“Kubanenergo” PJSC

Consolidated Interim Condensed Financial Statements prepared in accordance with IAS 34 “Interim Financial Reporting” for the three months ended 31 March 2019 (unaudited)

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Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income
(in thousands of Russian rubles, unless otherwise stated)

		Three months ended 31 March	
	Notes	**2019**	**2018**
Revenue	7	11,814,718	11,731,894
Operating expenses	9	(11,245,380)	(10,826,716)
Other income/(loss), net	8	73,499	(4,000)
Results from operating activities		**642,837**	**901,178**
Finance income	10	18,155	14,396
Finance costs	10	(457,400)	(482,701)
Total finance costs		**(439,245)**	**(468,305)**
Profit before income tax		203,592	432,873
Income tax expense	11	(141,015)	(240,409)
Profit/(loss) for the period		**62,577**	**192,464**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit liability		(20,294)	(32,685)
Income tax	11	4,059	6,537
Total items that will not be reclassified subsequently to profit or loss		**(16,235)**	**(26,148)**
Other comprehensive income/loss for the period, net of income tax		**(16,235)**	**(26,148)**
Total comprehensive income for the period		**46,342**	**166,316**
Profit attributable to:			
Owners of the Company		62,577	192,464
Total comprehensive income attributable to:			
Owners of the Company		46,342	166,316
Earnings per share			
Basic and diluted earnings per ordinary share (in Russian rubles)	18	0.21	0.63

These Consolidated Interim Condensed Financial Statements were approved by the management on 27 May 2019 and signed on its behalf by:

Director General
(By power of attorney No. 23/256-n/23-2018-12-75 of 12 December 2018) O.V. Ocheredko

Chief Accountant I.V. Skiba

Consolidated Interim Condensed Financial Statement of Financial Position

(in thousands of Russian rubles, unless otherwise stated)

	Notes	31 March 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	12	55,826,273	55,871,787
Intangible assets	13	245,407	248,821
Right-of-use assets	14	1,079,309	–
Trade and other receivables	15	14,874	17,253
Assets related to employee benefits plans		284,039	291,221
Financial investments		1	1
Deferred tax assets		917,772	992,148
Total non-current assets		**58,367,675**	**57,421,231**
Assets classified as held for sale		59,448	39,045
Total non-current assets		**58,427,123,**	**57,460,276**
Current assets			
Inventories		1,819,157	1,888,232
Income tax prepayments		505,991	258,888
Trade and other receivables	15	8,479,674	6,811,459
Cash and cash equivalents	16	1,523,878	2,204,921
Total current assets		**12,328,700**	**11,163,500**
Assets classified as held for sale		527	20,931
Total current assets		**12,329,227**	**11,184,431**
Total assets		**70,756,350**	**68,644,707**
EQUITY AND LIABILITIES			
Equity			
Share capital	17	30,379,335	30,379,335
Share premium		6,481,916	6,481,916
Other reserves		(209,809)	(193,574)
Retained earnings		(7,677,345)	(7,739,922)
Total equity attributable to owners of the Company		**28,974,097**	**28,927,755**
Non-current liabilities			
Loans and borrowings	19	11,814,037	13,283,239
Trade and other payables	20	1,486,236	1,246,982
Employee benefits liabilities		475,625	453,065
Government grants		21,708	24,809
Total non-current liabilities		**13,797,606**	**15,008,095**
Current liabilities			
Loans and borrowings	19	14,375,425	11,395,901
Trade and other payables	20	12,754,985	12,512,189
Provisions		841,836	788,366
Government grants		12,401	12,401
Total current liabilities		**27,984,647**	**24,708,857**
Total liabilities		**41,782,253**	**39,716,952**
Total equity and liabilities		**70,756,350**	**68,644,707**

The accompanying notes are an integral part of these Consolidated Interim Condensed Financial Statements

Consolidated Interim Condensed Financial Statement of Cash Flows
(in thousands of Russian rubles, unless otherwise stated)

	Notes	Three months ended 31 March 2019	Three months ended 31 March 2018
OPERATING ACTIVITIES			
Profit/(loss) for the period		**62,577**	**192,464**
Adjustments for:			
Depreciation and amortization	12, 13, 14	960,301	870,495
Finance costs	10	457,400	482,701
Finance income	10	(18,155)	(14,396)
Loss on disposal of property, plant and equipment		1,863	34,302
Loss on disposal of intangible assets		–	1
Allowance for expected credit losses / (impairment of receivables)	9	160,911	(153,502)
Change in lawsuits provision		53,470	21,971
Bad debt write-off		(2,342)	(1,660)
Accounts payable write-off	8	(1,042)	(3,746)
Other non-cash transactions/items		(23,117)	(6,294)
Income tax expense	11	141,015	240,409
Total effect of adjustments		**1,730,304**	**1,470,281**
Change in financial assets related to employee benefit liabilities		7,182	7,442
Change in employee benefit liabilities		(7,370)	(4,990)
Operating cash flow before changes in working capital and reserves		**1,792,693**	**1,662,096**
Changes in working capital:			
Change in trade and other receivables		(1,834,695)	(1,158,418)
Change in inventories (net of provision for impairment)		69,978	16,033
Change in government grants		(3,101)	(3,101)
Change in trade and other payables		682,686	3,155,765
Operating cash flow before income tax and interest paid		**707,561**	**3,675,476**
Income tax paid		(309,683)	(340,859)
Interest paid on lease contracts		(22,847)	–
Interest paid		(355,611)	(329,258)
Net cash from / (used in) operating activities		**19,420**	**3,005,359**

	Notes	Three months ended 31 March 2019	Three months ended 31 March 2018
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(864,412)	(2,002,592)
Interest received		13,987	(6,909)
Net cash from / (used in) investing activities		**(850,425)**	**(2,009,501)**
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		230,173	17,017,012
Repayment of loans and borrowings		(30,488)	(15,849,155)
Payment of lease liabilities		(49,719)	–
Dividends paid to owners of the Company		(4)	–
Net cash flows from/(used in) financing activities		**149,962**	**1,167,857**
Net (decrease)/increase in cash and cash equivalents		**(681,043)**	**2,181,988**
Cash and cash equivalents at the beginning of the period	16	**2,204,921**	**1,681,043**
Cash and cash equivalents at the end of the period	16	**1,523,878**	**3,863,031**

Consolidated Interim Condensed Statement of Changes in Equity
(in thousands of Russian rubles, unless otherwise stated)

	Share capital	Share premium	Reserve for issue of shares	Reserves	Retained earnings	Total equity
Balance at 31 December 2018	**30,379,355**	**6,481,916**	–	**(193,574)**	**(7,739,922)**	**28,927,755**
Impact of change in accounting policies	–	–	–	–	–	–
Balance at 1 January 2019 (restated)	**30,379,355**	**6,481,916**	–	**(193,574)**	**(7,739,922)**	**28,927,755**
Profit for the period	–	–	–	–	62,577	62,577
Other comprehensive income/(loss)	–	–	–	(20,294)	–	(20,294)
Income tax relating to other comprehensive income	–	–	–	4,059	–	4,059
Total comprehensive income/(loss) for the period	–	–	–	**(16,235)**	**62,577**	**46,342**
Balance at 31 March 2019	**30,379,335**	**6,481,916**	–	**(209,809)**	**(7,677,345)**	**28,974,097**

	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**
Impact of change in accounting policies	–	–	–	(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	–	–	–	–	192,464	192,464
Other comprehensive income/(loss)	–	–	–	(32,685)	–	(32,685)
Income tax relating to other comprehensive income	–	–	–	6,537	–	6,537
Total comprehensive income/(loss) for the period	–	–	–	**(26,148)**	**192,464**	**166,316**
Balance at 31 March 2018	**28,286,813**	**6,481,916**	**2,092,522**	**(263,001)**	**(8,025,759)**	**28,572,491**

The accompanying notes are an integral part of these Consolidated Interim Condensed Financial Statements

1 Background

(a) 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. The name "Open joint-stock company of power industry and electrification of Kuban" ("Kubanenergo" JSC) was changed to Public joint stock company of company of power industry and electrification of Kuban ("Kubanenergo" PJSC). Registered address (location) of the Company: 2A, Stavropolskaya Str., Krasnodar 350033, Krasnodar Region, Russia.

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.

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

(c) Relations with state

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

As at 31 March 2019, the Russian Government owned 88.04% in the share capital of the parent company "Rosseti" PJSC, including 88.89% of the ordinary voting shares, 7.01% of the preference shares; "Rosseti" PJSC in its turn owns 92.78% of the Company's ordinary voting shares.

As at 31 December 2018, the Russian Government owned 88.04% in the share capital of the parent company "Rosseti" PJSC, including 88.89% of the ordinary voting shares, 7.01% of the preference shares; "Rosseti" PJSC in its turn owns 92.78% of the Company's ordinary voting 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 interim condensed financial statements for the three months ended 31 March 2019 have been prepared in accordance with IFRS (IAS) 34 "Interim Financial Statements". These consolidated interim condensed financial statements should be read in conjunction with the financial statements for the year ended 31 December 2018 prepared in accordance with International Financial Reporting Standards ("IFRS").

b) Use of professional judgments and estimates

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

The main estimates and assumptions used by the Group in the course of preparation of the consolidated interim condensed financial statements correspond with the ones described in the audited consolidated financial statements for the year ended 31 December 2018.

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

c) Change in presentation

Reclassification of comparative information

Certain amounts from comparative information of the previous year have been adjusted to conform with the current year disclosures. All reclassifications are immaterial.

3 Significant accounting policies

The principal accounting policies and methods of computation applied by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2018, except for the effect of adopting IFRS 16 Lease from 1 January 2019, as described below

(a) IFRS 16 Lease

The new standard IFRS 16 Lease issued in 2016 replaces the standard IAS 17 Lease and the related interpretations of IFRS pertaining to lease; it eliminates the classification of leases as either operating leases or financial leases and introduces a single guide for lessee accounting model.

A contract, or part of a contract, is a lease contract, if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use assets are initially valued at initial cost and amortized to the earlier of the following dates: the expiration date of useful life of a right-of-use asset or the expiration date of a lease. The initial cost of a right-of-use asset includes the initial amount of the lease liability, lease payments made to the lessor before or at the lease commencement date, and initial direct costs incurred. After recognition, right-of-use assets are measured at initial cost less the accumulated depreciation and accumulated impairment loss. Right-of-use assets are presented in the statement of financial position as a separate line item.

The lease liability is initially measured at the current value of lease payments that have not yet been made at the commencement date of the lease and are subsequently measured at amortized cost with expenses recognized as interest in expenses from the financial activities of the consolidated statement of profit and loss. The lease liabilities are presented in the Statement of financial position as part of "Loans and borrowings" (current and non-current).

(in thousands of Russian rubles, unless otherwise stated)

The Group mainly leases power facilities (power lines, electricity transmission equipment, etc.) and land plots. The Group also leases non-residential premises and vehicles.

The Group applied the modified retrospective approach which presumes recognition of cumulative effect of initial application of standard at the date of the initial application – 1 January 2019. The average weighted rate for raising additional borrowed funds applied to lease liabilities recognized in the statement of financial position at the date of initial application, was 8.77%.

As at 1 January 2019, impairment of right-of-use assets is absent.

The table below shows the effect of the initial application of IFRS 16 Lease on the assets and liabilities of the Group:

	1 January 2019
Assets	
Right-of-use assets	1,120,255
Trade and other receivables	(11,398)
Liablities	
Non-current lease liabilities	976,830
Current lease liabilities	182,107
Trade and other payables	(50,079)

Below is reconciliation of operating lease liablities disclosed in accordance with IAS 17 as at 31 December 2018 and lease liabilities recognized in the statement of financial position as at 1 January 2019 in accordance with IFRS 16 Lease

	1 January 2019
Operating lease liability as of 31 December 2018 disclosed in the Group's consolidated financial statements	1,475,626
Options to extend / terminate lease that are reasonably certain to be exercised	682,094
Exemption for recognition of short-term lease agreements	(4,896)
Effect of discounting	(1,243,742)
Liabilities that are not classified as lease under IFRS 16	(21,962)
Other factors	271,817
Lease liablities recognized as at 1 January 2019	**1,158,937**

(b) Other standards and interpretations

Except the changes in the accounting policy described in section 3(a), the following amendments and explanations effective as at 1 January 2019 did not influence these consolidated interim condensed financial statements:

- Explanation to IFRIC 23 – Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation
- Amendments to IFRS 3 – Business Combinations
- 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

(in thousands of Russian rubles, unless otherwise stated)

- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19 – Plan Amendments, Curtailments or Settlement

The following new standards and interpretations have been issued and will become effective for the annual periods beginning on or after 1 January 2020 and were not preliminary applied by the Group:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 3 – Business Combinations – Definition of a Business
- Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors.

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 of Conceptual Framework and new standards on the consolidated financial statements.

4 Measurement of fair value

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 March 2019**	**31 December 2018**
"Recreation Centre "Energetik" JSC	Russian Federation	Recreational services	100	100
"Energoservice of Kuban" JSC	Russian Federation	Repair services	100	100

6 Segment information

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

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

Performance of each reportable segment is measured based on earnings, EBITDA, since these are reported in statutory accounts prepared on the basis of the RAS and are regularly assessed and 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 Operating Segments, 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 geographical regions of the Russian Federation (the 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.

(in thousands of Russian rubles, unless otherwise stated)

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

For the three months ended 31 March 2019:

	Kubanenergo	Other segments	Total
Revenue from external customers	11,811,206	6,432	11,817,638
Inter-segment revenue	384	5,491	5,875
Segment revenue	**11,811,590**	**11,923**	**11,823,513**
including			
Electricity transmission	11,721,393	–	11,721,393
Technological connection services	47,404	–	47,404
Other revenue	42,793	11,923	54,716
Finance income	13,957	30	13,987
Finance costs	(474,097)	–	(474,097)
Depreciation and amortization	1,037,150	181	1,037,331
EBITDA	**1,557,003**	**(7,631)**	**1,549,372**

For the three months ended 31 March 2018:

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

31 March 2019:

	Kubanenergo	Other segments	Total
Segment assets	**76,943,664**	**73,792**	**77,017,456**
Including			
Property, plant and equipment and construction in progress	62,296,281	29,576	62,325,857
Capital investment	806,450	140	806,590
Segment liabilities	41,789,102	31,225	41,820,327

31 December 2018:

	Kubanenergo	Other segments	Total
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

(in thousands of Russian rubles, unless otherwise stated)

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

Reconciliation of reportable segment revenue under RAS and IFRS:

	Three months ended 31 March	
	2019	2018
Segment revenue	**11,823,513**	**11,739,079**
Inter-segment revenue elimination	(5,875)	(7,185)
Adjustments for sales revenue (external)	(2,920)	–
Revenues per Consolidated statement of profit or loss and other comprehensive income	**11,814,718**	**11,731,894**

Reconciliation of reportable segment EBITDA under RAS and IFRS:

	Three months ended 31 March	
	2019	2018
EBITDA of reportable segments	**1,549,372**	**1,775,553**
Adjustment for lease	56,926	–
Adjustment for cost of intangible assets	15,416	15,284
Additional accrual of contingencies	10,842	–
Discounting of payables	2,995	1,514
Adjustment of value of property, plant and equipment	2,983	3,245
Discounting receivables	1,173	1,243
Adjustment for payables	448	–
Recognition of pension and other long-term employee benefit liabilities	188	(2,454)
Adjustment for doubtful accounts receivable	(605)	(1,131)
Taxes adjustment	(948)	(116)
Adjustment of revenue from electricity transmission services	(2,920)	959
Adjustment for accrual of provision for unused vacations and bonuses	(15,932)	(7,935)
Other adjustments	1,355	(146)
EBITDA	**1,621,293**	**1,786,016**
Depreciation and amortiszation	(960,301)	(870,442)
Interest expenses on financial liabilities	(434,660)	(482,701)
Interest expenses on lease liabilities	(22,740)	–
Income tax expense	(141,015)	(240,409)
Consolidated profit/loss for the year per statement of profit or loss and other comprehensive income	**62,577**	**192,464**

(in thousands of Russian rubles, unless otherwise stated)

7 Revenue

	Three months ended 31 March	
	2019	**2018**
Electricity transmission	11,718,199	11,630,443
Technological connection services	47,404	63,473
Lease payments	3,466	4,018
Repair and maintenance services	6,753	8,004
Other revenue	38,896	25,956
	11,814,718	**11,731,894**

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

8 Other income/(expense), net

	Three months ended 31 March	
	2019	**2018**
Income from identified non-contracted electricity consumption	19,896	9,232
Income in the form of fines and penalties on commercial contracts	38,213	21,734
Income from inventories and property, plant and equipment received free of charge	862	560
Insurance coverage, net	9,671	1,767
Account payables write-off	1,042	3,746
Loss on disposal of intangible assets	–	(11,852)
Loss on disposal of property, plant and equipment	(2,088)	(34,133)
Other net income	5,903	4,946
	73,499	**(4,000)**

(in thousands of Russian rubles, unless otherwise stated)

9 Operating expenses

	Three months ended 31 March	
	2019	**2018**
Personnel costs	1,566,005	1,530,968
Depreciation and amortization	960,301	870,442
Material expenses, including:		
Electricity for compensation of losses	2,316,366	2,288,033
Purchased electricity and thermal power for own needs	48,283	46,040
Other material costs	312,969	232,707
Production work and services, including:		
Electricity transmission services	4,901,869	4,807,838
Repair and maintenance services	110,065	54,620
Other works and industrial services	12,585	10,878
Taxes and levies other than income tax	156,974	222,514
Short-term lease/Lease	3,458	58,503
Insurance	19,331	19,429
Other third-party services, including:		
Communication services	17,261	15,850
Security services	50,623	63,806
Consulting, legal and audit services	9,229	7,373
Expenses on software and support	24,922	21,496
Transportation services	965	27
Other services	262,906	298,618
Provision for expected credit losses	160,911	(153,502)
Provisions	68,536	27,223
Other expenses	241,821	403,853
	11,245,380	**10,826,716**

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

(in thousands of Russian rubles, unless otherwise stated)

10 Finance income and cost

	Three months ended 31 March	
	2019	**2018**
Finance income		
Interest income on loans, bank deposits, bills and balances in bank accounts	13,987	11,639
Effect of initial discounting of financial liabilities	2,995	1,514
Amortization of discount on financial assets	1,173	1,243
	18,155	**14,396**

	Three months ended 31 March	
	2019	**2018**
Finance costs		
Interest expenses on financial liabilities measured at amortised cost	411,469	469,566
Interest expenses on lease liabilities	22,740	–
Interest expense on long-term employee benefits payable	9,636	11,274
Effect of initial discounting of financial assets	66	66
Amortization of discount on financial liabilities	228	1,795
Other finance costs	13,261	–
	457,400	**482,701**

(in thousands of Russian rubles, unless otherwise stated)

11 Income tax

	Three months ended 31 March 2019	Three months ended 31 March 2018
Current income tax		
Accrual of current tax	(62,580)	(179,256)
Adjustment for previous periods tax	–	–
Total current income tax	**(62,580)**	**(179,256)**
Deferred income tax	(78,435)	(61,153)
Total income tax expense	**(141,015)**	**(240,409)**

The official income tax set by the Russian legislation for 2019 and 2018 was 20%.

Income tax expense is recognised based on the management's best estimate of the weighted average annual income tax rate expected for the full financial year.

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

	Three months ended 31 March 2019	%	Three months ended 31 March 2018	%
Profit before tax	**203,592**		**432,873**	
Income tax at the applicable tax rate	(40,718)	(20)	(86,575)	(20)
Tax effect on not taxable or non-deductible for tax purposes items	(100,297)	(49)	(153,834)	(36)
	(141,015)	**(69)**	**(240,409)**	**(56)**

Income tax recognized in other comprehensive income:

	Three months ended 31 March 2019			Three months ended 31 March 2018		
	Before tax	Income tax	Net of tax	Before tax	Income tax	Net of tax
Remeasurement of the defined benefit liabilities	(20,294)	4,059	(16,235)	(32,685)	6,537	(26,148)
	(20,294)	**4,059**	**(16,235)**	**(32,685)**	**6,537**	**(26,148)**

(in thousands of Russian rubles, unless otherwise stated)

12 Property, plant and equipment

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Initial / deemed cost						
At 1 January 2019	**8,078,303**	**39,375,396**	**17,999,307**	**7,961,187**	**11,312,191**	**84,726,384**
Reclassification between groups	(23)	(267)	290	–	–	–
Additions	64	2,095	708	2,896	849,905	855,668
Commissioning	2,317	208,034	56,505	93,604	(360,460)	–
Disposal	(2,167)	(4,023)	(18)	(7,113)	(2,374)	(15,695)
31 March 2019	**8,078,494**	**39,584,235**	**18,056,792**	**8,050,574**	**11,799,262**	**85,566,357**
Accumulated depreciation and impairment						
At 1 January 2019	**(2,890,092)**	**(12,341,674)**	**(7,942,339)**	**(5,602,190)**	**(78,302)**	**(28,854,597)**
Reclassification between groups	13	22	(35)	–	–	–
Introduction of property, plant and equipment (reallocation of impairment loss)	–	(507)	(203)	–	710	–
Depreciation charge	(75,625)	(432,560)	(253,441)	(135,172)	–	(896,798)
Disposal	1,279	2,902	17	7,113	–	11,311
At 31 March 2019	**(2,964,425)**	**(12,771,817)**	**(8,196,001)**	**(5,730,249)**	**(77,592)**	**(29,740,084)**
Net book value						
At 1 January 2019	**5,188,211**	**27,033,722**	**10,056,968**	**2,358,997**	**11,233,889**	**55,871,787**
At 31 March 2019	**5,114,069**	**26,809,418**	**9,860,791**	**2,320,325**	**11,721,670**	**55,826,273**

Initial / deemed cost						
At 1 January 2019	7,843,726	38,083,459	16,002,371	7,682,999	8,367,283	77,979,838

(in thousands of Russian rubles, unless otherwise stated)

	Land and buildings	**Electricity transmission networks**	**Equipment for electricity transmission**	**Other**	**Construction in progress**	**Total**
Reclassification between groups	(631)	–	–	631	–	–
Additions	(1)	1,356	740	10,847	2,229,288	2,242,230
Commissioning	4,389	186,172	95,936	1,243	(287,740)	–
Disposal	(72)	(41,314)	(192)	(1,037)	(3,133)	(45,748)
At 31 March 2018	**7,847,411**	**38,229,673**	**16,098,855**	**7,694,683**	**10,305,698**	**80,176,320**
Accumulated depreciation and impairment						
At 1 January 2018	**(2,609,739)**	**(10,717,364)**	**(6,962,312)**	**(5,009,642)**	**(92,327)**	**(25,391,384)**
Reclassification between groups	181	–	–	(181)	–	–
Introduction of property, plant and equipment (reallocation of impairment loss)	–	(82)	(61)	–	143	–
Depreciation charge	(68,670)	(405,947)	(227,344)	(151,074)	-	(853,035)
Disposal	37	9,635	35	1,037	40	10,784
At 31 March 2018	**(2,678,191)**	**(11,113,758)**	**(7,189,682)**	**(5,159,860)**	**(92,144)**	**(26,233,635)**
Net book value						
At 1 January 2018	**5,233,987**	**27,366,095**	**9,040,059**	**2,673,357**	**8,274,956**	**52,588,454**
At 31 March 2018	**5,169,220**	**27,115,915**	**8,909,173**	**2,534,823**	**10,213,554**	**53,942,685**

(in thousands of Russian rubles, unless otherwise stated)

For the three months ended 31 March 2019, capitalized interest amounted 129,526 thousand rubles (for three months ended 31 March 2018: 59,181 thousand rubles), capitalization rate was 5.90 % (for the three months ended 31 March 2018: 6.16%).

For the three months ended 31 March 2019, the depreciation payments were capitalised into the cost of capital facilities in the amount of 2,244 thousand rubles (for the three months ended 31 March 2018: 53 thousand rubles).

13 Intangible assets

	Software	Licences and certificates	R&D	Other	Total
Initial cost					
At 1 January 2019	**505,189**	**5,295**	**40,934**	**36,169**	**587,587**
Additions	19,191	–	–	–	19,191
Disposals	–	–	–	(8,297)	(8,297)
At 31 March 2019	**524,380**	**5,295**	**40,934**	**27,872**	**598,481**
Accumulated amortization and impairment					
At 1 January 2019	**(318,369)**	**(5,295)**		**(15,102)**	**(338,766)**
Amortization charge	(21,331)	–	–	(1,274)	(22,605)
Disposals	–	–	–	8,297	8,297
At 31 March 2019	**(339,700)**	**(5,295)**		**(8,079)**	**(353,074)**
Net book value					
At 1 January 2019	**186,820**	**-**	**40,934**	**21,067**	**248,821**
At 31 March 2019	**184,680**	**-**	**40,934**	**19,793**	**245,407**
Initial cost					
At 1 January 2018	**377,627**	**5,295**	**9,654**	**28,557**	**421,133**
Additions	26,426	–	5,808	(5,508)	26,726
Disposals	(11,852)	–	(1)	–	(11,853)
At 31 March 2018	**392,201**	**5,295**	**15,461**	**23,049**	**436,006**
Accumulated amortization and impairment					
At 1 January 2018	**(255,631)**	**(5,295)**	**–**	**(9,772)**	**(270,698)**
Amortization charge	(16,288)	–	–	(1,172)	(17,460)
Disposals	11,852	–	–	–	11,852
At 31 March 2018	**(260,067)**	**(5,295)**	**–**	**(10,944)**	**(276,306)**
Net book value					
At 1 January 2018	**121,996**	**–**	**9,654**	**18,785**	**150,435**
At 31 March 2018	**132,134**	**–**	**15,461**	**12,105**	**159,700**

For the three months ended 31 March 2019, capitalized amortization of intangible assets amounted 27 thousand rubles (for the three months ended 31 March 2018, capitalized amortization is absent).

Other intangible assets include comprehensive programmes for development of electricity networks, electrical network diagrams, and engineering solutions achieved in the results of design and development work in amount of 12,293 thousand rubles as at 31 March 2019 (10,934 thousand rubles as at 31 March 2018).

(in thousands of Russian rubles, unless otherwise stated)

14 Right-of-use assets

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Total
Initial cost					
At 1 January 2019	**479,102**	**16,273**	**565,006**	**59,874**	**1,120,255**
Additions	2,772	–	–	–	2,772
At 31 March 2019	**481,874**	**16,273**	**565,006**	**59,874**	**1,123,027**
Accumulated amortization and impairment					
At 1 January 2019	–	–	–	–	–
Amortization charge	(7,916)	(946)	(34,049)	(807)	(43,718)
At 31 March 2019	**(7,916)**	**(946)**	**(34,049)**	**(807)**	**(43,718)**
Net book value					
At 1 January 2019	479,102	16,273	565,006	59,874	1,120,255
At 31 March 2019	473,958	15,327	530,957	59,067	1,079,309

The Group has applied IAS 36 Impairment of Assets towards right-of-use assets as of the date of initial application of IFRS 16 Lease. As at 1 January 2019, impairment of right-of-use assets was not detected.

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15 Trade and other receivables

	31 March 2019	31 December 2018
Non-current trade and other accounts receivable		
Trade receivables	736	744
Other receivables	8,087	10,471
Total financial assets	**8,823**	**11,215**
Advances given	4,905	4,891
VAT on advances from customers	1,146	1,147
	14,874	**17,253**
Current trade and other accounts receivable		
Trade receivables	9,328,681	7,299,355
Allowance for expected credit loss on trade receivables	(1,392,202)	(1,103,966)
Other receivables	915,341	1,132,882
Allowance for expected credit loss on other receivables	(478,739)	(619,019)
Total financial assets	**8,373,081**	**6,709,252**
Advances given	73,383	53,421
Advances given impairment allowance	(15,871)	(17,507)
VAT recoverable	4,575	5,186
VAT on advances from buyers and customers and VAT on advances for acquisition of property, plants and equipment	29,274	41,246
Prepaid taxes, other than income tax	15,232	19,861
	8,479,674	**6,811,459**

Information on balances with related parties is disclosed in Note 24.

(in thousands of Russian rubles, unless otherwise stated)

16 Cash and cash equivalents

	31 March 2019	31 December 2018
Cash at bank and in hand	993,878	2,200,921
Cash equivalents	530,000	4,000
	1,523,878	**2,204,921**

	Rating	Rating agency	31 March 2019	31 December 2018
Treasury Department of the Krasnodar region	–	–	858,864	1,012,089
Bank Rossiya (AB Rossiya)	ruAA	Expert RA	49,610	696,897
Russian Regional Development Bank			89	450,001
Mosoblbank PJSC			22,076	22,130
Sberbank*	ba1	Moody's	21,003	13,376
Gazprombank*	b1	Moody's	36,994	6,387
VTB bank			5,237	19
Cash in hand	–	–	5	22
			993,878	**2,200,921**

* Government related bank

Cash equivalents consist of short-term bank deposits:

	Interest rate	Rating	Rating agency	31 March 2019	31 December 2018
Sberbank*	6.9% - 6.9%	ba1	Moody`s	530,000	4,000
				530,000	**4,000**

* Government related bank

As at 31 March 2019 and 31 December 2018, all cash and equivalents balances are nominated in rubles.

(in thousands of Russian rubles, unless otherwise stated)

17 Equity

(a) Share capital

	Ordinary shares	
	31 March 2019	**31 December 2018**
Par value per share	100 rubles	100 rubles
On issue at 1 January	303,793,350	282,868,130
On issue at the end of the year and fully paid	303,793,350	303,793,350

(b) Ordinary and preference 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.

As at the date of signing the consolidated interim condensed financial statements for the three months ended 31 March 2019, the dividends by the results of business activity of the Company in 2018 were not declared. The Annual General Meeting of Shareholders of "Kubanenergo" PJSC is scheduled for 20 June 2019.

(d) Additional issue of securities

On 17 April 2019, the Extraordinary General Meeting of Shareholders of "Kubanenergo" PJSC (minutes of the meeting No.41 of 19 April 2019) resolved to increase the Company's authorized capital by issuing additional 37,477,392 (thirty-seven million four hundred seventy-seven thousand three hundred ninety-two) shares by public offering. The offering price of one additional ordinary registered uncertified share is 100 rubles (as well as for persons entitled to preemptive right to purchase additional shares).

18 Earnings per share

The calculation of the basic profit per share for the three months ended 31 March 2019 was based on the profit attributable to holders of ordinary shares for the three months ended 31 March 2019 in amount of 62,577 thousand rubles (for the three months ended 31 March 2018: earnings amounted 192,464 thousand rubles) and average weighted number of ordinary shares in circulation for the three months ended 31 March 2019 – 303,793,350 shares (for the three months ended 31 March 2018: 303,793,350 shares).

The Company has no dilutive financial instruments.

The table below shows the calculation of the basic profit per share for the three months ended 31 March 2019 and 31 March 2018:

In thousands of shares	**Three months ended 31 March 2019**	**Three months ended 31 March 2018 (restated)**
Ordinary shares at 1 January	303,793	282,868
Number of unregistered shares	–	20,925
Effect of offered shares	–	–
Weighted average number of shares for the period ended 31 March	**303,793**	**303,793**

	Three months ended 31 March 2019	**Three months ended 31 March 2018 (restated)**
Weighted average number of ordinary shares for the period ended 31 March (in thousands of pieces)	303,793	303,793
Earnings for the period attributable to holders of ordinary shares	62,577	192,464
Earnings per ordinary share – basic and diluted (in Russian rubles)	**0.21**	**0.63**

(in thousands of Russian rubles, unless otherwise stated)

19 Loans and borrowings

	31 March 2019	31 December 2018
Non-current liabilities		
Unsecured loans and borrowings	17,781,308	17,582,621
Unsecured bond loans	7,000,000	7,000,000
Lease liabilities	1,111,990	–
Less: current portion of long-term lease liablities	(170,557)	–
Less: current portion of long-term loans and borrowings liablities	(10,508,704)	(7,899,382)
Less: current portion of long-term bond loans	(3,400,000)	(3,400,000)
	11,814,037	**13,283,239**
Current liabilities		
Unsecured loans and borrowings	296,164	96,519
Current portion of long-term lease liablities	170,557	–
Current portion of long-term loans and borrowings liablities	10,508,704	7,899,382
Current portion of long-term bond loans	3,400,000	3,400,000
	14,375,425	**11,395,901**
Including:		
Interests payable on loans and borrowings	15,824	15,719
Interests payable on bond loans	278,718	80,178
	294,542	**95,897**

As at 31 March 2019 and 31 December 2018, all loans and borrowings balances are nominated in rubles.

For the three months ended 31 March 2019, the Group attracted the following material bank credits:

	Effective interest rate	Maturity	Nominal value
Unsecured bank credits *	9.20% - 9.30%	2020 - 2020	98,101
Unsecured bank credits	8.75% - 9.35%	2020 - 2020	131,072
Other unsecured loans and borrowings	15% -15%	2019 - 2019	1,000
			230,173

* Loans and borrowings from state-controlled entities

For the three months ended 31 March 2019, the Group repaid the following material bond and bank loans:

	Nominal value
Loans and borrowings from government related companies	30,488
	30,488

(in thousands of Russian rubles, unless otherwise stated)

20 Trade and other payables

	31 March 2019	31 December 2018
Non-current accounts payable		
Trade payables	17,386	4,643
Other payables	580	687
Total financial liabilities	**17,966**	**5,330**
Advances from customers	1,468,270	1,241,652
	1,486,236	**1,246,982**
Current accounts payable		
Trade payables	5,391,602	5,257,325
Other payables and accrued expenses	1,165,003	1,368,805
Payables to employees	1,033,146	1,038,820
Dividends payable	915	919
Total financial liabilities	**7,590,666**	**7,665,869**
Advances from customers	3,891,723	4,118,711
	3,891,723	**4,118,711**
Taxes payable		
VAT	763,194	327,679
Property tax	347,510	214,646
Social security contributions	112,652	120,865
Other taxes payables	49,240	64,419
	1,272,596	**727,609**
	12,754,985	**12,512,189**

As at 31 March 2019, long-term and short-term advances from customers include advances for technological connection services in amount of 1,468,270 thousand rubles and 4,970,893 thousand rubles, respectively (as at 31 December 2018 – 1,241,652 thousand rubles and 5,144,415 thousand rubles, respectively).

(in thousands of Russian rubles, unless otherwise stated)

21 Financial risk and capital management

The Groups objectives and policies in financial risks and capital management as well as procedure for determining the fair value are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2018.

Below is reconciliation of fair and carrying value of financial instruments of the Group, excluding the financial assets with carrying value corresponding with their fair value:

Financial instruments		31 March 2019		Levels of hierarchy of fair value measurement		
	Notes	**Carrying value**	**Fair value**	**1**	**2**	**3**
Financial assets measured at fair value through other comprehensive income		1	1	–	–	1
Short-term and long-term loans and borrowings	19	(26,189,462)	(26,189,462)	–	–	(26,189,462)
		(26,189,461)	**(26,189,461)**	–	–	**(26,189,461)**

Financial instruments		31 December 2018		Levels of hierarchy of fair value measurement		
	Notes	**Carrying value**	**Fair value**	**1**	**2**	**3**
Financial assets measured at fair value through other comprehensive income		1	1	–	–	1
Short-term and long-term loans and borrowings	19	(24,679,140)	(24,679,140)	–	–	(24,679,140)
		(24,679,139)	**(24,679,139)**	–	–	**(24,679,139)**

The interest rate used for long-term and short-term loans borrowings for the purpose of determining the fair value disclosed as at 31 March 2019 was 8.75% – 9.35% (as at 31 December 2019: 7.60% - 9.25%).

For the three months ended 31 March 2019, there were no transfers between the levels of the fair value hierarchy.

As of 31 March 2019, the sum of free limit on open but unused credit lines of the Group amounted 22,001,692 thousand rubles (19,220,378 thousand rubles as of 31 December 2018). The Group has opportunity to attract additional financing within the corresponding limits, including for the purpose of implementation of the short-term obligations.

22 Capital commitments

As at 31 March 2019, the Group has outstanding commitments under contracts for purchase and construction of property, plant and equipment items for 2,186,595 thousand rubles, including VAT (as at 31 December 2018: 2,614,233 thousand rubles, including VAT).

23 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 March 2019, 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 interim condensed 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.

24 Related party transactions

(a) Control relationships

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

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Company's parent as at 31 March 2019 and 31 December 2018 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.

(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 three months ended 31 March		Carrying amount	
	2019	2018	31 March 2019	31 December 2018
Revenue, net other income, finance income				
Parent company				
Other revenue	296	296	–	–
Entities under common control of the parent company				
Lease	11	52	8	1,224
Other income / other revenue	111	1,031	60,602	225,911
Net (accrual) / recovery of impairment reserve for other receivables	165,595	960	(1,854)	(167,449)
	166,013	**2,339**	**58,756**	**59,686**

(in thousands of Russian rubles, unless otherwise stated)

	Sum of transaction for three months ended 31 March		Carrying amount	
	2019	**2018**	**31 March 2019**	**31 December 2018**
Operating expenses, finance costs				
Parent company				
Other production work and services	27,268	26,788	18,523	22,821
Other expenses	5,413	5,428	1,409	1,385
Interest on bond loans	198,540	198,610	278,718	80,178
Entities under common control of the parent company				
Electricity transmission services	2,130,973	2,044,857	958,740	1,219,658
Technological connection services	–	116	–	–
Lease	33	18	14	1,214,
Software and support expenses	280	280	338	15,723
Other expenses	129,010	6,079	270,635	343,087
Interest expenses on financial liabilities measured at amortised cost	13,276	–	34,614	54
	2,504,793	**2,282,176**	**1,562,991**	**1,684,120**
Construction and installation work capitalised	49,924	16,735	100,285	93,873
	2,554,717	**2,289,911**	**1,663,276**	**1,777,993**

	Carrying amount	
	31 March 2019	**31 December 2018**
Parent company		
Advances given	–	–
Advances received	–	–
Entities under common control of the parent company		
Advances given	24,863	72,326
Advances received	131	90
	24,994	**72,416**

	Carrying amount	
	31 March 2019	**31 December 2018**
Parent company		
Bonded loans	7,000,000	7,000,000
	7,000,000	**7,000,000**

As at 31 March 2019, liability to the parent company for payment of dividends was absent.

(c) Transactions with key management personnel

(in thousands of Russian rubles, unless otherwise stated)

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 on the key management personnel and are included in personnel costs.

	Three months ended 31 March	
	2019	**2018**
Short-term remuneration to employees	20,003	31,700
Post-employment benefits and other long-term remunerations	15	30
	20,018	**31,730**

As of 31 March 2019, 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 1 961 thousand rubles (as of 31 December 2018: 1 819 thousand rubles).

(d) Transactions with government-related entities

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

Revenues from government-related entities for the three months ended 31 March 2019 constitute 1.41% (for the three months ended 31 March 2018: 4.46%) of total Group revenues, including 1.41% (for the three months ended 31 March 2018: 3.96%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for government-related entities for the three months ended 31 March 2019 constitute 7.37% (for the three months ended 31 March 2018: 2.72%) of total electricity transmission costs.

For the three months ended 31 March 2019, interest expenses on government-related banks loans and borrowings constitute 76.65% of total interest expenses (for the three months ended 31 March 2018: 88.62%).

As of 31 March 2019, cash and cash equivalents held in government-related banks amounts to 587,997 thousand rubles (as of 31 December 2018: 1,072,745 thousand rubles)

Loans and borrowings received from government-related banks are disclosed in Note 19.

25 Events after reporting date

According to the Management, there are no other facts of economic activity in the Group that have or may affect the financial condition, cash flows or results of operations of the Group and that occurred between the reporting date and the date of signing the consolidated financial statements for the three months ended 31 March 2019, and as of 31.03.2019.