.

**Benefits payable to key management personnel**

Table 21 – **Information on the amounts of key management personnel benefits**

| **Types of benefits** | **Members of the Board of Directors** | | **Members of the Auditing Committee** | | **Members of the Board** | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** |
| **1. Short-term benefits, including** | **9 917** | **17 557** | **1 039** | **1 030** | **1 827** | **1 727** |
| **1.1. Employee Remuneration for the reporting period (without vacation pay)** | **7 605** | **13 765** | **797** | **790** | **1 401** | **1 459** |
| а) bonus | 0 | 0 | 0 | 0 | 0 | 0 |
| b) fringe benefits | 0 | 0 | 0 | 0 | 0 | 0 |
| c) other types of compensation given to employees as a result of specific labor indications and bottom line | 0 | 0 | 0 | 0 | 0 | 0 |
| **1.2. Annual paid leave for the work in the reporting period** | **0** | **0** | **0** | **0** | **0** | **0** |
| **1.3. Other benefits in favour of key management personal (regardless terms and conditions of an Employment Contract) total, including** | **0** | **0** | **0** | **0** | **0** | **0** |
| а) compensations for community charges; | 0 | 0 | 0 | 0 | 0 | 0 |
| b) health benefits (insurance); | 0 | 0 | 0 | 0 | 0 | 0 |
| c) lump-sum payments related to financial aid for vacation | 0 | 0 | 0 | 0 | 0 | 0 |
| d) full or partial payment for recreation; | 0 | 0 | 0 | 0 | 0 | 0 |
| e) full or partial payment for education for Company’s personal benefit; | 0 | 0 | 0 | 0 | 0 | 0 |
| f) other (please specify) including: | 0 | 0 | 0 | 0 | 0 | 0 |
| Compensation for residential lease | 0 | 0 | 0 | 0 | 0 | 0 |
| Severance pay | 0 | 0 | 0 | 0 | 0 | 0 |
| **1.4. Accrued taxes and other compulsory payments to the corresponding budgets and extra-budgetary funds** | **2 312** | **3 792** | **242** | **240** | **426** | **268** |
| **2. Long-term benefits, including:** | **0** | **0** | **0** | **0** | **0** | **0** |
| 2.1. Post-employment benefits, including | 0 | 0 | 0 | 0 | 0 | 0 |
| а) payments under the voluntary insurance agreements concluded with the insurance companies | 0 | 0 | 0 | 0 | 0 | 0 |
| b) payments under non-state pension agreements, concluded with non-state pension funds; | 0 | 0 | 0 | 0 | 0 | 0 |
| c) other payments, guaranteeing payment of pension benefits and other social guarantees after  termination of labor activity; | 0 | 0 | 0 | 0 | 0 | 0 |
| 2.2. Other long-term benefits | 0 | 0 | 0 | 0 | 0 | 0 |
| 2.3. Long-term benefits accrual | 0 | 0 | 0 | 0 | 0 | 0 |
| **3. Total benefits** (short-term and long-term benefits) excluding accruals on them | **7 605** | **13 765** | **797** | **790** | **1 401** | **1 459** |
| **4. Total benefits accruals** (short-term and long-term benefits) | **2 312** | **3 792** | **242** | **240** | **426** | **268** |

**The going concern principle**

Accounting statements of PJSC Kubanenergo for 2019 were drawn up in accordance with the going concern principle, which assumes that the Company is able to sell its assets and fulfil its liabilities in the normal course of business in the foreseeable future. As reflected in the present accounting (financial) statements the Company’s net profit in 2019 amounted to 2,428,011 thousand rubles (in 2018 net profit amounted to 151,198 thousand rubles), short-term liabilities of the Company as of December 31, 2019 amounted to 13,893,776 thousand rubles; including debt obligations in the amount of 3,652,592 thousand r**ubles**. Available credit limits are opened up by the Company which makes it possible to refund borrowings subject to prompt repayment in 2020. As of December 31, 2019 the total amount of credit limit with termination of drawdown period in 2021-2024 amounted to 10,350,089 thousand rubles, including in the amount of 677,001 thousand rubles – in PAO Sberbank, in the amount of 1,672,822 thousand rubles - in Bank “RRDB” (JSC), in the amount of 5,000,000 thousand rubles – in VTB Bank (PJSC) and in the amount of 3,000,266 thousand rubles in – Bank GBP (JSC).

According to the forecasts of the Company Management, the net operating cash flow in 2020 will be sufficient to cover Company’s liabilities payable in 2020.

Thus, despite the shortage of working capital, the Company's management believes that the Company will be able to meet all its current obligations in 2020.

**Estimated liabilities, contingent liabilities and assets**

In 2019 the Company recognized in the accounting the estimated liabilities related to the possible compensation payments for unused vacations in the amount of 444, 152 thousand rubles, previously formed estimated liability in the amount of 446,703 thousand rubles, ending balance of the reporting period amounted to 263,014 thousands rubles. As of December 31, 2019, the estimated liability was formed, related to the possible benefits pay according to the results of the year in the amount of 372,778 rubles.

The amount of the estimated liability according to the unsettled claims of the suppliers at the beginning of the reporting period is recorded in the Accounting Statements in the amount of 510,827 thousand rubles, including 244,422 thousand rubles as related to non-consensual amount of loss, 231,609 thousand rubles as related to services for transmission of energy. Charges amounted to 226,164 thousand rubles, including 6,668 thousand rubles as related to non-consensual amount of loss, 218,634 thousand rubles as related to services for transmission of energy. The amount of estimated liability according to the unsettled claims of the suppliers at the end of the reporting period amounted to 500,474 thousand rubles, including 208,963 thousand rubles as related to non-consensual amount of loss, 290,650 thousand rubles as related to services for transmission of energy.

As of December 31, 2019, the amount of provision for lawsuits amounted to 203,330 thousand rubles (Appendix 5.7.1.).

Discounting of the amounts of estimated liabilities, recognized by the Company is not applicable, because the expected deadline for the fulfilment of obligations is less than 12 months after the reporting date.

The expected amounts of counter-claims or amounts of the third party claims in reimbursement of expenses that the Company is going to incur during the fulfilment of obligations, and also the assets recognized on such claims in accordance with the Clause 19 of the Accounting Regulation 8/2010 as of the reporting date are absent.

The Company does not disclose the numerical information concerning the possible contingent liabilities because of incomplete tax inspection for 2016-2018.

According to the continuous development of practical application of taxation rules, the property tax may be disputed by the tax authorities and courts related to the movables and immovable, used by the Company. The Company’s Executive Board does not eliminate the risk of resource outflow, however, the impact of the events cannot be estimated with sufficient measure of reliability.

According to Executive Board opinion, the applicable legislative provisions as at December 31, 2019 were correctly interpreted and the position “Group” may be well-reasoned and secured with regard to tax compliance.

**Events after the reporting period**

Accounting for events after the reporting date and disclosure of information concerning these events in the statements is kept by the Company in accordance with the Accounting Regulation 7/98 *“Events after the reporting date”*, approved by Order of the Ministry of Finance of the Russian Federation No. 56н of November 25, 1998.

Economic events that have or may have an impact on financial position or operating results of the Company, that occur between the reporting date (December 31, 2019) and the date of signing of the Accounting Statements of PJSC Kubanenergo for 2019 are absent.

Chief Executive Officer of

PJSC Kubanenergo S.V. Sergeev

Chief Accountant-Head of the

Accounting and Tax Accounting

Department of PJSC Kubanenergo I.V. Skiba

February, 20 2020

**Appendices to the Balance Sheet and Statement of Financial Results**

Appendix 5.1.1 “The existence of intangible assets and intangible assets turnover”

Appendix 5.2.1 “The existence and turnover of R&D deliverables”

Appendix 5.2.2 “Incomplete and unexecuted R&D and incomplete operations on purchase of intangible assets”

Appendix 5.3.1 “The existence and movement of fixed assets”

Appendix 5.3.3 “Changes in value of fixed assets as a result of further construction, further equipping, reconstruction and partial liquidation”

Appendix 5.3.4 “Other usage of fixed assets”

Appendix 5.3.5 “Capital investments in progress”

Appendix 5.3.6 “Advances issued for investment building and purchase of fixed assets”

Appendix 5.4.1 “The existence and turnover of financial investments”

Appendix 5.4.2 “Adjustments of estimates of financial investments”

Appendix 5.5.1 “The existence of inventory and inventory turnover”

Appendix 5.5.2 “Pledged inventory”

Приложение 5.6.1 “The existence and turnover of accounts receivable”

Приложение 5.6.3 “Overdue accounts receivable”

Appendix 5.6.5 “The existence and turnover of accounts payable”

Appendix 5.6.6 “Overdue accounts payable”

Appendix 5.6.7 “Loans and borrowings”

Appendix 5.6.8 “Expenses for loans and borrowings”

Appendix 5.7.1 “Estimated liabilities”

Appendix 5.7.2 “Deferred taxes”

Appendix 5.8 “Securities”

Appendix 5.9 “Government assistance”

Appendix 5.11 “Other revenues and expenses”

Appendix 5.13 “Information on reportable segments”

Appendix 2.1 “Cost of goods sold, works and services according to elements of costs”

Appendix 2.2 “Profit accrued to one share, diluted earnings per share”

Appendix 2.3 “Profit taxation”

1. Outstanding shares Interest is 93,44%. [↑](#footnote-ref-1)