“Kubanenergo” PJSC

Consolidated Financial Statements prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2018 (unaudited)

March 2019

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(in thousands of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2018	2017
Revenue	7	46,457,896	42,305,075
Operating expenses	9	(43,862,967)	(39,093,953)
Other income, net	8	934,067	653,502
Results from operating activities		**3,528,996**	**3,864,624**
Finance income	11	90,777	72,649
Finance costs	11	(1,955,310)	(2,022,610)
Net finance costs		**(1,864,533)**	**(1,949,961)**
Profit before income tax		**1,664,463**	**1,914,663**
Income tax expense	12	(864,592)	(1,197,526)
Profit for the period		**799,871**	**717,137**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit liability		54,098	(14,380)
Income tax	12	(10,819)	2,876
Total items that will not be reclassified subsequently to profit or loss		**43,279**	**(11,504)**
Other comprehensive income for the period, net of income tax		**43,279**	**(11,504)**
Total comprehensive income for the period		**843,150**	**705,633**
Profit attributable to:			
Owners of the Company		799,871	717,137
Total comprehensive income attributable to:			
Owners of the Company		843,150	705,633
Earnings per share			
Basic and diluted earnings per ordinary share (in Russian rubles)	22	2.63	2.36

These Consolidated Financial Statements were approved by the management on **18 March 2019** and were signed on its behalf by:

Director General
(by the power of attorney of 12.12.2018,
registry No.23/256-н/23-2018-12-75) O.V. Ocheredko

Chief Accountant I.V. Skiba

The accompanying notes are an integral part of theses Consolidated Financial Statements.

(in thousands of Russian rules, unless otherwise stated)

	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	13	55,871,787	52,588,454
Intangible assets	14	248,821	150,435
Trade and other receivables	19	17,253	25,760
Assets related to employee benefits plans	25	291,221	318,910
Financial investments	16	1	1
Deferred tax assets	17	992,148	1,203,443
Total non-current assets		**57,421,231**	**54,287,003**
Assets classified as held for sale	15	39,045	–
Total non-current assets		**57,460,276**	**54,287,003**
Current assets			
Inventories	18	1,888 ,232	1 584,669
Income tax prepayments		258,888	317,458
Trade and other receivables	19	6,811,459	6,694,054
Cash and cash equivalents	20	2,204,921	1,681,043
Total current assets		**11,163,500**	**10,277,224**
Assets classified as held for sale	15	20,931	8,492
Total current assets		**11,184,431**	**10,285,716**
Total assets		**68,644,707**	**64,572,719**
EQUITY AND LIABILITIES			
Equity			
Share capital	21	30,379,335	28,286,813
Reserve for issue of shares		–	2,092,522
Share premium		6,481,916	6,481,916
Other reserves		(193,574)	(236,851)
Retained earnings		(7,739,922)	(8,218,225)
Total equity attributable to owners of the Company		**28,927,755**	**28,406,175**
Non-current liabilities			
Loans and borrowings	23	13,283,239	22,617,796
Trade and other payables	26	1,246 ,982	987,357
Employee benefits liabilities	25	453,065	611,115
Government grants		24,809	37,256
Total non-current liabilities		**15,008,095**	**24,253,524**
Current liabilities			
Loans and borrowings	23	11,395,901	91,686
Trade and other payables	26	12,512,189	10,900,665
Provisions	27	788,366	905,937
Government grants		12,401	12,355
Current income tax liabilities		–	2,377
Total current liabilities		**24,708,857**	**11,913,020**
Total liabilities		**39,716,952**	**36,166,544**
Total equity and liabilities		**68,644,707**	**64,572,719**

The accompanying notes are an integral part of theses Consolidated Financial Statements.

(in thousands of Russian rubles, unless otherwise stated)

		Year ended 31 December	
	Notes	**2018**	**2017**
OPERATING ACTIVITIES			
Profit for the period		**799,871**	**717,137**
Adjustments for:			
Depreciation and amortization	9	3,587,632	3,174,946
Impairment / (reversal of impairment) of property, plant and equipment	9	386	–
Finance costs	11	1,955,310	2,022,610
Finance income	11	(90,777)	(72,649)
Loss on disposal of property, plant and equipment		33,198	42,526
Loss on disposal of intangible assets	8	1,173	11,908
Allowance for expected credit losses	9	(87,780)	(73,160)
Bad debt write-off		(7,827)	(4,878)
Accounts payable write-off	8	(17,775)	(40,302)
Change in reserve		(117,571)	(1,540,392)
Change in government grants		(12,401)	(14,161)
Other non-cash transactions		(68,718)	(99,386)
Income tax expense	12	864,592	1,197,526
Total effect of adjustments		**6,839,313**	**5,321,725**
Change in financial assets related to employee benefit liabilities		27,689	(8,094)
Change in employee benefit liabilities		(145,554)	(22,868)
Operating cash flow before changes in working capital		**6,721,448**	**5,290 ,763**
Changes in working capital:			
Change in trade and other receivables		(14,712)	116,700
Change in inventories		(298,356)	(115,496)
Change in trade and other payables		2,066,468	2,046,667
Operating cash flow before income tax and interest paid		**8,474,848**	**7,338,634**
Income tax paid		(607,923)	(584,725)
Interest paid		(2,279,789)	(2,079,716)
Net cash flows from operating activities		**5,587,136**	**4,674,193**
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(6,789,634)	(7,487,957)
Proceeds from the sale of property, plant and equipment and intangible assets		–	1 300
Interest received		82,702	48,556
Net cash (used in) investing activities		**(6,706,932)**	**(7,438,101)**
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		39,099,179	41,498,408
Repayment of loans and borrowings		(37,134,354)	(37,793,251)
Proceeds from issuance of shares		–	20 358
Dividends paid	21	(321,151)	(534,662)
Net cash from financing activities		**1,643,674**	**3,190,853**
Net increase in cash and cash equivalents		**523,878**	**426,945**
Cash and cash equivalents at the beginning of the reporting period	20	**1,681,043**	**1,254,098**
Cash and cash equivalents at the end of the reporting period	20	**2,204,921**	**1,681,043**

The accompanying notes are an integral part of theses 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**
Balance at 31 December 2017	**28,286,813**	**6,481,916**	**2,092,522**	**(236,851)**	**(8,218,225)**	**28,406,175**
Effect of adoption of new financial reporting standards (Note 2*i*)	–	–	–	(2)	2	–
Balance at 1 January 2018 (restated)	**28,286,813**	**6,481,916**	**2,092,522**	**(236,853)**	**(8,218,223)**	**28,406,175**
Profit for the period	–	–	–	–	799,871	799,871
Other comprehensive income						
Remeasurements of defined benefit liability (Note 25)	–	–	–	54,098	–	54,098
Income tax relating to other comprehensive income (Note 12)	–	–	–	(10,819)	–	(10,819)
Total comprehensive income for the period	**–**	**–**	**–**	**43,279**	**799,871**	**843,150**
Transactions with owners of the Company						
Contributions and distributions						
Issue of shares (Note 21)	2,092,522	–	(2,092,522)	–	–	–
Dividends to shareholders (Note 21)	–	–	–	–	(321,570)	(321,570)
Total transactions with owners of the Company	**2,092,522**	**–**	**(2,092,522)**	**–**	**(321,570)**	**(321,570)**
Balance at 31 December 2018	**30,379,335**	**6,481,916**	**–**	**(193,574)**	**(7,739,922)**	**28,927,755**

(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**
Balance at 1 January 2017	**28,286,813**	**6,481,916**	**2,072,164**	**(225,347)**	**(8,400,237)**	**28,215,309**
Profit for the period	–	–	–	–	717,137	717,137
Other comprehensive income						
Remeasurements of defined benefit liability (Note 25)	–	–	–	(14,380)	–	(14,380)
Income tax relating to other comprehensive income (Note 12)	–	–	–	2,876	–	2,876
Total comprehensive income for the period	**–**	**–**	**–**	**(11,504)**	**717,137**	**705,633**
Transactions with owners of the Company						
Contributions and distributions						
Issue of shares (Note 21)	–	–	20,358	–	–	20,358
Dividends to shareholders (Note 21)	–	–		–	(535,125)	(535,125)
Total transactions with owners of the Company	**–**	**–**	**20,358**	**–**	**(535,125)**	**(514,767)**
Balance at 31 December 2017	**28,286,813**	**6,481,916**	**2,092,522**	**(236,851)**	**(8,218,225)**	**28,406,175**

1 Background

The Group and its operations

The primary activities of "Kubanenergo" PJSC (hereinafter referred to as the "Company") and its subsidiaries (hereinafter jointly referred to as the "Group" or "Kubanenergo Group Companies") are provision of electricity transmission and distribution services, and 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 reorganised 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 a 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 core activities of the Company are provision of electricity transmission and distribution services, and services for technological connection of consumers to the networks.

Joint stock companies wherein "Kubanenergo" PJSC owns 100% of the equity are disclosed in Note 5.

The Group's business environment

The Group operates in the Russian Federation.

Russia continues its economic reforms and development of its legal, tax and regulatory frameworks that would meet the requirements of market economy. The future stability of the Russian economy largely depends on these reforms and the effectiveness of economic, financial, and monetary measures undertaken by the government.

The sanctions imposed on Russia by a number of countries have negative impact on the Russian economy. The ruble interest rates remain high. The confluence of these factors has resulted in reduced access to capital and its higher cost as well as increased uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. The Group's Management believes it is taking appropriate measures to support the sustainability of the Group in the current circumstances.

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.

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 December 2018, the Russian Government owned 88.89% of the voting ordinary shares and 7.01% of the preference shares of "Rosseti" PJSC; "Rosseti" PJSC in its turn owns 92.78% of the Group's voting ordinary shares.

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; "Rosseti" PJSC in its turn owns 92.78% of the Group's voting ordinary shares.

The 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 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Each subsidiary of the Group individually maintains its accounts and prepares its statutory financial statements in accordance with the Russian Accounting Standards ("RAS"). The Group's consolidated financial statements are based on the accounting records under RAS with adjustments and reclassifications recorded in the consolidated financial statements for the fair presentation in accordance with IFRS.

b) Basis of measurement

The consolidated financial statements are prepared on the basis of historical (initial) cost, except for:

- financial assets measured at fair value through profit or loss

- financial assets measured at fair value through other comprehensive income

c) Functional and presentation currency

The Russian ruble (rubles, or rub.) is functional currency for the Group and the currency in which these consolidated financial statements are presented. All financial information presented in Russian rubles have been rounded to the nearest thousand.

d) Use of professional judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make professional judgements, assumptions and estimates 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 management reviews these estimates and assumptions on a continuous basis, by reference to the 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 recognised 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.

Professional judgements that have the most significant effect on the amounts recognised in these consolidated financial statements and estimates and assumptions that may require significant adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Impairment of fixed assets

As of each reporting date, the Group's management assesses whether there is any indication of impairment. Such indication includes changes in business plans, tariffs and other factors that lead to unfavourable consequences for the Group's activities. When value in use calculations are undertaken, the management estimates the expected future cash flow from an asset or cash generating units and chooses appropriate discount rate in order to calculate the present value of those cash flows. Detailed information is specified in note "Property, plants and equipment".

Impairment of accounts receivable

Provision for expected credit losses on receivables is based on the management’s assumptions of debt recovery made for each debtor individually. To evaluate credit losses, the Group consistently records all substantiated and corroborating information on past, current and anticipated events that can be obtained without extensive efforts and is appropriate for evaluation of accounts receivable. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Pension obligations

The costs of defined benefit pension plans and related costs of pension programme are determined using actuarial valuations. The actuarial valuations envisage demographic as well as financial assumptions. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Deferred tax assets recognition

At each reporting date the management assesses the deferred tax assets and determines the sum that will be reflected to the extent in which it is likely to be used as tax allowances. When determining future taxable profit and sum of related tax allowances, the management uses estimates and assumptions based on prior periods’ taxable profit and expectations related to the future profit that are believed to be reasonable under the circumstances.

Provision for lawsuits and claims

Provision for lawsuits and claims is formed based on the management’s assessment of possibly of unfavourable result of lawsuits and claims. To evaluate the provision, the Group consistently records all substantiated and corroborating information on past, current and anticipated events that can be obtained without extensive efforts and is appropriate for evaluation of accounts receivable. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

e) Change in accounting policies

The following new standards have been applied by the Group beginning on 1 January 2018:

i. IFRS 15 Revenue from Contracts with Customers

The Group recognises the revenue from contracts with customers when (or as) the entity fulfills an obligation on transfer of promised goods or services (assets) to a customer. The revenue is measured at the value of the 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).

Trade receivables.

Trade receivables represent the Group’s right to an amount of compensation that is unconditional (i.e., only the passage of time is required before payment is due).

Contract liabilities.

Contract liability is an obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs its obligations under the contract. The Group’s contract liabilities are recognised within “Advances received” line item included in long-term and short-term trade and other payables.

Electricity transmission services

Revenue from electricity transmission services is recognised over the period (billing month) and is estimated by the results method (cost of transferred electricity). The tariffs for transmission of electricity (in respect to all subjects of the Russian Federation) and sale of electricity on the regulated market (in respect of subjects of the Russian Federation that are not combined into the price zones of the wholesale electricity market) are approved by the executive authorities of subjects of the Russian Federation (hereinafter – regional regulatory authority) in the sphere of the state energy tariff regulation within the range of cap and (or) floor tariffs approved by the Federal Antimonopoly Service of the Russian Federation.

Technological connection services

Revenue from connection services represents non-refundable fee for connecting customers to electricity networks and is recognised when the customer is connected to the network. Payment for technological connection based on individual project, standard tariffs, rates per unit of maximum capacity and formulas for payment for connection to the network are approved by the Regional Energy Commission (Tariffs and Prices Department of Krasnodar region) and do not depend on revenue from electricity transmission services. Payment for connection to unified national (Russian) power network is approved by the Federal Antimonopoly Service.

The Group made judgment that technological connection service is a separate performance obligation that is recognised when the services are provided. Once connection services are performed, there is no any other obligations beyond the connection services contract. Practically and in accordance with the laws on electricity market, technological connection and electricity transmission contracts are negotiated separately with different customers as different sets of services and with different commercial objectives with no relation in the contracts in pricing, purpose, acceptance, or type of service.

Other services

Revenue from installation, repair and maintenance services and revenue from other sales are recognised when the customer obtains control over the asset.

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

New terms and definitions introduced by IFRS 15 and applied by the Group when preparing the consolidated financial statements:

Advances received are contract liabilities that constitute the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. As of 31 December 2017 such obligations were reflected as part of "Trade and other payables" and "Long-term and short-term trade and other payables" in the consolidate statement of financial position.

As required for the consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, terms and uncertainty of revenue and cash flows are affected by economic factors. The Group has also disclosed information about relationship between the disclosure of disaggregated revenue and information on revenue disclosed for each reportable segment. Such information is specified in Note 7.

The Group has also analysed the existing contracts in order to identify performance obligations, which did not result in changes in presentation of certain types of the Group's revenues. Detailed information is specified in Note 7.

ii. 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.

(in thousands of Russian rubles, unless otherwise stated)

According to IFRS 9, the financial assets are classified in the following measurement categories: those to be measured subsequently at amortised 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 as at amortised cost only 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 give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In respect of impairment, IFRS 9 supersedes 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 amortised 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, or 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 amortised 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 derecognised 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 recognise 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 9 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 other comprehensive income**	**Balance as at 1 January 2018 under IFRS 9**
Financial assets available-for-sale	1	(1)	–
Measurable at fair value through other comprehensive income	–	1	1
Total:	**1**	–	1

The impact of the changes on the Group’s equity, inclusive of deferred tax, was as follows:

(in thousands of Russian rubles, unless otherwise stated)

	Effect on available-for-sale reserve	Effect on measurable at fair value through other comprehensive income reserve	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**	–

The table below shows the original measurement category according to IAS 39 and the new measurement category according to IFRS 9:

	Measurement category		Carrying amount		
	IAS 39	IFRS 9	IAS 39	IFRS 9	Difference
Non-current financial assets					
Financial investments, including: Shares	*Available-for-sale*	*Measured at fair value through other comprehensive income*	1	1	–
Trade and other receivables, loans given	*Amortised cost*	*Amortised cost*	25,760	25,760	–
Current financial assets					
Trade and other receivables, loans given	*Amortised cost*	*Amortised cost*	6,694,054	6,694,054	–
Cash and cash equivalents	*Amortised cost*	*Amortised cost*	1,681,043	1,681,043	–
Non-current and current financial liabilities					
Loans and credits, payables	*Amortised cost*	*Amortised cost*	34,597,504	34,597,504	–

f) Change in presentation

Reclassification of comparative information

Certain comparative amounts for the previous period have been reclassified to conform to the current year's presentation. All reclassifications are immaterial.

i. Application of new and amended standards and interpretations

Except for changes in accounting policy described in section 2 (i), the following amendments and interpretations that took effect on 1 January 2018 did not have impact on these consolidated financial statements:

- Amendments to IFRS 2 – Classification and measurement of share-based payment transactions
- Amendments to IAS 40 – Transfer of investment property from one category to another
- Interpretations to IFRIC 22 – Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 28 – Investments in Associates and Joint Ventures
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

(in thousands of Russian rubles, unless otherwise stated)

The following new standards and interpretations have been released and will become effective for annual statements on or after 1 January 2019, and the Group did not adopt them early:

IFRS 16 Leases was issued in January 2016 and superseded 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 recognise all leases on 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 recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The Group will be required to recognise separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

In accordance with the transitional provisions of IFRS 16, the Group chose to apply the new rules retrospectively, with the cumulative effect of the initial application of the standard recognised as at 1 January 2019 recognizing the lease liability in the present value of the remaining lease payments using the Group’s rate on additional attraction of borrowed funds at the date of first application and the recognition of assets in the form of the right of use at a value equal to the lease liability, adjusted for the lease payments made in advance or accrued.

The Group plans to use the allowed practical simplifications and not apply the new standard to lease contracts that expire within 12 months from the date of transfer.

The Group mainly leases power facilities (power lines, electricity transmission equipment, etc.) and land plots. Land lease agreements were concluded in previous periods in respect of the plots on which the Group’s own power lines, electricity transmission equipment and other facilities are located. The Group also leases non-residential premises and vehicles.

The Group is assessing the effect of application of IFRS 16 and expects that application of IFRS 16 may have the following influence on the Group’s assets and liabilities:

	1 January 2019
Assets	
The right-of-use asset	1,148,740
Trade and other receivables	(12,583)
Liabilities	
Long-term lease liabilities	992,091
Short-term lease liabilities	193,520
Trade and other payables	(49,454)

In March 2018, the International Accounting Standards Board issued a revised version of Conceptual Framework for Financing Reporting. The new version becomes compulsory for application for annual periods after 1 January 2020. The Group is assessing the impact of the revised version on the consolidated financial statements.

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

- Explanation to IFRIC 23 – Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation
- Amendments to IFRS 3 – Definition of a Business
- Amendments to IFRS 11 – Joint Operations
- Amendments to IAS 12 – Income Tax – Income tax consequences of payments on financial instruments classified as equity

- Amendments to IAS 23 – Borrowing Costs
- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19 – Plan Amendments, Curtailments or Settlement
- Conceptual Framework for Financing Reporting
- IFRS 17 – Insurance Contracts
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets in Transactions between an Investor and its Associate or Joint Venture
- Amendments to IAS 1 and IAS 8 – Definition of Material
- Amendments to IFRS 10 and IAS 28 – Sale of Assets or their Transfer as Contribution between an Investor and its Associate or Joint Venture
- Annual improvements to IFRS: cycle 2014-2016
- Annual improvements to IFRS: cycle 2015-2017

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements**,** except changes in the accounting policy disclosed in Note 2(e) and related to the start of application of IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments from 1 January 2018.

a) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to risks connected with variable returns from its involvement with the entity or has the right to those returns and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

ii.Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Share capital

Ordinary shares and non-redeemable preference shares are classified as equity.

c) Property, plant and equipment

iii. Recognition and Remeasurements

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses. The cost of property, plant and equipment as at 1 January 2011, the date of transition to IFRS, was determined by using its fair value (deemed cost) at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed (built) assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within “Net other income” line within profit or loss for the period.

iv. Subsequent costs

The cost of replacing part (major component) of an item of property, plant and equipment increases the carrying amount of the item if it is highly probable that the Group will gain future economic benefits related to this part and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of profit or loss and other comprehensive income as incurred.

v. Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- buildings 1-83 years
- transmission networks 4-79 years
- equipment for electricity transmission 1-42 years
- other assets 1-50 years

Depreciation method, estimated useful lives and residual values of property, plant and equipment are reviewed at each reporting date and adjusted if necessary.

d) Intangible assets

Other intangible assets acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the statement of profit or loss and other comprehensive income as incurred.

Amortization expense on intangible assets is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives of intangible assets for the current and comparative periods are as follows:

- Licences and certificates 1-10 years
- Software 1-15 years

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if necessary.

e) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as financial leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum (discounted) lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and the leased assets are not recognised in the consolidated statement of the Group's financial position.

f) Inventories

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

Net realizable value is the estimated selling price in the ordinary course of the Group's activity, less the estimated costs of completion and selling expenses.

g) Advances given

Advances given are classified as non-current if they are connected with the acquisition of an asset which will be classified as non-current upon initial recognition. Advances given for the acquisition of an asset are included in its carrying amount upon the acquisition of control over the asset, and when it is probable that the Group will obtain economic benefit from its usage.

i. Financial assets

Allowance for expected credit losses on a financial instrument is estimated at each reporting date in an amount equal to the expected credit loss for the whole period, if the credit risk on this financial instrument has increased significantly since the moment of initial recognition, taking into account all substantiated and corroborate information, including estimates. For receivables, allowance for expected credit losses is always estimated as an amount equal to the expected credit losses over the entire term.

As indicators of a significant increase in credit risk, the Group considers actual or expected difficulties of the issuer or debtor on the asset, actual or expected violation of the terms of the contract, expected revision of the terms of the contract due to the financial difficulties of the debtor under unfavourable for the Group conditions which the Group would accept otherwise.

Based on the usual practice of credit risk management, the Group defines default as the counterparty's inability to fulfill its obligations (including repayment of funds under the contract) due to a significant deterioration in its financial position.

The impairment loss on a financial asset is accounted by recognizing an allowance for impairment. For a financial asset carried at amortised cost, the amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the initial effective interest rate.

If in subsequent periods the credit risk of the financial asset decreases as a result of an event that occurred after the loss was recognised, the previously recognised impairment loss is reversed by reducing the corresponding estimated reserve. As a result of the restoration, the carrying amount of the asset should not exceed its value, at which it would have been reflected in the statement of financial position if the impairment loss was not recognised.

ii. Non-financial assets

The carrying amount of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is presented as the greater of its two values: value in use of the asset (this unit) and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (cash-generating unit).

The Group’s common (corporate) assets do not generate separate cash inflows and are utilised by more than one cash-generating unit. Costs of corporate assets are allocated between units on a reasonable and consistent basis and tested for impairment as part of the testing of the unit to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses from cash-generating units are allocated to reduction of the carrying amount of assets in the cash-generating unit (group of cash-generating units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date to detect any indications that the loss has decreased or no longer exists. An impairment loss is reversed when there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

h) Employee benefits

i. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate (independent) fund and will have no further (legal or constructive) obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia’s State Pension Fund, are recognised as an employee benefit expense in profit or loss in the periods during which employees rendered their services. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

ii. Defined benefit plan

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The obligation recognised the consolidated statement of financial position with respect to defined benefit pension plans is a discounted amount of obligations as of the reporting date.

The discount rate is the yield at the end of the year on government bonds that have maturity dates approximating the terms of the Group’s obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss. Actuarial gains and losses on changes in actuarial assumptions are recognised in other comprehensive income/expense.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

iii. Other non-current employee benefits

The Group's net obligation with respect to long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The measurement is performed using the projected unit credit method. Remeasurements are recognised in profit or loss in the period in which they arise.

iv. Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably and it is highly probable that there will be an outflow of economic benefits.

i) Provisions

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

j) Government grants

Government grants are recognised if there is reasonable assurance that the grant will be received and all the attached conditions will be compiled with. When the grant is received for financing certain expenses, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant is received to finance an asset, it is recognised as income, less the related expenses, in equal amounts over the expected useful life of the related asset.

Government grants that compensate the Group for electricity tariffs (lost income) are recognised in the consolidated statement of profit or loss and other comprehensive income in the same periods in which the respective revenue is earned.

k) Other expenses

vi. Lease payments

Payments made under operating leases are recognised in profit or loss equally over the term of the lease. The amount of received lease incentives reduces the total lease expenses over the term of the lease.

Minimum lease payments made under finance leases are divided into two components: the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At the moment of making an arrangement, the Group determines whether it complies with the definition of a lease contract or contains indicators of a lease. A specific asset is the subject of a lease if the arrangement can be fulfilled only by the use of that specific asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At the moment of assessment or reassessment of the arrangement, the Group separates payments and other considerations required by such an arrangement into those for the lease and those for other elements proportionately to their fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset contract. Subsequently recognised liability is reduced as payments are made and an imputed finance expense is recognised.

vii. Social expenditures

To the extent that the Group's contributions to social programmes benefit the community at large without creating constructive obligations to provide such benefit in the future and are not restricted to the Group's employees, they are recognised in the income or loss as incurred. Group costs related to the financing of social programmes, without making a commitment with respect to such financing in the future date, are recognised in the consolidated statement of profit or loss and other comprehensive income as they arise.

l) Finance income and costs

Finance income includes interest income on funds invested, dividend income, gains on the disposal of financial assets measured at fair value and measured at amortised cost, and discounts on financial instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs are comprised of interest expense on borrowings, financial leasing, losses on disposal of financial assets measured at fair value and measured at amortised cost, and effect of discounts on financial instruments. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss of the period using the effective interest method.

m) Income tax expense

Income tax expense is comprised of current and deferred taxes. Current and deferred taxes are recognised in profit or loss, except to the extent that it relates to transactions on business combination, or items recognised in other comprehensive income or directly in equity.

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

Deferred tax is recognised with respect to temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. Deferred tax is not recognised not:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination, and that affects neither accounting nor taxable profit or tax loss;
- temporary differences related to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not be reversed in the foreseeable future.

The measurement of deferred tax reflects the tax consequences that would arise out of the manner in which the Group expects to recover or settle the carrying amount of its assets and liabilities at the end of the reporting period.

The amount of deferred tax is determined on the basis of tax rates that are expected to be applied in the future, at the time of recovery of temporary differences, based on the effective or substantively enacted legislation as of the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and fines may be due. The Group accrues tax liabilities based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions, and may involve a series of judgments about future events. New information may become available that may cause the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(in thousands of Russian rubles, unless otherwise stated)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

n) Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Profit attributable to ordinary shareholders is calculated by adjusting profit attributable to owners of the Company by profit attributable to holders of preference shares.

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 categorised 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 categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised 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 recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

5. Subsidiaries

The Group of companies "Kubanenergo" includes Kubanenergo PJSC and its subsidiaries, as described below:

			Ownership/voting shares, %	
Subsidiary	**Country of incorporation**	**Core activity**	**31 December 2018**	**31 December 2017**
"Recreation Centre "Energetik" JSC	Russian Federation	Recreational services	100	100
"Energoservice of Kuban" JSC	Russian Federation	Repair services	100	100

As defined by the court on 2 September 2015, the bankruptcy proceedings were initiated against "Recreation Centre "Plamya" JSC. Therefore, since then the Company has lost control over the subsidiary and recognised the exclusion of the subsidiary in the consolidated financial statements for the year 2015. In accordance with the decisions of the court of 23 January 2017, the bankruptcy proceedings against Recreation Centre "Plamya" JSC were extended till 23 March 2017.

By the decision of the Commercial Court of Krasnodar region of 11 December 2017 on case A-32-31443/2014 37/71-Б, the bankruptcy proceedings against "Recreation Centre "Plamya" JSC were completed. The date of making the dissolution entry into the Uniform State Register of Legal Entities: 31 January 2018.

(in thousands of Russian rubles, unless otherwise stated)

6. Segment information

The Management Board of "Kubanenergo" PJSC is the supreme body responsible for operating decisions.

The Group's main activities are services on transmission and distribution of electricity, and technological connection services in particular regions of the Russian Federation (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 analysed by the Management Board. The indicator EBITDA is calculated as profit or loss 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 region and the Republic of Adygea) and is managed as a whole. The segment "Other" includes several operating segments the primary activities of which are the provision of repair services, rent services, and recreational activity.

Segment items are based on managerial information prepared on the basis of reports under RAS and may 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.

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

(a) Information on reportable segments

For the year ended 31 December 2018:

	Kubanenergo	Other segments	Total
Revenue from external customers	46,398,767	60,138	46,458,905
Inter-segment revenue	2,312	44,046	46,358
Segment revenue	**46,401,079**	**104,184**	**46,505,263**
including			
Electricity transmission	45,583,484	−	45,583,484
Technological connection services	602,467	−	602,467
Other revenue	215,128	104,184	319,312
Finance income	90,596	194	90,790
Finance costs	(1,911,383)	(17)	(1,911,400)
Depreciation and amortization	3,978,240	1,720	3,979,960
Segment profit before tax	**1,279,818**	**1,913**	**1,281,731**
EBITDA	**7,169,441**	**3,650**	**7,173,091**
Segment assets	**75,908,815**	**79,547**	**75,988,362**
Including property, plant and equipment and construction in progress	62,534,635	29,617	**62,564,252**
Capital investment	6,950,196	2,606	**6,952,802**
Segment liabilities	**40,670,269**	**30,717**	**40,700 ,986**

For the year ended 31 December 2017:

	Kubanenergo	Other segments	Total
Revenue from external customers	42,250,391	54,684	**42,305,075**
Inter-segment revenue	2,636	104,826	**107,462**

(in thousands of Russian rubles, unless otherwise stated)

Segment revenue	**42,253,027**	**159,510**	**42,412,537**
including			
Electricity transmission	41,485,670	–	**41,485,670**
Technological connection services	647,952	–	**647,952**
Other revenue	119,405	159,510	**278,915**
Finance income	47,525	181	**47,706**
Finance costs	(1,907,082)	(43)	**(1,907,125)**
Depreciation and amortization	3,782,780	3 808	**3,786,588**
Segment profit before tax	**1,167,674**	**46,535**	**1,214,209**
EBITDA	**6,857,536**	**50,386**	**6,907,922**
Segment assets	**71,856,753**	**110,586**	**71,967,339**
Including property, plant and equipment and construction in progress	59,659,050	28,864	**59,687,914**
Capital investment	7,298,165	64	**7,298,229**
Segment liabilities	**36,447,835**	**53,173**	**36,501,008**

(b) Reconciliation of main segment indicators of the Group with the corresponding indicators in the consolidated financial statements

Reconciliation of segments revenues:

	Year ended 31 December	
	2018	**2017**
Segment revenue	**46,505,263**	**42,412,537**
Inter-segment revenue elimination	(46,358)	(107,462)
Adjustments for sales revenue (external)	(1,009)	–
Revenues per consolidated statement of profit or loss and other comprehensive income	**46,457,896**	**42,305,075**

Reconciliation of reportable segment EBITDA:

	Year ended 31 December	
	2018	**2017**
EBITDA of reportable segments	**7,173,091**	**6,907 ,922**
Recognition of retirement and other long-term employee benefit obligations	117,863	51,686
Adjustment for intangible assets	58,125	9,708
Adjustment for payables	9,024	10,548
Discounting receivables	5,038	2,878
Discounting payables	4,017	1,618
Adjustment for doubtful accounts receivable	1,382	(140)
Adjustment for impairment of other financial assets	(1,552)	9,584
Adjustment of revenue from electricity transmission services	(11,915)	49
Adjustment of value of property, plant and equipment	(16,148)	(149)
Additional accrual of estimated liabilities	(27,525)	–
Taxes adjustment	(88,016)	(3,696)
Adjustment for accrual of provision for unused vacations and bonuses	(14,056)	108,227
Other adjustments	(8,397)	4,587
EBITDA	**7,200,931**	**7,102,822**
Depreciation and amortiszation	(3,581,158)	(3,165,549)
Interest expenses on financial liabilities	(1 955 310)	(2,022,610)
Income tax expense	(864,592)	(1,197,526)
Consolidated profit/loss for the year per statement of profit or loss and other comprehensive income	799,871	**717,137**

Reconciliation of total sum of segment assets:

	Year ended 31 December	
	2018	**2017**
Total segment assets	**75,988,362**	**71,967,339**
Deferred tax adjustment	291,221	319,869
Recognition of assets related to employee benefits	226 580	318,910
Adjustment for financial investments	8,132	9,684
Adjustment for bad debt provision	1,856	428
Inter-segment balances	(6,031)	(59,031)

(in thousands of Russian rubles, unless otherwise stated)

Discounting of receivables	(7,451)	(8,602)
Writing-off of receivables	(12,920)	(958)
Reduction of advances receivable by the amount VAT on advances given	(20,655)	(152)
Intragroup financial assets	(45,687)	(45,687)
Adjustment for intangible assets	(77,745)	(65,936)
Reduction of VAT recoverable by the amount of VAT on advances received	(1,048,328)	(750,713)
Adjustment for property, plant and equipment	(6 632 489)	(7,090,966)
Other adjustments	(20,138)	(21,466)
Total assets per consolidated statement of financial position	**68,644,707**	**64,572,719**

Reconciliation of total sum of segment liabilities:

	Year ended 31 December	
	2018	**2017 (restated)**
Total segment liabilities	**40,700,986**	**36,501,008**
Recognition of pension and other long-term employee benefit liabilities	453,065	611,115
Adjustment for accrual of provision for unused vacations and bonuses	136,455	122,399
Additional adjustment for litigation provision	27,525	–
Inter-segment settlements	(6,031)	(59,031)
Reduction of other payables by the sum of VAT on advances received	(20,655)	(152)
Write-off of deferred income	(86,031)	(77,007)
Adjustment for deferred tax	(438,986)	(179,076)
Reduction in accounts payable on advances received by the amount of VAT on advances received	(1,048,328)	(750,713)
Other adjustments	(1,048)	(1,999)
Total liabilities per consolidated statement of financial position	**39,716,952**	**36,166,544**

(c) Major customer

The Group operates in the Russian Federation. The Group does not earn revenue from foreign customers and does not hold non-current assets abroad.

Within the years ended 31 December 2018 and 31 December 2017, the Group had two customers with individual turnover exceeding 10% of total revenue of the Group. The revenue from these customers is specified in statements of operating segments of Kubanenergo.

Total sum of revenue from Customer 1 in 2018 amounted 21,148,161 thousand rubles, or 45.58% of the total Group's revenue (in 2017: 19,375,047 thousand rubles, or 45.80%). Total sum of revenue from Customer 2 за 2018 in 2018 amounted 16,404,971 thousand rubles, or 35.36% of the total Group's revenue (in 2017: 15,112,964 thousand rubles, or 35.72%).

(in thousands of Russian rubles, unless otherwise stated)

7. Revenue

	Year ended 31 December	
	2018	**2017**
Electricity transmission	45,568,738	41,483,734
Technological connection services	602,467	647,952
Rental income	25,907	22,430
Repairs and maintenance	33,300	32,931
Other revenue	227,484	118,028
	46,457,896	**42,305,075**

Other revenue mainly comprises revenue from rendering services related to restriction of electricity consumption, assembling and dissembling of electrical meters, rendering services related to electricity metering and other services.

In accordance with IFRS 15 Revenue from Contracts with Customers that became effective on 01.01.2018, below is information on the terms of recognition of revenue by the Group:

	Year ended 31 December 2018		
	Services are provided over a period of time	**Services are provided at a point in time**	**Total**
Electricity transmission	45,568,738	–	**45,568,738**
Technological connection services	–	602,467	**602,467**
Rental income	25,907		**25,907**
Repairs and maintenance	–	33,300	**33,300**
Other revenue	–	227,484	**227,484**
Total revenue from contracts with customers	**45,594 645**	**863,251**	**46,457,896**

8. Other income/(expense), net

	Year ended 31 December	
	2018	**2017**
Income from identified non-contracted electricity consumption	98,171	32,240
Income in the form of fines and penalties on commercial contracts	767,286	472,387
Income from inventories and property, plant and equipment received free of charge	33,648	62,937
Income from inventories received after liquidation of property, plant and equipment	3,933	7,042
Income from disposal of property, plant and equipment	216	127
Expenses on write-off of property, plant and equipment, including advances on property, plant and equipment	(37,347)	(42,653)
Insurance coverage. net	51,558	93,028
Account payables write-off	17,775	40,302
Loss on disposal of intangible assets	(1,173)	(11,908)
	934,067	**653,502**

(in thousands of Russian rubles, unless otherwise stated)

9. Operating expenses

	Year ended 31 December	
	2018	**2017**
Personnel costs	6,318,613	5,602,477
Depreciation and amortization	3,581,158	3,165,549
Impairment/(reversal of impairment) of property, plant and equipment	386	–
Material expenses, including:		
Electricity for compensation of losses	7,704,477	7,598,384
Purchased electricity and thermal power for own needs	110,684	112,949
Other material costs	1,297,413	1,005,380
Production work and services, including:		
Electricity transmission services	19,713,280	17,096,278
Repair and maintenance services	468,217	390,415
Other works and industrial services	57,356	143,664
Taxes and levies other than income tax	974,689	669,274
Rent	240,428	243,658
Insurance	77,243	76,172
Other third-party services, including:		
Communication services	68,092	62,236
Security services	230,866	203,994
Consulting, legal and audit services	75,549	120 442
Expenses on software and support	92,735	70,748
Transportation services	2,144	3,213
Implementation of service contracts	1,072,229	615,393
Other services	41,301	59,282
Provision for expected credit losses	(87,780)	(73,160)
Provisions	493,137	1,192,119
Travel expenses	244,548	169,191
Expenses on maintenance of the property	72,873	129,556
Expenses on services for organization, functioning and development of UES	118,322	76,485
Expenses recognised as fines, penalties and forfeitures for violation of contract conditions	63,790	32,691
Profits and losses of previous years	891,119	312,355
Other (profit)/loss	(59,902)	15,208
	43,862,967	**39,093,953**

Provisions are accrued liabilities arising from lawsuits filed against the Group regarding its core activities.

10. Personnel costs

	Year ended 31 December	
	2018	**2017 (restated)**
Wages and salaries	4,688 ,541	4,090,100
Social security contributions	1,417,154	1,231,396
Expenses related to defined benefit plan	(89,097)	31,632
Other	302,015	249,349
	6,318,613	**5,602,477**

The amount of contribution to the defined contribution plan was 56 455 thousand rubles for the year ended 31 December 2018 (for the year ended 31 December 2017: 54 500 thousand rubles).

The amount of remuneration paid to the key executives is disclosed in Note 32.

11. Finance income and cost

	Year ended 31 December	
	2018	**2017**
Finance income		
Interest income on loans, bank deposits, bills and balances in bank accounts	81,722	47,429

(in thousands of Russian rubles, unless otherwise stated)

Interest income from assets related to employee benefits payable	–	20,724
Effect of initial discounting of financial liabilities	4,017	1,618
Amortization of discount on financial assets	5,038	2,878
	90,777	**72,649**

	Year ended 31 December	
	2018	**2017**
Finance costs		
Interest expenses on financial liabilities measured at amortised cost	(1,787,665)	(1,969,816)
Interest expense on long-term employee benefits payable	(41,600)	(43,790)
Effect of initial discounting of financial assets	(3,887)	(6,968)
Amortization of discount on financial liabilities	(4,065)	(2,036)
Other finance costs	(118,093)	–
	(1,955,310)	**(2,022,610)**

Other finance costs are interest accrued on payables restructuring contracts.

12. Income tax

	Year ended 31 December 2018	
	2018	**2017 (restated)**
Current income tax		
Accrual of current tax	(615,644)	(635,605)
Adjustment for previous periods tax	(48,472)	(130)
Total	**(664,116)**	**(635,735)**
Deferred income tax		
Accrual and reversal of temporary differences	(200,476)	(561,791)
Total	(200,476)	(561,791)
Income tax expense	**(864,592)**	**(1 197,526)**

Income tax recognised in other comprehensive income:

	Year ended 31 December 2018			Year ended 31 December 2017		
	Before tax	**Income tax**	**Net of tax**	**Before tax**	**Income tax**	**Net of tax**
Remeasurements of the defined benefit liability	54,098	(10,819)	43,279	(14,380)	2,876	(11,504)
	54,098	**(10,819)**	**43,279**	**(14,380)**	**2,876**	**(11,504)**

In 2018 and 2017 "Kubanenergo" PJSC and its subsidiaries used standard rate of income tax for Russian companies, which was 20%. This rate has been used for calculation of deferred tax assets and liabilities.

Profit (loss) before tax is reconciled to income tax expenses as follows:

	Year ended 31 December 2018	%	Year ended 31 December 2017	%
Profit/(loss) before income tax	**1,664,463**	**(100)**	**1,914,663**	**(100)**
Income tax at the applicable tax rate	**(332,893)**	**(20)**	**(382 932)**	**(20)**
Tax effect on not taxable or non-deductible for tax purposes items	(640,901)	(39)	(819,423)	(43)
Adjustments for prior years	109,429	6	(130)	(0,01)
Change in unrecognised deferred tax assets	–	–	4,959	0,26
	(864,592)	**(52)**	**(1,197,526)**	**(63)**

(in thousands of Russian rubles, unless otherwise stated)

13. 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	235	(106)	(383)	254	–	–
Additions	2,271	8 ,123	126,899	152,614	7,280,233	7,570 140
Commissioning	395,697	1,930,227	1,497,213	386,552	(4,209,689)	–
Disposal	(2,414)	(20,311)	(24,183)	(29,796)	(72,465)	(149,169)
Transfer to non-current assets held for sale	–	–	–	–	–	–
At 31 December 2017	**7,843,727**	**38,083,459**	**16,002,370**	**7,682,998**	**8,367,283**	**77,979,837**
Accumulated 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	(132)	4	395	(267)	–	–
Introduction of property, plant and equipment (reallocation of impairment)	(107)	(9,196)	(7,271)	(368)	16,942	–
Depreciation charge	(260,735)	(1,390,024)	(859,938)	(597,393)	–	**(3,108,090)**
Disposals	1,425	4,857	14,045	26,903	274	**47,504**
Reclassification in non-current assets held for sale	–	–	–	–	–	–
Impairment/(reversal of impairment)	–	–	–	–	–	–
At 31 December 2017	**(2,609,739)**	**(10,717,364)**	**(6,962,311)**	**(5,009,642)**	**(92,327)**	**(25,391,383)**
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 December 2017	**5,233,988**	**27,366,095**	**9,040,059**	**2,673 ,356**	**8,274,956**	**52,588,454**

(in thousands of Russian rubles, unless otherwise stated)

	Land and buildings	**Electricity transmission networks**	**Equipment for electricity transmission**	**Other**	**Construction in progress**	**Total**
Initial cost						
At 1 January 2018	**7,843,727**	**38,083,459**	**16,002,370**	**7,682,998**	**8,367,283**	**77,979,837**
Reclassification between groups	(6,178)	(446)	6,624	–	–	–
Additions	175	15,360	63,364	103,837	6,740,500	6,923,236
Commissioning	242,401	1,328,948	1,938,708	187,974	(3,698,031)	–
Disposals	(1,062)	(51,925)	(11,759)	(24,377)	(33,280)	(122,403)
Reclassification in non-current assets held for sale	(760)	–	–	10 755	(64 281)	(54 286)
At 31 December 2018	**8,078,303**	**39,375,396**	**17,999,307**	**7,961,187**	**11,312,191**	**84,726,384**
Accumulated depreciation and impairment						
At 1 January 2018	**(2,609,739)**	**(10,717,364)**	**(6,962,311)**	**(5,009,642)**	**(92,327)**	**(25,391,383)**
Reclassification between groups	3,303	625	(3,553)	(375)	–	–
Introduction of property, plant and equipment (reallocation of impairment)	(1,026)	(587)	(6,540)	(163)	8,316	–
Depreciation charge	(283,491)	(1,640,231)	(977,051)	(606,939)	–	(3,507,712)
Disposals	633	16,081	7,116	17,192	5,897	46,919
Reclassification in non-current assets held for sale	228	–	–	(2,263)	–	(2,035)
Impairment/(reversal of impairment)	–	(198)	–	–	(188)	(386)
At 31 December 2018	**(2,890,092)**	**(12,341,674)**	**(7,942,339)**	**(5,602,190)**	**(78,302)**	**(28,854,597)**
Net book value						
At 1 January 2018	**5,233,988**	**27,366,095**	**9,040,059**	**2,673,356**	**8,274,956**	**52,588,454**
At 31 December 2018	**5,188,211**	**27,033,722**	**10,056,967**	**2,358,998**	**11,233,889**	**55,871,787**

As at 31 December 2018, construction in progress included advance payments for property, plants and equipment in amount of 399,165 thousand rubles (as at 31 December 2017: 1,071,716 thousand rubles), as well as materials for construction of property, plant and equipment in amount of 891,031 thousand rubles, (as at 31 December 2017: 655,135 thousand rubles).

Capitalised interest for the year ended 31 December 2018 amounted to 378,864 thousand rubles (for the year ended 31 December 2017: 121,886 thousand rubles), capitalisation rate was 7.48% (for the year ended 31 December 2017: 7.85%).

For the year ended 31 December 2018, the depreciation payments were capitalised into the cost of capital facilities in the amount of 6,117 thousand rubles (for the year ended 31 December 2017: 8,281 thousand rubles).

As at 31 December 2018 and 31 December 2017, there are no property, plants and equipment pledged as collateral for loans and borrowings.

Impairment of property, plant and equipment

As the indicators of impairment of non-current assets were revealed, the Group performed an impairment test as at 31 December 2018. For this reason, the Group analysed cash flows and compared the estimated recoverable amount with the carrying amounts of non-current assets.

The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value of the property, plant and equipment.

Therefore, the value in use for property, plant and equipment as at 31 December 2018 was determined using projected cash flows method. This method considers the future net cash flows expected to be generated by the property, plant and equipment in the process of operating activities and upon disposal, to determine the recoverable amount of the assets.

Cash-generating units are determined by the Group based on the geographical location of the branches and subsidiaries which are the smallest identifiable groups of assets that generate cash inflows regardless of other assets of the Group.

The following key assumptions were used in assessing the recoverable amount of the cash generating units:

The forecast cash flows have been determined for 2019-2023 for all cash-generating unit and are based on the best estimate of the Group's management in respect of the electricity transmission volumes, operating expenses and capital expenditures and tariffs approved by regulatory authorities for 2019.

Tariffs for electricity transmission services for the forecasted period were estimated using business plan indicators, which were based on the tariff models formed taking into account average annual growth of tariffs for electricity transmission in accordance with the medium-term forecast of social and economic development of the Russian Federation for 2024 (baseline scenario) that was prepared in 01.10.2018 for 2018 and planning period 2019-2023. Growth rates of tariffs in 2019-2023 are limited by inflation rates as forecasted by the Ministry for Economic Development at a rate of 4%.

Forecasted electricity transmission volumes for "Kubanenergo" PJSC were determined based on annual business plans for 2019-2023.

Projected cash flows were discounted to their present value using the nominal weighted average cost of capital (WACC) of 10%.

Terminal growth rate of the net cash flows in the post-forecast period amounted to 4%.

By the results of testing as of 31 December 2018 no impairment of property, plant and equipment was identified.

The sensitivity of the recoverable amount of property, plant and equipment to changes in the principal assumptions is as follows:

(in thousands of Russian rubles, unless otherwise stated)

	Increase,%	Decrease,%
Change in discount rate by 0.25%	(3,33)	3,61
Change in required gross proceeds to basis by 3% in each period	26,00	-26,27
Change in growth rate of the net cash flows in the post-forecast period by 1%	13,23	(9,45)
Change in productive supply in each period by 0.5%	4,38	(4,38)
Change in operating expenses by 5%	(37,45)	35,55
Change in (capital) investments by 10%	(2,05)	2,05

Analysis of sensitivity on material assumptions which form the basis for impairment model for "Kubanenergo" PJSC as at 31 December 2018, is presented below:

- ***growth of discounting rate up to 11%:***
  - leads "Kubanenergo" PJSC to impairment loss in amount of 5,078,981 thousand rubles;
- ***reduction of the required gross revenue to the base value in each period by 3%:***
  - leads "Kubanenergo" PJSC to impairment loss in amount of 13,340,970 thousand rubles;
- ***increase in the level of operating expenses to the base value in each period by 5%:***
  - leads "Kubanenergo" PJSC to impairment loss in amount of 19,786,338 thousand rubles;
- ***increase in the level of capital investments in the forecast and post-forecast period by 10%:***
  - does not lead "Kubanenergo" PJSC to impairment loss;
- ***decrease in growth rate of net cash flow in the post-forecast period by 1%:***
  - leads "Kubanenergo" PJSC to impairment loss in amount of 3,652,186 thousand rubles.
- ***reduction of productive supply in each period by 0.5%:***
  - leads "Kubanenergo" PJSC to impairment loss in amount of 728,797 thousand rubles.

14. Intangible assets

	Software	Licences and certificates	R&D	Other	Total
Initial cost					
At 1 January 2017	**269,089**	**5 ,295**	**26,144**	**11,541**	**312,069**
Reclassification between groups	11,633	–	(11,633)	–	–
Additions	96,905	–	12,559	11,508	120,972
Disposals	–	–	(11,908)	–	(11,908)
At 31 December 2017	**377,627**	**5,295**	**15,162**	**23,049**	**421,133**
At 1 January 2018	**377,627**	**5,295**	**15,162**	**23,049**	**421,133**
Reclassification between groups	–	–	(5,188)	5,188	–
Additions	139,414	–	32,133	7,932	179,479
Disposals	(11,852)	–	(1,173)	–	(13,025)
At 31 December 2018	**505,189**	**5,295**	**40,934**	**36,169**	**587,587**
Accumulated amortization and impairment					
At 1 January 2017	**(193,678)**	**(5,295)**	**–**	**(4,869)**	**(203,842)**
Reclassification between groups	–	–	–	–	–
Amortization charge	(61,953)	–	–	(4,903)	(66,856)
Disposals	–	–	–	–	–
Impairment / reversal of impairment	–	–		–	–
At 31 December 2017	**(255,631)**	**(5,295)**	**–**	**(9,772)**	**(270,698)**
At 1 January 2018	**(255,631)**	**(5,295)**	–	**(9,772)**	**(270,698)**
Reclassification between groups			–	–	–
Amortization charge	(74,590)	–	–	(5,330)	(79,920)

(in thousands of Russian rubles, unless otherwise stated)

Disposals	11,852	–	–	–	11,852
Impairment / reversal of impairment	–	–	–	–	–
At 31 December 2018	**(318,369)**	**(5,295)**	**–**	**(15,102)**	**(338,766)**
Net book value					
At 1 January 2017	**75,411**	**–**	**26,144**	**6,672**	**108,227**
At 31 December 2017	**121,996**	**–**	**15,162**	**13,277**	**150,435**
At 31 December 2018	**186,820**	**–**	**40,934**	**21,067**	**248,821**

The sum of amortization of intangible assets included in operating expenses in the consolidated statements of profit and loss and other comprehensive income, amounted 79,742 thousand rubles (for the year ended 31 December 2017: 66,856 thousand rubles).
The sum of capitalised amortization of intangible assets amounted 178 thousand rubles (for the year ended 31 December 2017: 1,116 thousand rubles).
Intangible assets are amortised using the straight-line method.

Expenses on R&D recognised in operating expenses for 2018 amounted 13,959 thousand rubles (2017: 49,917 thousand rubles).

15. Assets held for sale

As at 31 December 2018 and 2017, non-core assets were accounted on balance of the company, as stated below:

	Year ended 31 December	
	2018	**2017**
In non-current assets		
Assets held for sale – long-term	39,045	–
In current assets		
Assets held for sale – long-term	20,931	8,492
	59,976	**8,492**

It is expected that sale of a non-core asset held for sale will take more than one year.

Immediately prior to classification of assets as assets for sale, an estimate of the recoverable amount was made. As at 31 December 2018, the value was not written off because the balance sheet value of assets held for sale did not decrease below its fair value less costs to sell.

16. Financial investments

	31 December 2018	**31 December 2017**
Non-current assets		
Financial assets held-to-maturity	1	1
	1	**1**

17. Deferred tax assets and liabilities

The differences between IFRS and Russian tax law result in temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**

(in thousands of Russian rubles, unless otherwise stated)

Property, plant and equipment	309,624	535,043	–	–	309,624	535,043
Intangible assets	11,708	10,948	–	–	11,708	10,948
Available-for-sale investments	–	–	(1,626)	(1,937)	(1,626)	(1,937)
Inventories		–	–	–	–	–
Trade and other receivables and prepayments	350,200	408,262	–	–	350,200	408,262
Loans and borrowings		–	–	–	–	–
Provisions	157,673	–	–	(1,398)	157,673	(1,398)
Employee benefit liabilities	12,356	29,420	–	–	12,356	29,420
Trade and other payables	151,987	132,400	–	–	151,987	132,400
Tax loss carryforward	412	84,428	–	–	412	84,428
Other	–	6,277	(186)	–	(186)	6,277
Tax assets/(liabilities)	**993,960**	**1,206,778**	**(1,812)**	**(3,335)**	**992 148**	**1,203,443**
Set-off of tax	(1,812)	(3,335)	1,812	3,335	–	–
Unrecognised deferred tax assets	–	–	–	–	–	–
Net tax assets/(liabilities)	**992,148**	**1,203,443**	**–**	**–**	**992,148**	**1,203,443**

(a) Movement in temporary differences during the year

	1 January 2018	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**31 December 2018**
Property, plant and equipment	535,043	(225,419)	–	309,624
Intangible assets	10,948	760	–	11,708
Financial assets at fair value through other comprehensive income	(1,937)	311	–	(1,626)
Inventories				
Trade and other receivables and prepayments	408,262	(58,062)	–	350,200
Finance lease liabilities	–	–	–	–
Loans and borrowings	–	–	–	–
Provisions	(1,398)	159,071	–	157,673
Employee benefit liablities	29,420	(6,245)	(10,819)	12,356
Trade and other payables	132,400	19,587	–	151,987
Tax loss carryforward	84,428	(84,016)	–	412
Other	6,277	(6,463)	–	(186)
Unrecognised deferred tax assets	–	–	–	–
	1,203,443	**(200,476)**	**(10,819)**	**992,148**

	1 January 2017	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**31 December 2017**
Property, plant and equipment	590,561	(55,518)	–	535,043
Intangible assets	(149)	11 097	–	10,948
Available-for-sale investments	(20)	(1,917)	–	(1,937)
Inventories	(41)	41	–	–
Trade and other receivables and prepayments	491,270	(83,008)	–	408,262
Provisions	489,266	(490,664)	–	(1,398)
Employee benefit liablities	29,181	(2,637)	2,876	29,420
Trade and other payables	154,863	(22,463)	–	132,400
Tax loss carryforward	7,091	77,337	–	84,428
Other	5,295	982	–	6,277
Unrecognised deferred tax assets	(4,959)	4,959	–	–
	1,762 358	**(561,791)**	**2,876**	**1,203,443**

(in thousands of Russian rubles, unless otherwise stated)

18. Inventories

	31 December 2018	31 December 2017
Raw materials and supplies	926,948	774,507
Provision for impairment of raw materials and supplies	(5,858)	(3,239)
Other inventories	969,618	817,157
Provision for impairment of other inventories	(2,476)	(3,756)
	1,888,232	**1,584,669**

As at 31 December 2018 and 31 December 2017, the Group did not pledge inventories as collateral under loan or other agreements.

For the year ended 31 December 2018, 1,297,413 thousand rubles were recognised as expenses (for the year ended 31 December 2017: 1,005,380 thousand rubles) as part of operating expenses as “Other material expenses” (Note 9).

19. Trade and other receivables

	31 December 2018	31 December 2017
Non-current trade and other accounts receivable		
Trade receivables	744	–
Other receivables	10,471	14,207
Total financial assets	**11,215**	**14,207**
Advances given	4,891	5,890
VAT on advances from customers	1,147	5,663
	17,253	**25,760**
Current trade and other accounts receivable		
Trade receivables	7,299,355	7,463,513
Allowance for expected credit loss on trade receivables	(1,103,966)	(1,307,373)
Other receivables	1,132,882	1,007,802
Allowance for expected credit loss on other receivables	(619,019)	(701,532)
Total financial assets	**6,709,252**	**6,462,410**
Advances given	53,421	146,617
Advances given impairment allowance	(17,507)	(112,813)
VAT recoverable	46,432	190,081
Prepaid taxes, other than income tax	19,861	7,759
	6,811,459	**6,694,054**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 28. Balances with related parties are disclosed in Note 32.

20. Cash and cash equivalents

	31 December 2018	31 December 2017
Cash at bank and in hand	2,200,921	1,678,788
Cash equivalents	4,000	2,255
	2,204,921	**1,681,043**

	Rating	Rating agency	31 December 2018	31 December 2017
Federal Treasury Department in Krasnodar region	–	–	1,012,089	658,459
Bank Rossiya (AB Rossiya)	ruAA	Expert RA	696,897	50,082
Russian Regional Development Bank			450,001	–
Mosoblbank PJSC			22,130	19,681

(in thousands of Russian rubles, unless otherwise stated)

Sberbank*	ba1	Moody's	13,376	39,799
Bank GPB*	b1	Moody's	6,387	910,745
VTB Bank			19	–
Cash in hand			22	22
			2,200,921	**1,678 ,788**

* government related-banks

Cash equivalents consist of short-term bank deposits:

	Interest rate	Rating	Rating agency	31 December 2018	31 December 2017
Sberbank*	4.95% - 5.84%	ba1	Moody`s	4,000	2,000
				4,000	**2,000**

* government related-banks

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

21. Equity

(a) Share capital

	Ordinary shares	
In pieces	**31 December 2018**	**31 December 2017**
Par value per share	100 rubles	100 rubles.
On issue at 1 January	282,868,130	282,868,130
recoverable the end of the year and fully paid	303,793,350	282,868,130

(b) Ordinary shares

The Company's share capital amounts 30,379,335 thousand rubles.

"Kubanenergo" PJSC offered 303,793,350 (three hundred and three million seven hundred ninety-three thousand three hundred fifty) ordinary registered uncertified shares at the same par value of 100 rubles each for the total amount of 30,379,335 thousand rubles.

(c) Dividends

The basis for distribution of the Company's profit to shareholders is defined by Russian legislation as net profit presented in its statutory financial statements prepared in accordance with the Regulations on Accounting and Reporting of the Russian Federation.

The AGM of 28 May 2018 adopted a resolution to pay by the results of business activity of "Kubanenergo" PJSC in 2017 the dividends on the outstanding shares of the Company in amount of 321 570 thousand rubles (minutes of the AGM No.40 of 28 May 2018). The sum of dividends per one ordinary share is 1,0585165 rubles.

Within the year ended 31 December 2018, dividends for 2017 were fully paid to the Company's shareholders in amount of 321,570 thousand rubles.

Based on the Company's business activity in 2018 dividends were not declared.

(d) Issue of additional shares

On 19 September 2016, the Annual General Meeting of Shareholders of "Kubanenergo" PJSC (minutes of the meeting No.38 of 21 September 2016) approved the decision to increase the Company's authorised capital by issuing additional 57,457,846 ordinary shares by public offering. The offering price of one additional ordinary share is 100 rubles (as well as for persons entitled to preemptive right to purchase additional shares).

On 15 December 2016, the Bank of Russia adopted a decision on state registration of the additional issue and registration of the prospectus of uncertified registered ordinary shares of "Kubanenergo" PJSC. The additional issue was assigned state registration number: 1-02-00063-A.

Actual start date of the placement of securities (the date of concluding the first agreement to transfer title to securities): 18 January 2017

Actual end date of the placement of securities (the date of the last entry in the personal account (of the acquirer of securities): 20 October 2017

Payment for the additional shares was made in monetary assets. For the entire duration of offering the additional securities, the Company placed 20,925,220 shares and received 2,092,522 thousand rubles of payment for the shares.

The shareholders contributed 20,358 thousand rubles to the authorised capital of the Company in 2017 and 2,072,164 thousand rubles in 2016 that were recognised as reserve for issue of shares directly in equity.

State registration of changes to the Charter of "Kubanenergo" PJSC, due to increase of the authorised capital by 2,092,522 thousand rubles by offering additional shares, was performed on 10 October 2018.

On 13.03.2019 the Board of Directors of "Kubanenergo" PJSC decided (minutes No.333/2019 of 14.03.2019) to convene the Extraordinary General Meeting of Shareholders (hereinafter – the EGM) of Kubanenergo PJSC to discuss the agenda item "Increase of authorised capital of "Kubanenergo" PJSC by offering additional shares". The EGM is scheduled for 17.04.2019

22. Earnings per share

The calculation of the basic profit per share for the year ended 31 December 2018 was based on the profit attributable to holders of ordinary shares for 2018 in amount of 733,047 thousand rubles (profit for 2017: 717,137 thousand rubles) and average weighted number of ordinary shares in circulation in 2018 – 303,793,350 shares (2017: 303,589,790 shares).

The Company has no dilutive financial instruments.

In thousands of shares	**2018**	**2017**
Ordinary shares at 1 January	282,868	**282,868**
Number of unregistered shares	–	20,722
Effect of offered/registered shares	20,925	
Weighted average number of shares for the period ended 31 December	**303,793**	**303,590**

	Year ended 31 December 2018	**Year ended 31 December 2017 (restated)**
Weighted average number of ordinary shares for the period ended 31 December (in thousands of pieces)	303,793	303,590
Earnings/(loss) for the period attributable to holders of ordinary shares	799,871	717,137
Earnings/(loss) per ordinary share – basic and diluted (in Russian rubles)	**2.63**	**2.36**

23. Loans and borrowings

	31 December 2018	**31 December 2017**
Non-current liabilities		
Unsecured loans and borrowings	17,582,621	15,617,796
Secured bonds		
Unsecured bonds	7,000,000	7,000,000
Less: current portion of long-term loans and borrowings	(7,899,382)	–

(in thousands of Russian rubles, unless otherwise stated)

	31 December 2018	31 December 2017
Less: current portion of long-term bonds	(3,400,000)	–
	13,28,3 239	**22,617,796**
Current liabilities		
Unsecured loans and borrowings	96,519	91,686
Current portion of long-term loans and borrowings	7,899,382	–
Current portion of long-term bonds	3,400,000	
	11,395,901	**91,686**
Including		
Interests payable on loans and borrowings	15,719	13,120
Interests payable on bonds	80,178	77,944
Interests payable on bills		
	95,897	**91,064**

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

(in thousands of Russian rubles, unless otherwise stated)

		Effective interest rate		Carrying value	
	Maturity	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Unsecured loans and borrowings					
Unsecured bank credits*	2019-2021	7.85% - 9.25%	8.20% - 10.80%	17,582,621	15,617,796
Other unsecured loans and borrowings	2019 - 2019	Interest free	Interest free	622	622
				17,583,243	**15,618,418**
Unsecured bonds					
Unsecured bonds	2019-2025	10.44-12.63%	10.44-12.63%	7,000,000	7,000,000
Total liabilities				**24,583,243**	**22,618,418**

* Loans from state-controlled entities

The Group does not use any hedging instruments to manage its exposure to changes in interest rates. Information about the Group's exposure to interest rate risk is disclosed in Note 28.

(in thousands of Russian rubles, unless otherwise stated)

24. Changes in liabilities arising from financing activities

	Principal amount of finance liabilities except finance lease and dividends payable			Interest on finance liabilities except finance lease and dividends payable	Dividends payable	Total
	Total	**Non-current**	**Current**			
At 1 January 2018	**22,618,418**	**22,617,796**	**622**	**91,064**	**500**	**22,709,982**
Net cash flows from financing activity	1,964,825	1,964,825		–	(321,151)	1,643,674
Cash flow from interests paid (operating activities, for reference)	–	–	–	(2,279,789)	–	(2,279,789)
Interest and dividends payable accruals	–	–	–	1,905,758	321,570	2,227,328
Interest capitalised	–	–	–	378,864	–	378,864
Transfer from non-current to current	–	(11,299,382)	11,299,382	–	–	–
At 31 December 2018	**24,583,243**	**13,283,239**	**11,300,004**	**95,897**	**919**	**24,680,059**
At 1 January 2017	**18,913,261**	**18,912,239**	**1,022**	**79,078**	**37**	**18,992,376**
Net cash flows from financing activity	3,705,157	3,705,557	(400)	–	(534,662)	3,170,495
Cash flow from interests paid (operating activities, for reference)	–	–	–	(2,079,716)	–	(2,079,716)
Interest and dividends payable accruals	–	–	–	1,969,816	535,125	2,504,941
Interest capitalised	–	–	–	121,886	–	121,886
At 31 December 2017	**22,618,418**	**22,617,796**	**622**	**91,064**	**500**	**22,709,982**

(in thousands of Russian rubles, unless otherwise stated)

25. Employee benefits

The Group has a defined benefit pension and other long-term defined benefit plans that cover most full-time and retired employees. Defined post-employment benefits consist of non-state pension provision, lump-sum payment upon retirement, financial support for pensioners, and death benefits.

On 3 October 2018, the President of the Russian Federation signed the Federal Law “On amendments to certain legal acts of the Russian Federation concerning appointment and payment of pensions”. The Law comes into force on 1 January 2019 and envisages a gradual increase in the retirement age. The new cost of pension liabilities as at 31 December 2018 is reflected taking into account the impact of changes in the pension legislation.

Amounts of defined benefit obligations recognised in the consolidated statement of financial position are presented below:

	31 December 2018	31 December 2017
Net value of post-employment benefits obligation	453,065	611,115
Total net value of liabilities	**453,065**	**611,115**

Change in the value of assets related to employee benefit obligations:

	Year ended 31 December	
	2018	2017
Value of assets at 1 January	**318,910**	**290,092**
Return on plan assets	–	20,724
Employer contributions	19,363	52,000
Other movements in the accounts	1,330	1,007
Payment of remuneration	(48,382)	(44,913)
Value of assets at 31 December	**291,221**	**318,910**

Assets related to defined benefit plans are administrated by non-state pension fund “NPF “Otkrytiye”, successor of “NPF Elektroenergetiki”.

On 17.08.2018 rights and obligations of “NPF Elektroenergetiki” were fully transferred to “NPF “Lukoil-Garant” JSC as universal legal succession in accordance with paragraph 2 of article 58 and paragraph 1 of article 129 of the RF Civil Code (liquidation of a legal entity by reorganization through merger). In December 2018 “NPF “Lukoil-Garant” JSC was renamed as “NPF “Otkrytiye”.

These assets are not the defined benefit plans' assets, because under the terms of agreements between the Group and the funds the Group has the right to use the contributions paid under defined benefit plans to fund its defined contribution pension plans or transfer to another fund on the Group’s own initiative.

Movements in the present value of defined benefit liabilities:

	Year ended 31 December 2018		Year ended 31 December 2017	
	Post-employment benefits obligation	Other long-term employee benefit obligation	Post-employment benefits obligation	Other long-term employee benefit obligation
Defined benefit plan obligations as at 1 January	**611,115**	**–**	**575,813**	–
Current service cost	19,416	–	31,632	–
Past service cost and curtailment	(108,513)	–	–	–
Interest expense on liabilities	41,600	–	43,790	–
Remeasurement effect from:		–		
– loss/(gain) from change in demographic actuarial assumptions	(391)	–	29,067	–
– (gain)/loss from change in financial actuarial assumptions	(72,825)	–	45,843	–

(in thousands of Russian rubles, unless otherwise stated)

– (gain)/loss from experience adjustment	19,118	–	(60,530)	–
Contributions to the plan	(56,455)	–	(54,500)	–
Defined benefit plan obligation as at 31 December	**453,065**	**–**	**611,115**	**–**

Expenses recognised in profit or loss for the period:

	Year ended	
	31 December 2018	**31 December 2017**
Employee service cost	(89,097)	31,632
Remeasurement of other long-term employee benefit obligation		–
Interest expense	41,600	43,790
Total expenses recognised in profit or loss	**(47,497)**	**75,422**

(Gains)/losses recognised in other comprehensive income for the period:

	Year ended	
	31 December 2018	**31 December 2017**
Loss/(gain) from change in demographic actuarial assumptions	(391)	29,067
(Gain)/loss from change in financial actuarial assumptions	(72,825)	45,843
(Gain)/loss from experience adjustment	19,118	(60,530)
Total (gain)/loss recognised in other comprehensive income	**(54 098)**	**14 380**

Movements in provision for Remeasurements of obligations in other comprehensive income during the period:

	Year ended 31 December	
	2018	**2017**
Remeasurements at 1 January	**296,063**	**281,683**
Movement of remeasurements	(54,098)	14,380
Remeasurements at 31 December	**241,965**	**296,063**

The key actuarial assumptions:

	31 December 2018	**31 December 2017**
Financial assumptions		
Discount rate	8,7%	7,5%
Future salary increase	4,6%	4,0%
Inflation rate	4,1%	4,5%
Demographic assumptions		
Expected age of retirement		
Men	61	60
Women	56	55
Average level of staff movement	11,5%	9,5%

A sensitivity of total employee benefits obligations to changes in the key actuarial assumptions is as follows:

	Change in the assumption	**Impact on obligation**
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 5.9%
Discount rate	Increase/decrease by 0.5%	Increase/decrease by 5.3%
Future growth of benefits (inflation)	Increase/decrease by 0.5%	Increase/decrease by 0.7%
Level of staff movement	Increase/decrease by 10%	Decrease/increase by5.0%
Mortality level	Increase/decrease by 10%	Decrease/increase by1.3%

	31 December 2018	**31 December 2017**
Cost of defined benefit liability	(453,065)	(611,115)
Cost of assets	291,221	318,910
Net value	**161,844**	**292,205**

(in thousands of Russian rubles, unless otherwise stated)

The expected payments under the defined long-term employee benefit plans to employees in 2019 are 44,214 thousand rubles, including: 44,214 thousand rubles under the defined benefit plans, including non-state pension schemes.

26. Trade and other payables

	31 December 2018	31 December 2017
Non-current accounts payable		
Trade payables	4,643	3,013
Other payables	687	251
Total financial liabilities	**5,330**	**3,264**
Advances from customers	1,241,652	984,093
	1,246,982	**987,357**
Current accounts payable		
Trade payables	5,257,325	6,230,622
Other payables and accrued expenses	1,368,805	1,325,818
Payables to employees	1,038,820	826,831
Dividends payable	919	500
Total financial liabilities	**7,665,869**	**8,383,771**
Advances from customers	4,118,711	2,138,408
	4,118,711	**2,138,408**
Taxes payable		
VAT	327,679	70,804
Property tax	214,646	152,509
Social security contributions	120,865	108,968
Other taxes payables	64,419	46,205
	727,609	**378,486**
	12,512,189	**10,900,665**

The Group’s exposure to liquidity risk related to payables is disclosed in Note 28.

Long-term and short-term advances received are advances from technological connection and electricity transmission contracts and are reflected in “Trade and other payables” as advances from customers, net of VAT, payment of which arises in connection with the receipt of an advance.

Short-term advances from customers under technological connection contracts as at 31 December 2018 were recognised as part of revenue from contracts for the year ended 31 December 2018.

The Management of the Group expects that the entire amount of short-term advances received under technological connection contracts as at 31 December 2018 will be recognised as part of the revenue from contracts with customers within the next reporting period.

Increase in short-term advances received as at 31 December 2018 was due to advances under technological connection contracts from Federal State Institution “Rostransmodernizatsiya” in the amount of 1,911,663 thousand rubles, the Russian Children’s Centre “Orlyonok” in the amount of 56,812 thousand rubles, and State Public Institution “Main Construction Management of Krasnodar region” in the amount of 36,344 thousand rubles.

Increase in long-term advances received as at 31 December 2018 was due to advances under technological connection contracts from Federal State Institution “1st Centre of customer-developer of the national guard troops of the Russian Federation” in amount of 93,449 thousand rubles, and “Gazprom Dobycha Krasnodar” LLC in amount of 85,650 thousand rubles. It is expected that these advances will be accounted in the revenue from contracts with customers within 2020.

(in thousands of Russian rubles, unless otherwise stated)

27. Provisions

	Year ended 31 December	
	2018	**2017**
Balance at 1 January	**905,937**	**2,446,329**
Increase for the year	839,257	1,380,389
Decrease due to reversal of provisions	(347,896)	(188,270)
Provisions used	(640,011)	(2,757,800)
Capitalised	**31,079**	25,289
Balance as 31 December	**788,366**	**905,937**

Provisions relate mainly to legal proceedings and claims against the Group in the day-to-day terms of business.

28. Financial risk and capital management

In the course of its business activity the Group is exposed to a variety of financial risks, including but not limited to: market risk (currency risk, interest rate risks, and price risk), credit risk, and liquidity risk.

This note presents information on the Group's exposure to each of these risks, goals, policies and processes for assessing and managing risks, and the Group's capital management system. Detailed quantitative information is disclosed in the relevant sections of these consolidated financial statements.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

(a) Credit risk

Credit risk is a risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

i. Trade and other receivables

In order to control the credit risk, the Group, whenever possible, uses a prepayment system in relations with customers. As a rule, prepayment for services of technological connection of consumers to the networks is stipulated by the contract. The Group does not require collateral with respect to receivables.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group takes necessary steps for timely collection of receivables. In order to reduce and prevent growth of accounts receivable, the debt is divided mainly into current, overdue, doubtful and bad. Due to the lack of an independent assessment of the debtors' solvency, the Group assesses the solvency at the stage of concluding a contract, taking into account financial condition and credit history of the debtor. The Group monitors existing debt on a regular basis and takes steps to collect the debt and to mitigate losses. When monitoring credit risk, buyers are grouped by type of receivables and maturities. The Group establishes an allowance for expected credit losses on trade and other receivables, the estimated value of which is determined based on the likelihood of making a payment, and can be adjusted upwards or downwards. In this regard, the Group analyses creditworthiness of customers, dynamics of debt repayment, takes into account changes in the terms of payment, presence of letters of guarantee on debt repayment, and current general economic conditions.

Exposure to credit risk

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

	Carrying amount	
	31 December 2018	**31 December 2017**
Trade and other receivables (less allowance for expected credit loss/impairment)	6,648,141	6,476,617
Cash and cash equivalents	2,204,921	1,681,043

(in thousands of Russian rubles, unless otherwise stated)

	8,853,062	**8,157,660**

The maximum exposure to credit risk for trade receivables (net of other receivables) at the reporting date by groups of customers was:

	Gross	Allowance for expected credit losses	Gross	Impairment allowance
	31 December 2018	**31 December 2018**	**31 December 2017**	**31 December 2017**
Buyers of electricity transmission services	7,152,819	(1,072,410)	7,393,769	(1,289,116)
Buyers of services for technological connection to networks	59,475	(29,716)	37,259	(11,681)
Other customers	87,805	(1,840)	32,485	(6,576)
	7,300,099	**(1,103,966)**	**7,463,513**	**(1,307,373)**

The Group's ten most significant debtors account for 6,847,855 thousand rubles of the trade receivables carrying amount as at 31 December 2018 (as at 31 December 2017: 5,968,871 thousand rubles).

Allowance for expected credit loss on trade and other receivables

The aging of trade and other receivables is provided below:

	Gross	Allowance for expected credit losses	Gross	Impairment allowance
	31 December 2018	**31 December 2018**	**31 December 2017**	**31 December 2017**
Not past due	6,176,203	(219,489)	5,311,784	(197,200)
Past due less than 3 months	381,927	(1,912)	1,278,427	(288,779)
Past due more than 3 months and less than 6 months	105,710	(47,907)	209,733	(42,234)
Past due more than 6 months and less than 1 year	224,449	(87,930)	414,790	(349,987)
Past due more than 1 year	1,555,163	(1,365,747)	1,270,788	(1,130,705)
	8,443,452	**(1,722,985)**	**8,485,522**	**(2,008,905)**

The Group believes that overdue non-impaired receivables are highly probable to be recovered at the reporting date due to the presence of positive court practice in similar cases.

The carrying amount of receivables from buyers and customers and other receivables, less allowance for impairment of receivables, represents the maximum amount exposed to the credit risk. Although the repayment of receivables is exposed to the influence of economic factors, the management believes that the Group does not have a significant risk of losses in excess of the already established provision for expected credit losses.

The movement in the allowance for impairment of trade and other receivables (receivables impairment allowance according to IAS 39) was as follows:

	Year ended 31 December 2018 and as of this date	Year ended 31 December 2017 and as of this date
As at 1 January in accordance with IAS 39		X
Opening balance for allowance for expected credit losses as at 1 January	**2,008,905**	**2,325,890**

(in thousands of Russian rubles, unless otherwise stated)

2018 in accordance with IFRS 9		
Increase for the period	233,685	572,995
Amounts of trade and other receivables written off using the allowance accrued earlier	(199,219)	(651,352)
Allowance reversal for the period	(320,386)	(238,628)
Balance at 31 December	**1,722,985**	**2,008,905**
As at 31 December 2017 in accordance with IAS 39		**X**

The Group has no contractual basis for netting off of financial assets and financial liabilities and management of the Group does not expect future netting based on additional agreements as at 31 December 2018 and 31 December 2017.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Management of liquidity risk involves maintaining sufficient cash and the availability of financial resources by securing credit lines. The Group adheres to a balanced model of financing working capital by using both short-term and long-term sources. Temporary free funds are invested in the short-term financial instruments such as bank deposits.

The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyse payment dates associated with financial assets, and also to forecast cash flows from operating activities.

The Group opened free credit limits to ensure refinancing of borrowed funds urgent to maturity in 2019. As of 31 December 2018, the amount of free limit on open but unused credit lines of the Group was 19,220,378 thousand rubles (31 December 2017: 9,402,205 thousand rubles).

(in thousands of Russian rubles, unless otherwise stated)

Information about the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flow included in maturity analysis could occur earlier, or at significantly different amounts:

31 December 2018	**Carrying amount**	**Contractual cash flow**	**Less than 1 year**	**1-2years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Loans and borrowings	24,679,140	29,364,711	13,075,625	4,573,210	6,614,496	375,876	375,840	4,349,664
Trade and other payables	7 670 280	7,672,381	7,665,358	6,655	368	–	–	–
	32,349,420	**37,037,092**	**20,740,983**	**4,579,865**	**6,614,864**	**375,876**	**375,840**	**4,349,664**

31 December 2017	**Carrying amount**	**Contractual cash flow**	**Less than 1 year**	**1-2years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Loans and borrowings	22,709,482	29,523 ,503	2,199,893	11,181,362	10,668,088	374 ,832	374,832	4,724,496
Trade and other payables	8,386,535	8,388,684	8,383,272	4,339	705	368	–	–
	31,096,017	**37,912,187**	**10,583,165**	**11,185,701**	**10,668,793**	**375,200**	**374,832**	**4,724,496**

(in thousands of Russian rubles, unless otherwise stated)

(c) Market risk

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

ii. Currency risk

The majority of the Group’s revenues and expenditures, monetary assets and liabilities are denominated in rubles, therefore, the impact of changes in exchange rates on the Group’s revenues and expenditures insignificant.

iii. Interest rate risk

Changes in interest rates impact primarily loans and borrowings as they change either their fair value (fixed rate debt) or their future cash flows (floating rate debt). The management of the Group does not have a formal policy for determining how much of the Group’s exposure should be to fixed or floating rates. However, making a decision about new loans and borrowings, the Group management gives priority to loans and borrowings with fixed interest rates and as a result, the Group is exposed to interest rate risk to a limited extent.

As a rule, loan agreements entered into by the Group do not contain any charges for the early repayment of loans on the borrower's initiative which facilitates additional flexibility for the Group in relation to optimizing interest rates in the current economic environment.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss for the period. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

(d) Fair value and carrying amount

Carrying amount of the Group’s financial instruments coincides with their fair value, therefore, their additional disclosure is not envisaged.

Interest rate used to discount the expected cash flows for long-term and short-term loans for the purpose of determining the disclosed fair value amounted 7.60%-9.25% as at 31 December 2018 (8.20%-10.80% as at 31 December 2017).

Within the year ended 31 December 2018, there were no transfers between fair value hierarchy levels.

Reconciliation of carrying amount of financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income as of the beginning and end of the reported period is presented below:

	Financial assets measured at fair value through other comprehensive income
At 1 January 2018	1
Acquisition	–
Disposal	–
Change in fair value recognised as part of other comprehensive income	–
At 31 December 2018	**1**

(e) Capital management

The main goal of capital management for the Group is to ensure a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business.

(in thousands of Russian rubles, unless otherwise stated)

The Group monitors equity structure dynamics (own and borrowed capital), including gearing ratio (target leverage ratio) calculated based on the data presented in financial statements prepared in accordance with the RAS. In accordance with the credit policy, the Group’s companies should ensure that their gearing ratio, calculated as the total debt divided by the total equity, does not exceed 1.

The company and its subsidiaries are required to comply with the statutory requirements for the adequacy of own capital, according to which the value of its net assets, determined in accordance with the Russian Accounting Regulations, should always exceed the amount of the share capital.

As of 31 December 2018 and 2017, these requirements were fulfilled.

29. Operating lease

Operating lease expenses for the year ended 31 December 2018 were included in the operating expenses in amount of 240,428 thousand rubles (for the year ended 31 December 2017: 243,658 thousand rubles).

The main facilities of the Group’s lease are power facilities (power lines, electricity transmission equipment, etc.) and land plots for power facilities (power lines, electricity transmission equipment, etc.) for rendering electricity transmission and distribution services and services for technological connection of customers to networks.

The Group leases land plots owned by federal, regional, and municipal governments, as well as non-residential real estate, transfer devices and vehicles under non-cancellable operating lease. The period of lease of land plots ranges from one year to 49 years with the right of renewal after expiration. The rent is determined on the basis of a lease agreement.

Under operating lease agreements, the Group does have the right to buy out the leased asset upon the end of the lease term. Rental rates for land plots are regularly reviewed in accordance with market conditions.

The land title does not pass and the landlord retains control over land usage. The Group determined that since all the substantial risks and benefits of the land plots are related with the landlord, the leases are considered to be operating leases.

Future aggregate payments under indissoluble contract on non-cancellable operating lease are payable as follows:

	31 December 2018	**31 December 2017**
Less than 1 year	88,879	40,480
1-5 years	155, 287	132,755
More than 5 years	1,231,460	1,109,210
	1,475,626	**1,282,445**

30. Capital commitments

As at 31 December 2018, the Group has outstanding commitments under contracts for purchase and construction of property, plant and equipment items for 2,614,233 thousand rubles, including VAT (as at 31 December 2017: 6,856,338 thousand rubles, including VAT).

31. 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

Russian tax and customs legislation is subject to varying interpretation when being applied to the transactions and activities of the Group. Consequently, the management's interpretation of tax legislation and the formal documentation may be successfully challenged by the relevant regional or federal authorities. Russian tax administration gradually strengthens. In particular, there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Tax inspections may cover three calendar years preceding the year of the decision on the tax inspection. Under certain circumstances reviews may cover longer periods.

The new transfer pricing legislation came into force on 1 January 2012 and significantly changed the transfer pricing rules bringing them closer to OECD guidelines, and also created additional uncertainty in practical application of tax legislation in individual cases.

The practice of applying the new transfer pricing rules by the tax authorities and courts is absent, because tax inspections of compliance to the new transfer rules have started only a while ago. However, it is expected that transactions regulated by transfer pricing rules will be subject to very close scrutiny and could potentially impact these consolidated financial statements

With the further development of the practice of applying the tax rules on property tax, the tax authorities and courts may challenge the criteria the Group uses for assigning the property to movable or immovable property.

Based on the best assessment of the available information, the risk of claims from tax authorities, as well as the likelihood of unfavourable resolution of tax disputes (should they occur) is assessed by the Company as "possible". The Company's management assesses possible tax risks in the range of 500 million rubles, which does not exceed 1% of the value of the Group's assets.

At 31 December 2018, the management believes that it correctly interprets the relevant provisions of the legislation, and the position of the Group in terms of compliance with tax, currency and customs legislation can be justified and protected.

(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. In the opinion of the 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 power industry in the Russian Federation for many years. The environmental legislation of the Russian Federation continues to evolve and responsibilities of the authorized state bodies supervising its observance are 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 assessed. The management believes, that under the existing control system and legislation, there are no probable liabilities, which may have a material adverse effect on the Group's financial position, results of operations or cash flows.

32. Related party transactions

(a) Control relationship

Related parties include shareholders, affiliates and entities under common ownership and control with the Group, members of the Board of Directors and the key management personnel of the Company. The Company's parent as at 31 December 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 controlling interest in "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:

	Sum of transaction for the year ended 31 December		Carrying amount	
	2018	2017	31 December 2018	31 December 2017
Revenue, net other income, finance income				
Parent company				
Other revenue	1,185	1,185	–	–
Entities under common control of the parent company				
Rent	194	49	1,224	5
Technological connection services	–	9	–	–
Recovery of contingencies allowance	–	27,777	–	–
Allowance for impairment of other receivables	960	561	(167,449)	(168,409)
Other revenue	7,255	30,793	225,911	205,223
	9,594	**60,374**	**59,686**	**36,819**

	Sum of transaction for the year ended 31 December		Carrying amount	
	2018	2017	31 December 2018	31 December 2017
Operating expenses, finance costs				
Parent company				
Managing services	118,322	76,485	22,821	–
Other expenses	21 713	21,713	1,385	5,297
Entities under common control of the parent company				
Electricity transmission services	8,166,676	6,438,622	1,219,658	2,254,015
Technological connection services	1,277	1,960	–	54
Electricity for compensation of losses				
Repair and maintenance services				
Rent	9,175	86	1,214	221
Software and support expenses	2,218	9,009	15,723	2,109
Allowance for expected credit losses	–	1,854	–	
Reserves	–	847,186	–	
Other expenses	357,532	189,559	343,087	75,263
Interest expenses on financial liabilities measured at amortised cost	118,093	–	54	–
	8,795,006	**7,586,474**	**1,603,942**	**2,336,959**
Construction and installation work capitalised	251,923	1,790	93,873	39,805
	9,046,929	**7,588,264**	**1,697,815**	**2,376,764**

	Carrying amount	
	31 December 2018	31 December 2017
Parent company		
Advances given	–	–
Advances received	–	–
Entities under common control of the parent company		
Advances given	72,326	5,890
Advances received	90	90
	72,416	**5,980**

(in thousands of Russian rubles, unless otherwise stated)

	Sum of transaction for the year ended 31 December		Carrying amount	
	2018	2017	31 December 2018	31 December 2017
Parent company				
Bonded loans	–	–	7,000,000	7,000,000
Interest on bonded loans	805,330	805,226	80,178	77,944
	805,330	**805,226**	**7,080,178**	**7,077,944**

As of 31 December 2017, liability to the parent company for payment of dividends was absent.

(c) Transactions with key management personnel

For the purposes of preparing these consolidated financial statements, the Group identifies the members of the Board of Directors and members of the Management Board as the key management personnel.

The Group does not conclude transactions and has no balances with the 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 recognised as expenses of the current reporting period related to the key management personnel and included in personnel costs.

	Year ended 31 December	
	2018	2017
Short-term remuneration to employees	190,525	162,648
Post-employment benefits and other long-term remunerations	123	172
	190,648	**162,820**

As of 31 December 2018, the current value of defined benefit plan obligation is reported in the consolidated statement of financial position and includes liabilities related to the key management personnel in amount of 1,819 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 year ended 31 December 2018 constitute 2.14% (for the year ended 31 December 2017: 0.65%) of total Group revenues, including 1.78% (for the year ended 31 December 2017: 0.52%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for government-related entities for the year ended 31 December 2018 constitute 2.77% (for the year ended 31 December 2017: 3.78%) of total electricity transmission costs.

For the year ended 31 December 2018, interest expenses on government-related banks loans account for 97.88% of total interest expenses (for the year ended 31 December 2017: 64.13%).

As at 31 December 2018, cash and cash equivalents held in government-related banks amounts to 1,035,852 thousand rubles (as at 31 December 2017: 952,544 thousand rubles).

Loans and borrowings received from government-elated banks are disclosed in Note 22.

33. Events after the reporting period

On 13.03.2019 the Board of Directors of “Kubanenergo” PJSC decided (minutes No.333/2019 of 14.03.2019) to convene the Extraordinary General Meeting of Shareholders (hereinafter – the EGM) of Kubanenergo PJSC to discuss the following agenda item: “Increase of the authorised capital of “Kubanenergo” PJSC by offering additional shares.” The EGM is scheduled for 17.04.2019.