“KUBANENERGO” PJSC

Consolidated Interim Condensed Financial Statements prepared in accordance with IAS 34 “Interim Financial Reporting” for the three months ended 31 March 2018

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Kubanenergo PJSC
Consolidated Interim Condensed Statement of Profit and Loss and Other Comprehensive Income for the three months ended 31 March 2018 (unaudited)
(in thousands of Russian rubles, unless otherwise stated)

	Notes	Three months ended 31 March 2018	Three months ended 31 March 2017
Revenue	7	11,731,894	10,115,861
Operating expenses	9	(10,826,716)	(9,663,918)
Other income/(expenses), net	8	(4,000)	89,913
Results from operating activities		**901,178**	**541,856**
Finance income	10	14,396	26,795
Finance costs	10	(482,701)	(516,667)
Net finance costs		**(468,305)**	**(489,872)**
Profit before income tax		**432,873**	**51,984**
Income tax expense		(240,409)	(199,592)
Profit/(loss) for the period		**192,464**	**(147,608)**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit liability		(32,685)	(7,215)
Income tax related to items that will not be reclassified subsequently to profit or loss		6,537	1,443
Total items that will not be reclassified subsequently to profit or loss		**(26,148)**	**(5,772)**
Other comprehensive income/(loss) for the period, net of income tax		**(26,148)**	**(5,772)**
Total comprehensive income/(loss) for the period		**166,316**	**(153,380)**
Profit/(loss) attributable to:			
Owners of the Company		192,464	(147,608)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		166,316	(153,380)
Earnings per share			
Basic and diluted earnings per ordinary share (in Russian rubles)		0.59	(0.52)

These consolidated interim condensed financial statements, prepared in accordance with IAS 34 "Interim Financial Reporting" as at and for the three months ended 31 March 2018, were approved by the management on 28 May 2018 and signed on its behalf by:

Director General
(by the power of attorney No. 23/256–n/23–2018–5–444
of 24 April 2018) — Z.I. Khazikova

Chief Accountant — I.V. Skiba

КРАСНОДАРСКИЙ КРАЙ г. КРАСНОДАР
ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО ЭНЕРГЕТИКИ И ЭЛЕКТРИФИКАЦИИ
ПАО "КУБАНЬЭНЕРГО"
ИНН 2309001660
РОССИЯ

This Consolidated Interim Condensed Statement of Profit and Loss and Other Comprehensive Income is to be read in conjunction with the notes 1-24 to, and forming the part of, the consolidated financial statements

(in thousands of Russian rubles, unless otherwise stated)

	Notes	31 March 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	11	53,942,685	52,588,454
Intangible assets	12	159,700	150,435
Trade and other receivables	14	23,570	25,760
Assets related to employee benefits plans		311,468	318,910
Financial investments	13	1	1
Deferred tax assets		1,148,829	1,203,443
Total non-current assets		**55,586,253**	**54,287,003**
Current assets			
Inventories		1,568,636	1,584,669
Income tax receivable		476,801	317,458
Trade and other receivables	14	8,010,852	6,694,054
Cash and cash equivalents	15	3,863,031	1,681,043
Total current assets		**13,919,320**	**10,277,224**
Assets classified as held for sale		8,492	8,492
Total assets		**69,514,065**	**64,572,719**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	28,286,813	28,286,813
Share premium		6,481,916	6,481,916
Reserve for issue of shares		2,092,522	2,092,522
Other reserves		(263,001)	(236,851)
Retained earnings		(8,025,759)	(8,218,225)
Total equity attributable to owners of the Company		**28,572,491**	**28,406,175**
Total equity		**28,572,491**	**28,406,175**
Non-current liabilities			
Loans and borrowings	18	23,784,853	22,617,796
Trade and other payables	19	1,052,521	987,357
Employee benefits		650,086	611,115
Government grants		34,109	37,256
Total non-current liabilities		**25,521,569**	**24,253,524**
Current liabilities			
Loans and borrowings	18	291,975	91,686
Trade and other payables	19	14,187,603	10,900,665
Provisions		927,908	905,937
Government grants		12,401	12,355
Current income tax liabilities		118	2,377
Total current liabilities		**15,420,005**	**11,913,020**
Total liabilities		**40,941,574**	**36,166,544**
Total equity and liabilities		**69,514,065**	**64,572,719**

This Consolidated Interim Condensed Statement of Financial Position is to be read in conjunction with the notes 1-24 to, and forming the part of, the consolidated financial statements

Kubanenergo PJSC
Consolidated Interim Condensed Statements of Cash Flows for the three months ended 31 March 2018 (unaudited)
(in thousands of Russian rubles, unless otherwise stated)

	Notes	Three months, ended 31 March 2018	Three months, ended 31 March 2017
OPERATING ACTIVITIES			
Profit/(loss) for the period		**192,464**	**(147,608)**
Adjustments for:			
Depreciation and amortization	9	870,495	770,609
Finance costs	10	482,701	516,667
Finance income	10	(14,396)	(26,795)
Loss/(profit) on disposal of property, plant and equipment		34,302	5,188
Impairment of accounts receivable	9	(153,502)	228,359
Allowance for obsolence of inventories		(392)	(897)
Provision for legal processes		27,223	488,614
Loss on disposal of property, plant and equipment		1	–
Other non-cash transactions		(6,294)	(29,150)
Income tax expense		240,409	199,592
Operating cash flow before changes in working capital and provisions		**1,673,011**	**2,004,579**
Changes in working capital:			
Change in trade and other receivables (net of reserve for expected credit losses)		(1,141,805)	147,482
Change in financial assets related to employee benefit fund		7,442	9,488
Change in inventories (before impairment)		16,425	(134,641)
Change in trade and other payables		3,152,019	(1,445,203)
Change in employee benefit liabilities		(4,990)	(3,632)
Change in provisions		(5,252)	(624,961)
Other		(3,101)	(3,174)
Cash flows from operating activities before income tax and interest paid		**3,693,749**	**(50,062)**
Income tax paid		(340,859)	(377,576)
Interest paid		(329,258)	(310,354)
Net cash flows from operating activities		**3,023,632**	**(737,992)**
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(2,002,592)	(1,196,861)
Proceeds from the sale of property, plant and equipment and intangible assets		–	209
Interest received		(6,909)	7,107
Net cash flows used in investing activities		**(2,009,501)**	**(1,189,545)**
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		17,017,012	8,864,346
Repayment of loans and borrowings		(15,849,155)	(6,110,485)
Proceeds from share premium		–	2
Net cash flows used in financing activities		**1,167,857**	**2,753,863**
Net increase/(decrease) in cash and cash equivalents		**2,181,988**	**826,326**
Cash and cash equivalents at the beginning of the period		1,681,043	1,254,098
Cash and cash equivalents at the end of the period		**3,863,031**	**2,080,424**

This Consolidated Interim Condensed Statement of Cash Flows is to be read in conjunction with the notes 1-24 to, and forming the part of, the consolidated financial statements

(in thousands of Russian rubles, unless otherwise stated)

	Equity attributable to equity holders of the Company					
	Share capital	**Share premium**	**Reserve for issue of shares**	**Reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2018	**28,286,813**	**2,092,522**	**6,481,916**	**(236,851)**	**(8,218,225)**	**28,406,175**
Impact of change in accounting policies	–	–	–	(2)	2	–
Balance at 1 January 2018 (adjusted)	**28,286,813**	**2,092,522**	**6,481,916**	**(236,853)**	**(8,218,223)**	**28,406,175**
Profit for the period	–	–	–	–	192,464	192,464
Other comprehensive income/(loss)	–	–	–	(32,685)	–	(32,685)
Income tax on other comprehensive income	–	–	–	6,537	–	6,537
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**(26,148)**	**192,464**	**166,316**
Balance at 31 March 2018	**28,286,813**	**2,092,522**	**6,481,916**	**(263,001)**	**(8,025,759)**	**28,572,491**

	Equity attributable to equity holders of the Company					
	Share capital	**Share premium**	**Reserve for issue of shares**	**Reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2017	**28,286,813**	**2,072,164**	**6,481,916**	**(225,347)**	**(8,400,237)**	**28,215,309**
Profit for the period	–	–	–	–	(147,608)	(147,608)
Other comprehensive income	–	–	–	(7,215)	–	(7,215)
Income tax on other comprehensive income	–	–	–	1,443	–	1,443
Total comprehensive income for the period	**–**	–	–	**(5,772)**	**(147,608)**	**(153,380)**
Transactions with owners of the Company						
Proceeds from issue of shares	–	2	–	–	–	2
Total transactions with owners of the Company	–	**2**	–	–	–	**2**
Balance at 31 March 2017	**28,286,813**	**2,072,166**	**6,481,916**	**(231,119)**	**(8,547,845)**	**28,061,931**

This Consolidated Interim Condensed Statement of Changes in Equity is to be read in conjunction with the notes 1-24 to, and forming the part of, the consolidated financial statements

1 Background

(a) The Group and its operations

The primary activities of "Kubanenergo" PJSC (hereinafter referred to as the "Company") are provision of services for transmission of electricity and provision of services for technological connection of consumers to the networks.

"ROSSETI" PJSC is the parent company of "Kubanenergo" PJSC.

In 1993 the Krasnodar Production Association of Power Industry and Electrification "Krasnodarenergo" was reorganized into Open Joint Stock Company of Power Industry and Electrification of Kuban (hereinafter referred to as "Kubanenergo" OJSC or the "Company") in accordance with the Decree of the President of the Russian Federation of 14 August 1992, No.922 "On Specifics in the Transformation of State Enterprises, Associations, Organizations in Fuel and Energy Complex into Joint Stock Companies", the Decree of the President of the Russian Federation of 15 August 1992, No. 923 "On Organization of Management of the Electric-Power Complex of the Russian Federation under Privatization" and the Decree of the President of the Russian Federation of 5 November 1992, No. 1334 "On the Implementation in the Electricity Industry of Decree of the President of the Russian Federation No. 922 "On Specifics in the Transformation of State Enterprises, Associations, Organizations in Fuel and Energy Complex into Joint Stock Companies" of 14 August 1992".

Due to changes in the Civil Code of the Russian Federation, the Annual General Meeting of Shareholders held on 22 June 2015 approved the new brand title of the company's organizational and legal form. Full name "Open joint-stock company of power industry and electrification of Kuban" (abbreviated name - "Kubanenergo" JSC) was changed to Public joint stock company of company of power industry and electrification of Kuban (abbreviated name - "Kubanenergo" PJSC).

The Company's registered office is located at 2A, Stavropolskaya Str., Krasnodar, Krasnodar Region, Russia, 350033

The Kubanenergo Group (hereinafter referred to as "the Group") comprises "Kubanenergo" PSC and its subsidiaries: Recreation Centre "Energetik" JSC and "Energoservis Kuban" JSC.

(b) Russian business environment

The Group operates in the Russian Federation.

Therefore, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The continuing decline in political situation caused by the rising tensions between the Russian Federation and USA together with EU, and related events have resulted in revaluation of risks in business operations in the Russian Federation towards their increase. The economic sanctions against Russian individuals and legal entities imposed by the European Union, the United States of America, Japan, Canada, Australia and others, and retaliatory sanctions imposed by the Russian government, have resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The future economic trend of the Russian Federation largely depends on the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

The consolidated financial statements reflect the management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from the management's assessment.

(c) Relations with the state

The Russian Government, through the Federal Agency for the Management of State Property, is the ultimate controlling party of the Company.

As of 31 March 2018, the Russian Government owned 88.89% of the voting ordinary shares and 7.01% of the preference shares of "ROSSETI" PJSC, which in its turn owned 92.78% of the voting ordinary shares of the Group.

As of 31 December 2017, the Russian Government owned 88.89% of the voting ordinary shares and 7.01% of the preference shares of "ROSSETI" PJSC, which in its turn owned 92.78% of the voting ordinary shares of the Group.

The Russian Government directly affects the Group's operations through tariffs regulations. In accordance with the Russian legislation, the Group's tariffs are regulated by executive authorities of territorial subjects of the Russian Federation in the field of state regulation of tariffs. Many customers of the Group's services are government-related entities.

2 Basis of preparation of consolidated financial statements

(a) Statement of compliance

These consolidated interim condensed financial statements for the three months ended 31 March 2018 have been prepared in accordance with International Financial Reporting Standards (IAS) 34 "Interim Financial Statements". These consolidated interim condensed financial statements should be read in conjunction with the financial statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Use of professional judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make a number of professional judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The main evaluations and estimates used by the Group in the course of preparation of the consolidated interim condensed financial statements correspond with the ones described in the audited financial statements for the year ended 31 December 2017.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experience and other factors considered as reasonable which form the basis for assessing the book values of assets and liabilities. Adjustments to accounting estimates and assumptions are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both are affected.

3 Significant accounting policies

The principal accounting policies and methods of computation applied by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2017, except for the effect of adopting new standard as described below.

The following new standards have been adopted by the Group starting from 1 January 2018:

(a) IFRS 15 — Revenue from Contracts with Customers

The Group recognizes the revenue when (or as) the entity satisfies a performance obligation on transfer of promised goods or services (assets) to a customer. The revenue is evaluated in an amount of transaction or its part equal to the sum of consideration to which the Group expects to be entitled in exchange for the goods or services excluding amounts collected on behalf of third parties (for instance, net of recoverable taxes).

Services on transfer and sale of electricity

The revenue from transfer and sale of electricity is recognized during the period (billing month) and is measured by the results (the cost of transferred electricity). Rates for transmission services (for all subjects of the Russian Federation) and sale of electricity at the regulated market (for subjects of the Russian Federation that are not combined into pricing zones of wholesale electricity market) are approved by the government bodies of subjects of the Russian Federation in the sphere of state regulation of tariffs (hereinafter – the regional authorities) within the limits of minimum and (or) maximum levels approved by the Federal Antimonopoly Service.

Technological connection services

The revenue from these services is recognized at the moment of start of electricity transfer and connection of a consumer to the networks on the basis of the acts of acceptance of technological connection. In cases where under the terms of the contracts technological connection to power grids is performed in stages, revenue is recognized upon completion of stages of services.

Regional Energy Commission (Prices and rates Department of the respective region) approves payment for technological connection according to individual project, as well as standardized tariff rates and rates per unit of maximum supplied power and formula of payment for technological connection; this payment does not depend on revenue from electricity transmission services.

Payment for technological connection to the unified national (Russian) power grid is approved by the Federal Antimonopoly Service.

Other revenue

Revenue from installation, repair and maintenance services and other sales is recognized when the customer obtains control of that asset.

In accordance with the transition provisions in IFRS 15— Revenue from Contracts with Customers, the Group chose the possibility to apply the new rules retrospectively with recognition of combined effect of initial adoption in the opening retained earnings as at 1 January 2018. The application of the standard had no material impact on the Group's consolidated financial statements and therefore the retained earnings as at 1 January 2018 were not restated.

(b) IFRS 9 — Financial Instruments

The standard introduces new requirements for classification and measurement of financial instruments, impairment, and hedge accounting. As the Group does not apply hedge accounting, the main changes relevant to the Group impacted its accounting policies for classification of financial instruments and impairment of financial assets.

According to IFRS 9 Financial Instruments (hereinafter - IFRS 9), the financial assets should be classified in the following measurement categories: those to be measured subsequently at amortized cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets are classified at amortized cost if both of the following criteria are met: the asset is held within a business model with the objective of collecting the contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(in thousands of Russian rubles, unless otherwise stated)

In respect of impairment, IFRS 9 replaced the "incurred loss" model used in IAS 39 Financial instruments: Recognition and Measurement, with a new "expected credit loss" ("ECL") model that requires a timely recognition of expected credit losses. An allowance for expected credit losses shall be recorded for financial assets classified as at amortized cost.

Under IFRS 9, loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument. For trade receivables and contract assets, the Group measures loss allowances applying a simplified approach at an amount equal to lifetime ECLs. For other financial assets classified as at amortized cost, loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

In accordance with the transition provisions in IFRS 9, the Group has applied the new rules retrospectively, except for the items that have already been derecognized at the date of initial application, which is 1 January 2018. The Group also used an exemption in IFRS 9 allowing not to restate prior periods presented as a result of adoption of the new classification and measurement requirements, but rather recognize any differences in the opening retained earnings as at 1 January 2018. The initial application of the standard did not result in any material changes in evaluation of financial instruments.

As at 1 January 2018 (the date of initial application of IFRS Financial Instruments), the Group evaluated business models for management of financial assets and classified retained financial instruments by the respective categories of IFRS 9. Below are the following results of the classification:

		Reclassification of financial assets as at 1 January 2018			
	Balance as at 1 January 2018 under IAS 39	Measurable at fair value through profit and loss	Measurable at fair value through other comprehensive income	Measurable at amortized cost	**Balance as at 1 January 2018 under IFRS 9**
Available-for-sale financial assets	1	–	(1)	–	–
Measurable at fair value through other comprehensive income	–	–	1	–	1
Total:	1	–	–	–	1

Effect of changes on the Group's capital:

	Effect on reserve for available for sale	Effect on reserve for measurable at fair value through other comprehensive income	Effect on retained earnings
Balance as at 1 January 2018 under IAS 39	**2**	**–**	**–**
Reclassification of investments from category "available for sale" to category "measurable at fair value through other comprehensive income"	(2)	2	–
Total effect	**(2)**	**2**	**–**
Balance as at 1 January 2018 under IFRS 9	**–**	**2**	**–**

(in thousands of Russian rubles, unless otherwise stated)

Below is the initial evaluation category under IAS 39 and the new evaluation category under IFRS 9:

	Evaluation category		Balance cost		
	IAS 39	**IFRS 9**	**IAS 39**	**IFRS 9**	**Разница**
Non-current financial assets					
Financial investments, of which: *Shares*	*Available for sale*	*Measurable at fair value through other comprehensive income*	1	1	–
Trade and other receivables	Amortized cost	Amortized cost	25,760	25,760	–
Current financial assets					
Trade and other receivables	Amortized cost	Amortized cost	6,694,054	6,694,054	–
Cash and cash equivalents			1,681,043	1,681,043	–
Long-term and short-term financial liabilities					
Loans and credits, receivables	Amortized cost	Amortized cost	34,597,504	34,597,504	–

These amended standards and interpretations that took effect on 1 January 2018, did not have impact on these consolidated interim condensed financial statements:

- Classification and measurement of n share-based payment transactions (Amendments to IFRS 2);
- Transfer of investment property from one category to another (Amendments to IAS 40);
- Annual improvements to IFRS 2014–2016 cycle;
- Interpretations to IFRIC 22 Foreign Currency Transactions and Advance Consideration.

The following standards and interpretations have been released and will become effective for annual periods on or after 1 January 2019, and the Group does not intend to adopt them early:

IFRS 16 Leases:

IFRS 16 Leases was issued in January 2016 and it replaced IAS 17 Leases, Interpretations to IFRIC 4 Determining whether an Arrangement Contains a Lease, Interpretations to SIC 15 Operating Leases – Incentives and Interpretations to SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). The Group intends to apply both exemptions. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The Group will be required to recognize separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The Group may apply the standard using either a full retrospective or a modified retrospective approach. The Group is considering the implication of this standard for the Group’s consolidated financial statement.

The following standards, amended standards and interpretations are not expected to have a significant impact on the Group’s consolidated financial statements:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);
- IFRIC 23 Uncertainty over Income Tax Treatments;
- IFRS 17 Insurance Contracts.

4 Measurement of fair values

Certain provisions of the Group’s accounting policies and a number of disclosures require the measurement of fair value for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Group uses observable market data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

5 Subsidiaries

		31 March 2018	**31 December 2017**
	Country of incorporation	**Ownership/voting shares, %**	**Ownership/ voting shares, %**
Recreation Centre “Energetik” JSC	Russian Federation	100	100
“Energoservis Kuban” JSC	Russian Federation	100	100

6 Segment information

Management of “Kubanenergo” PJSC is the supreme authority responsible for operating decisions.

The Group’s main activities are services on transmission and distribution of electricity, technological connection services in particular regions of the Russian Federation (the Krasnodar region and the Republic of Adygea).

Performance of each reportable segment is measured based on earnings, EBITDA, since these are reported in statutory accounts prepared on the basis of the RAS and are regularly assessed and analyzed by the Management Board. Indicator EBITDA is calculated as earnings before interest expenses, taxation, depreciation and amortization. The Management Board believes, that these indicators are most relevant when assessing the performance of certain segments in relation to other segments and other companies that operate in these industries.

In accordance with the requirements of IFRS 8, based on the information on segment revenue, EBITDA and total assets reportable to the Management Board, the Group has identified one reportable segment, as described below, which is the Group’s strategic business unit. This strategic business unit offers electricity transmission services including technological connection services in different geographical regions of the Russian Federation (Krasnodar Territory and Republic of Adygea) and is managed as a whole. The “Other” segment includes several operating segments the primary activities of which are the provision of rent services, repair and maintenance services and recreation organization.

Segment items are based on managerial information prepared on the basis of reports under RAS and can differ from similar ones provided in financial statements prepared under IFRS. The reconciliation of items measured as reported to the Management Board with similar items in these Consolidated Financial Statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

(in thousands of Russian rubles, unless otherwise stated)

Key indicators of segments are presented and analyzed by the Management Board of the Group and are described in the tables below.

(a) Information on reportable segments (based on accounting statements prepared under RAS):

As at three months ended 31 March 2018:

	Kubanenergo	Other segments	Total:
Revenue from external customers	11,731,565	329	11,731,894
Inter-segment revenue	305	6,880	7,185
Segment revenue	**11,731,870**	**7,209**	**11,739,079**
including			
Electricity transmission	11,630,638	–	11,630,638
Technological connection services	63,473	–	63,473
Other revenue	37,759	7,209	44,968
Finance income	11,624	15	11,639
Finance costs	(445,995)	–	(445,995)
Depreciation and amortization	962,354	128	962,482
Segment profit/(loss) before tax	372,889	(5,813)	367,076
EBITDA	**1,781,238**	**(5,685)**	**1,775,553**

	Kubanenergo	Other segments	Total:
Segment assets	**77,129,674**	**86,600**	**77,216,274**
Including property, plant and equipment and construction in progress	60,925,439	29,805	60,955,244
Capital expenditure	2,263,523	1,069	2,264,592
Segment liabilities	**41,590,962**	**33,855**	**41,624,817**

As at three months ended 31 March 2017 (restated):

	Kubanenergo	Other segments	Total:
Revenue from external customers	10,114,646	1,215	10,115,861
Inter-segment revenue	489	13,918	14,407
Segment revenue	**10,115,135**	**15,133**	**10,130,268**
including			
Electricity transmission	9,893,275	–	9,893,275
Technological connection services	204,718	–	204,718
Other revenue	17,142	15,133	32,275
Finance income	5,573	34	5,607
Finance costs	(494,436)	–	(494,436)
Depreciation and amortization	931,270	1,211	932,481
Segment profit/(loss) before tax	(111,273)	2,980	(108,293)
EBITDA	**1,314,433**	**4,191**	**1,318,424**

	Kubanenergo	Other segments	Total:
Segment assets	**68,265,054**	**71,621**	**68,336,675**
Including property, plant and equipment and construction in progress	54,902,175	31,339	54,933,514
Capital expenditure	1,053,231	–	1,053,231
Segment liabilities	**33,146,288**	**48,319**	**33,194,607**

(in thousands of Russian rubles, unless otherwise stated)

(b) Reconciliation of reportable segment revenues EBITDA is presented below:

Reconciliation of segment revenue:

	3 months ended 31 March 2018	3 months ended 31 March 2017
Segment revenues	**11,739,079**	**10,130,268**
Inter-segment revenue elimination	(7,185)	(14,407)
Revenues per Consolidated statement of profit or loss and other comprehensive income	**11,731,894**	**10,115,861**

Reconciliation of reportable segment's revenue before tax:

	3 months ended 31 March 2018	3 months ended 31 March 2017
EBITDA of reportable segments	**1,775,553**	**1,318,624**
Adjustment for intangible assets	15,284	15,069
Adjustment for net book value of property, plant and equipment	3,245	5,807
Discounting receivables	1,514	–
Discounting payables	1,243	464
Adjustment for revenue from electricity transmission	959	–
Adjustment for doubtful accounts receivable	(1,131)	356
Recognition of pension and other long-term employee benefit liabilities	(2,454)	14,868
Adjustment for accrual of provision for unused vacations and bonuses	(7,935)	(13,997)
Other adjustments	(262)	(1,931)
EBITDA	**1,786,016**	**1,339,260**
Depreciation and amortization	(870,442)	(770,609)
Interest expenses on financial liabilities	(482,701)	(516,667)
Income tax expense	(240,409)	(199,592)
Profit/loss for the year per consolidated statement of profit or loss and other comprehensive income	192,464	(147,608)

Reconciliation of reportable segment total assets:

	Three months ended 31 March 2018	Year ended 31 December 2017
Total segment assets	**77,216,274**	**71,967,339**
Recognition of assets related to employee benefits	311,468	318,910
Deferred tax adjustment	284,772	319,869
Adjustment for financial investments	9,684	9,684
Discounting receivables	(7,425)	(8,602)
Adjustments for deferred expenses	(20,959)	(21,464)
Intersegment balances	(35,237)	(59,031)
Intragroup financial assets	(45,687)	(45,687)
Adjustment for intangible assets	(66,343)	(65,937)
The decrease in receivables for advances by VAT on advances issued	(1,127,562)	(750,713)
Adjustment for property, plant and equipment	(7,004,067)	(7,090,968)
Other adjustments	(853)	(681)
Total assets per consolidated statement of financial position	**69,514,065**	**64,572,719**

(in thousands of Russian rubles, unless otherwise stated)

Reconciliation of reportable segment total liabilities:

	Three months ended 31 March 2018	Year ended 31 December 2017
Total segment liabilities	**41,624,817**	**36,501,008**
Recognition of pension and other long-term employee benefit liabilities	650,086	611,115
Adjustment for accrual of provision for unused vacations and bonuses	130,334	122,399
Inter-segment balances	(35,237)	(59,031)
Write-off of deferred income	(76,891)	(77,007)
Adjustment for deferred tax	(222,136)	(179,076)
The decrease in accounts payable on advances received by the amount of VAT on advances received	(1,127,562)	(750,713)
Other adjustments	(1,837)	(2,151)
Total liabilities per consolidated statement of financial position	**40,941,574**	**36,166,544**

7 Revenue

	Three months ended 31 March 2018	Three months ended 31 March 2017
Electricity transmission	11,630,443	9,892,964
Technological connection services	63,473	204,718
Rental income	4,018	3,208
Repairs and maintenance	8,004	991
Other revenue	25,956	13,980
	11,731,894	**10,115,861**

Other revenue comprises generally revenue from rendering services related to restriction of electricity use conditions, assembly and dissembling of electrical meters, rendering services related to electricity metering.

8 Other income/(loss), net

	Three months ended 31 March 2018	Three months ended 31 March 2017
Income from identified non-contracted electricity consumption	9,232	5,215
Income in the form of fines and penalties on commercial contracts	21,734	6,415
Income from inventories and property, plant and equipment received free of charge	560	1,979
Insurance compensation, net	1,767	55,094
Write-off accounts payable	3,746	818
Loss on disposal of intangible assets	(11,852)	–
Loss on disposal of property, plant and equipment	(34,133)	(6,010)
Other income/(loss), net; of which:		
Income from inventories received from liquidation of property, plant and equipment	4,946	26,402
	(4,000)	**89,913**

(in thousands of Russian rubles, unless otherwise stated)

9 Operating expenses

	Three months ended 31 March 2018	Three months ended 31 March 2017
Personnel costs	1,530,968	1,307,917
Depreciation and amortization	870,442	770,609
Material expenses, including:		
Electricity for compensation of losses	2,288,033	2,359,048
Purchased electricity and heat power for own needs	46,040	47,588
Other material costs	232,707	171,070
Production work and services, including:		
Electricity transmission services	4,807,838	3,371,199
Repair and maintenance services	54,620	35,506
Other works and industrial services	10,878	9,154
Taxes and levies other than income tax	222,514	173,462
Rent	58,503	58,136
Insurance	19,429	19,005
Other third-party services, including:		
Communication services	15,850	14,465
Security services	63,806	47,100
Consulting, legal and audit services	7,373	1,640
Software costs and servicing	21,496	10,740
Transportation services	27	140
Other services	298,618	176,967
Provisions	27,223	488,614
Expected credit losses provisions	(153,502)	228,359
Other expenses	403,853	373,199
	10,826,716	**9,663,918**

10 Finance income and costs

	Three months ended 31 March 2018	Three months ended 31 March 2017
Finance income		
Interest income on loans, bank deposits, bills and balances in bank accounts	11,639	5,607
Interest income from assets related to employee benefits payable	–	20,724
Effect of initial discounting of financial liabilities	1,514	–
Amortization of discount on financial assets	1,243	464
	14,396	**26,795**
Financial costs		
Interest expense on financial liabilities recorded at amortized cost	469,566	503,182
Interest expense on long-term employee benefits payable	11,274	11,991
Effect of initial discounting of financial assets	66	8
Amortization of discount on financial liabilities	1,795	1,486
	482,701	**516,667**

(in thousands of Russian rubles, unless otherwise stated)

11 Property, plant and equipment

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Initial cost / Deemed cost						
At 1 January 2017	**7,447,938**	**36,165,526**	**14,402,824**	**7,173,374**	**5,369,204**	**70,558,866**
Reclassification between groups	163	(100)	(63)	–	–	–
Additions	350	1,948	48,388	48,772	1,046,247	1,145,705
Transfers	254	226,884	72,261	28	(299,427)	–
Disposals	(1,516)	(4,879)	(2,185)	(12,429)	(1,005)	(22,014)
At 31 March 2017	**7,447,189**	**36,389,379**	**14,521,225**	**7,209,745**	**6,115,019**	**71,682,557**
Depreciation and impairment						
At 1 January 2017	**(2,350,190)**	**(9,323,005)**	**(6,109,542)**	**(4,438,517)**	**(109,543)**	**(22,330,797)**
Reclassification between groups	(78)	–	78	–	–	–
Introduction of property, plant and equipment (reallocation of impairment)	(19)	(1,774)	(875)	–	2,668	–
Depreciation charge	(64,181)	(336,874)	(206,585)	(147,738)	–	(755,378)
Disposals	760	1,413	1,166	12,408	29	15,776
At 31 March 2017	**(2,413,708)**	**(9,660,240)**	**(6,315,758)**	**(4,573,847)**	**(106,846)**	**(23,070,399)**
Net book value						
At 1 January 2017	**5,097,748**	**26,842,521**	**8,293,282**	**2,734,857**	**5,259,661**	**48,228,069**
At 31 March 2017	**5,033,481**	**26,729,139**	**8,205,467**	**2,635,898**	**6,008,173**	**48,612,158**

(in thousands of Russian rubles, unless otherwise stated)

Cost / Deemed cost						
At 1 January 2018	**7,843,726**	**38,083,459**	**16,002,371**	**7,682,999**	**8,367,283**	**77,979,838**
Reclassification between groups	(631)	–	–	631	–	–
Additions	(1)	1,356	740	10,847	2,229,288	2,242,230
Transfers	4,389	186,172	95,936	1,243	(287,740)	–
Disposals	(72)	(41,314)	(192)	(1,037)	(3,133)	(45,748)
At 31 March 2018	**7,847,411**	**38,229,673**	**16,098,855**	**7,694,683**	**10,305,698**	**80,176,320**
Depreciation and impairment						
At 1 January 2018	**(2,609,739)**	**(10,717,364)**	**(6,962,312)**	**(5,009,642)**	**(92,327)**	**(25,391,384)**
Reclassification between groups	181	–	–	(181)	–	–
Introduction of property, plant and equipment (reallocation of impairment)	–	(82)	(61)	–	143	–
Depreciation charge	(68,670),	(405,947)	(227,344)	(151,074)	–	(853,035)
Disposals	37	9,635	35	1,037	40	10,784
At 31 March 2018	**(2,678,191)**	**(11,113,758)**	**(7,189,682)**	**(5,159,860)**	**(92,144)**	**(26,233,635)**
Net book value						
At 1 January 2018	**5,233,987**	**27,366,095**	**9,040,059**	**2,673,357**	**8,274,956**	**52,588,454**
At 31 March 2018	**5,169,220**	**27,115,915**	**8,909,173**	**2,534,823**	**10,213,554**	**53,942,685**

(in thousands of Russian rubles, unless otherwise stated)

For the three months ended 31 March 2018, capitalized interest amounted 59,181 thousand rubles (for three months ended 31 March 2017: 16,921 thousand rubles); capitalization rate used to determine the sum of borrowing costs, which is subject to capitalization within the reporting period, was 6.16% (for the three months ended 31 March 2017: 9.21%).

The depreciation charge for the three months ended 31 March 2018 has been capitalized to the cost of the capital construction objects in amount of 53 thousand rubles (for the year ended 31 December 2017: absent).

12 Intangible assets

	Software	Licenses and certificates	R&D	Other	Total
Initial cost					
At 1 January 2017	**280,722**	**5,295**	**14,511**	**11,541**	**312,069**
Additions	661	–	4,398	–	5,059
At 31 March 2017	**281,383**	**5,295**	**18,909**	**11,541**	**317,128**
Depreciation and impairment					
At 1 January 2017	**(193,678)**	**(5,295)**	**–**	**(4,869)**	**(203,842)**
Amortization charge	(14,675)	–	–	(913)	(15,588)
At 31 March 2017	**(208,353)**	**(5,295)**	**–**	**(5,782)**	**(219,430)**
Net book value					
At 1 January 2017	**87,044**	**–**	**14,511**	**6,672**	**108,227**
At 31 March 2017	**73,030**	**–**	**18,909**	**5,759**	**97,698**

	Software	Licenses and certificates	R&D	Other	Total
Initial cost					
At 1 January 2018	**377,627**	**5,295**	**9,654**	**28,557**	**421,133**
Additions	26,426	–	5,808	(5,508)	26,726
Disposals	(11,852)	–	(1)	–	(11,853)
At 31 March 2018	**392,201**	**5,295**	**15,461**	**23,049**	**436,006**
Depreciation and impairment					
At 1 January 2018	**(255,631)**	**(5,295)**	**–**	**(9,772)**	**(270,698)**
Amortization charge	(16,288)	–	–	(1,172)	(17,460)
Disposals	11,852	–	–	–	11,852
At 31 March 2018	**(260,067)**	**(5,295)**	**–**	**(10,944)**	**(276,306)**
Net book value					
At 1 January 2018	**121,996**	**–**	**9,654**	**18,785**	**150,435**
At 31 March 2018	**132,134**	**–**	**15,461**	**12,105**	**159,700**

Capitalized depreciation of intangible assets for the three months ended 31 March 2018 is absent (for the year ended 31 December 2017: 1 116 thousand rubles).

(in thousands of Russian rubles, unless otherwise stated)

13 Financial investments

	31 March 2018	31 December 2017
Non-current financial investments		
Financial assets measured at fair value through other comprehensive income	1	1
	1	**1**

14 Trade and other receivables

	31 March 2018	31 December 2017
Non-current trade and other accounts receivable		
Other accounts receivable	12,395	14,207
Total financial assets	**12,395**	**14,207**
Advances given	5,513	5,890
VAT on advances from customers and clients	5,662	5,663
	23,570	**25,760**
Current trade and other accounts receivable		
Trade receivables	8,721,515	7,463,513
Trade receivables impairment allowance	(1,152,478)	(1,307,373)
Other receivables	937,966	1,007,802
Other receivables impairment allowance	(697,695)	(701,532)
Total financial assets	**7,809,308**	**6,462,410**
Advances given	129,129	146,617
Advances given impairment allowance	(109,259)	(112,813)
VAT recoverable	177,492	190,081
Prepaid taxes, other than income tax and VAT	4,182	7,759
	8,010,852	**6,694,054**

Information on balances with related parties is disclosed in Note 23.

15 Cash and cash equivalents

	31 March 2018	31 December 2017
Cash at bank and in hand	3,647,818	1,678,788
Cash equivalents	215,213	2,255
	3,863,031	**1,681,043**

	Rating	Rating agency	31 March 2018	31 December 2017
Sberbank*	Ba2	Moody’s	25,419	39,799
Bank GPB*	Ba2	Moody’s	832,326	910,745
Bank Rossiya (AB Rossiya)	ruAA	Expert RA	20,335	50,082
Treasury Department of the Krasnodar region	–	–	2,745,825	658,459
Mosoblbank PJSC	–	–	23,900	19,681
Cash in hand			13	22
			3,647,818	1,678,788

**Government-related banks*

Cash equivalents consist of short-term bank deposits:

	Interest rate	Rating	Rating agency	31 March 2018	31 December 2017
Sberbank*	4.83% – 5.42%	Ba2	Moody’s	–	2,000
VTB Bank	6.15% – 6.79%	Ba2	Moody’s	215,000	
				215,000	**2,000**

*Government-related banks

As at 31 March 2018 and 31 December 2017 all cash and equivalents balances are denominated in rubles.

16 Equity

	Ordinary shares	
	31 March 2018	**31 December 2017**
Par value	100 rubles	100 rubles
In circulation at 1 January	282,868,130	282,868,130
In circulation at the end of the year and fully paid	282,868,130	282 868,130

a. Issue of additional shares

On 19 September 2016, the Annual General Meeting of Shareholders of “Kubanenergo” PJSC approved the decision to increase the Company’s authorized capital by issuing additional 57,457,846 ordinary shares with par value of 100 rubles per share. The issue of shares was registered by the Central Bank of the Russian Federation on 15 December 2016.

Within the framework of this right, the shareholders contributed to the authorized capital of the Company 20,358 thousand rubles in 2017 and 2,072,164 thousand rubles in 2016, which were recognized as a reserve for the issue of shares directly in equity.

17 Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2018 and the three months ended 31 March 2017 is stated below.

The Company has no dilutive financial instruments.

In thousands of shares	**Three months ended 31 March 2018**	**Three months ended 31 March 2017**
Ordinary shares at 1 January	324,719	282,868
Weighted average number of shares for the period ended 31 March	324,719	282,868

	Three months ended 31 March 2018	**Three months ended 31 March 2017**
Weighted average number of ordinary outstanding shares for the period ended 31 March (thousands of shares)	324,719	282,868
Earnings for the period attributable to holders of ordinary shares	192,464	(147,608)
Earnings per ordinary share – basic and diluted (in Russian rubles)	**0.59**	**(0.52)**

(in thousands of Russian rubles, unless otherwise stated)

18 Loans and borrowings

	31 March 2018	31 December 2017
Non-current liabilities		
Unsecured loans and borrowings	16,784,853	15,617,796
Unsecured bonds	7,000,000	7,000,000
	23,784,853	**22,617,796**
Current liabilities		
Unsecured loans and borrowings	15,421	13,742
Unsecured bonds	276,554	77,944
	291,975	**91,686**
Including:		
Interests payable on loans and borrowings	13,999	13,120
Interests payable on bonds	276,554	77,944
	290,553	**91,064**

As at 31 March 2018 and 31 December 2017 all loans and borrowings balances are denominated in rubles.

For the three months ended 31 March 2018, the Group attracted the following essential bank credits:

	Maturity	Nominal interest rate	Nominal value
Unsecured loans and borrowings			
Sberbank*	min 2019 – max 2020	min 8.09%–max 8.40%	16,633,562
Bank GPB*	min 2019 – max 2020	min 8.10%–max 8.40%	382,650
Other	min 2018 – max 2018	Interest free	800
			17,017,012

** Loans and borrowings from government related companies*

For the three months ended 2018, the Group repaid the following bank loans:

	Nominal value
Loans and borrowings from government relate companies	15,849,155
	15,849,155

(in thousands of Russian rubles, unless otherwise stated)

19 Trade and other payables

	31 March 2018	31 December 2017
Non-current accounts payable		
Trade payables	3,496	3,013
Other payables	972	251
Total financial liabilities	**4,468**	**3,264**
Advances from customers	1,048,053	984,093
	1,052,521	**987,357**
Current accounts payable		
Trade payables	6,648,169	6,230,622
Other payables and accrued expenses	1,479,563	1,325,818
Payables to employees	881,888	826,831
Dividends payable	800	500
Total financial liabilities	**9,010,420**	**8,383,771**
Advances from customers	3,991,317	2,138,408
	3,991,317	**2,138,408**
Taxes payable		
Value-added tax	650,476	70,804
Property tax	364,138	152,509
Social security contributions	121,496	108,968
Other taxes payable	49,756	46,205
	1,185,866	**378,486**
	14,187,603	**10,900,665**

As at 31 March 2018 long-term advances from customers include advances for technological connection services in amount of 1,048,053 thousand rubles (as at 31 December 2017: 984,093 thousand rubles).

20 Financial risk and capital management

The Groups objectives and policies in financial risks and capital management as well as procedure for determining the fair value are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2017.

Below is fair and carrying value of financial assets and liabilities:

		31 March 2018		Levels of hierarchy of fair value measurement		
	Notes	**Carrying value**	**Fair value**	**1**	**2**	**3**
Loans issued and accounts receivable	14	7,652,603	7,652,603	–	–	7,652,603
Financial assets measured at fair value through other comprehensive income		1	1	–	–	1
Cash and cash equivalents	15	3,863,031	3,863,031	3,863,031	–	–
Short-term and long-term loans and borrowings	18	(16,800,274)	(16,800,274)	–	–	(16,800,274)
Trade and other accounts payable	19	(7,021,370)	(7,021,370)	–	–	(7,021,370)
Total:		**(12,306,009)**	**(12,306,009)**	3,863,031	**–**	**(16,169,040)**

(in thousands of Russian rubles, unless otherwise stated)

		31 December 2017		Levels of hierarchy of fair value measurement *(restated)*		
	Notes	**Carrying value**	**Fair value**	**1**	**2**	**3**
Loans issued and accounts receivable	14	6,439,797	6,439,797	–	–	6,439,797
Financial assets measured at fair value through other comprehensive income		1	1	–	–	1
Cash and cash equivalents	15	1,681,043	1,681,043	1,681,043	–	–
Short-term and long-term loans and borrowings	18	(15,631,538)	(15,631,538)	–	–	(15,631,538)
Trade and other accounts payable	19	(6,099,686)	(6,099,686)	–	–	(6,099,686)
Total:		(13,610,383)	(13,610,383)	1,681,043	–	(15,291,426)

The interest rate used to discount the expected future cash flows for long-term and short-term loans borrowings for the purpose of determining the fair value disclosed as at 31 March 20108 was 8.61% (as at 31 December 2017: 9.82%).

During three months ended 31 March 2018, there were no transfers between the levels of the fair value hierarchy.

21 Capital commitments

As at 31 March 2018, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment items for 4,815,917 thousand rubles, including VAT (as at 31 December 2017: 6,856,338 thousand rubles including VAT)

22 Contingencies

(a) Insurance

The Group has unified requirements in respect of the volume of insurance coverage, reliability of insurance companies and procedures of organization of insurance protection. The Group maintains insurance of assets, civil liability and other insurable risks. The main business assets of the Group have insurance coverage, including coverage in case of damage or loss of assets. However, there are risks of negative impact on the operations and the financial position of the Group in case of damage caused to third parties, and also as a result of damage or loss of assets, insurance protection of which is non-existent or not fully implemented.

(b) Taxation contingencies

The current taxation system in the Russian Federation is evolving and characterized by frequent changes in legislation, official pronouncements, and court decisions, which are sometimes vague and contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines and charges. Correctness of tax computation for the period remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax period may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation, striving to reveal cases of unjustified tax benefits. These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries.

Management of the Group believes that it has adequately provided for tax assets and liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions; the Group’s tax, currency and customs positions will be proved and sustained. However, the interpretations of the relevant authorities could differ and have an effect on these consolidated financial statements if the authorities were successful in enforcing their interpretations.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to principals of Organization for Economic Co-operation and Development (OECD), but also creating additional uncertainty in practical application of tax legislation in certain circumstances.

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, because tax inspections of compliance to the new transfer rules have started only a while ago. However, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny that potentially may have effect on these consolidated financial statements.

(c) Legal proceedings

The Group is party to a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business activity. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the consolidated financial statements.

(d) Environmental commitments

The Group has been operating in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is being reconsidered. Potential environmental commitments arising as a result of a change in interpretation of the existing regulations, civil litigation or changes in legislation cannot be estimated. Under the existing legislation and control, management believes that there are no probable liabilities, which may have a material adverse effect on the Group’s financial position, results of operations or cash flows.

23 Related party transactions

(a) Control relationships

Related parties include shareholders, affiliates and entities under common ownership and control with the Group and members of the Board of Directors and key management personnel of the Company. The Company’s parent as at 31 March 2018 and 31 December 2017 was “ROSSETI” PJSC. The party with the ultimate control over the Company is the Government of the Russian Federation represented by the Federal Property Management Agency, which holds the majority of the voting rights of “ROSSETI” PJSC.

(in thousands of Russian rubles, unless otherwise stated)

(b) Transactions with the Company's Parent, its subsidiaries and associates

Transactions with the Company's Parent, its subsidiaries and associate include transactions with "ROSSETI" PJSC, its subsidiaries and associates, and were as follows:

	Sum of transaction		Carrying amount	
Revenue, net other income, finance income	**Three months ended 31 March 2018**	**Three months ended 31 March 2017**	**31 March 2018**	**31 March 2017**
Parent company				
Other revenue	296	296	–	–
Entities under common control of the parent company				
Other revenue	52	13	193,456	205,228
Net other income	1,031	–	–	–
	1,379	**309**	**193,456**	**205,228**

	Sum of transaction		Carrying amount	
Operating expenses, finance costs	**Three months ended 31 March 2018**	**Three months ended 31 March 2017**	**31 March 2018**	**31 December 2017**
Parent company				
Other production work and services	26,788	19,121	17,647	–
Other expenses	5,428	5,428	2,008	5,297
Interest expense on financial liabilities measured at amortized cost	198,610	198,610	276,554	77,944

Operating expenses, finance costs (continued)	**Three months ended 31 March 2018**	**Three months ended 31 March 2017**	**31 March 2018**	**31 December 2017**
Entities under common control of the parent company				
Electricity transmission services	,2,044,857	1,433,474	1,944,085	2,254,015
Technological connection services	116	1,134	–	54
Rent	18	18	242	221
Impairment / (reversal) of receivables	(960)	(561)	167,449	168,409
Reserves	–	257,753	–	819,409
Other	6,359	,162,576	76,667	77,372
	2,281,216	**2,077,553**	**2,484,652**	**3,402,721**

	Carrying amount	
	31 March 2018	**31 December 2017**
Parent company		
Loans and borrowings	7,000,000	7,000,000
Entities under common control of the parent company		
Advances given	5,513	5,890
Advances received	90	90
	7,005,603	**7,005,980**

(in thousands of Russian rubles, unless otherwise stated)

(c) Transactions with the key management personnel

In order to prepare these consolidated financial statements, the Group identifies members of Board of Directors and members of Management Board as key management personnel.

There are no transactions or balances with key management personnel and their close family members except their remuneration in the form of salary and bonuses.

The amounts of the key management personnel remuneration disclosed in the table are recognized as an expense related to the key management personnel during the reporting period and included in personnel costs.

	Three months ended 31 March 2018	**Three months ended 31 March 2017**
Short-term remuneration to employees	31,700	22,025
Post-employment benefits and other long-term remunerations	30	62
	31,730	**22,087**

As of 31 March 2018, the current value of defined benefit plan reported in the consolidated statement of financial position includes liabilities related to the key management personnel for 1,330 thousand rubles (as of 31 December 2017: 1,230 thousand rubles).

(d) Transactions with government-related entities

In the course of its operating activities, the Group is engaged in many transactions with government-related entities. These transactions are carried out in accordance with regulated tariffs or based on market prices.

Revenues from government related entities for the three months ended 31 March 2018 constitute 4.46% (for the three months ended 31 March 2017: 0.44%) of total Group revenues, including 3.96% (for the three months ended 31 March 2017: 0.44%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for government-related entities for the three months ended 31 March 2018 constitute 2.72% (for the three months ended 31 March: 2017: 5.31%) of total electricity transmission costs.

For the three months ended 31 March 2018 interest expenses on loans and borrowings from government-related banks constituted 88.62% of the total sum of accrued interest (the three months ended 31 March 2017: 98.94%).

As of 31 March 2018, balance of cash and cash equivalents held in government-related banks amounted to 1,072,745 thousand rubles (as of 31 December 2017: 952,544 thousand rubles.)

Information on loans and borrowings received from state-controlled banks is disclosed in Note 18.

24 Events after the reporting period

From 1 April to 16 April 2018 “Kubanenergo” PJSC acquired loans from “Sberbank” PJSC in the amount of 309,554 thousand rubles to finance its investment activity.