

“Kubanenergo” PJSC

**Consolidated Interim Condensed Financial Statements
prepared in accordance with IAS 34 “Interim Financial Reporting”
for the six months ended 30 June 2019
(unaudited)**

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“Kubanenergo” PJSC

Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income for the three and six months ended 30 June 2019 (unaudited)
(in thousands of Russian rubles)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2019	2018	2019	2018
Revenue	7	11,178,653	10,524,792	22,993,371	22,256,686
Operating expenses	10	(11,297,824)	(10,267,871)	(22,382,293)	(21,259,940)
Reversal/(accrual) of allowance for expected credit losses		(84,762)	(19,192)	(245,673)	134,310
Other income	8	479,950	362,120	555,312	403,695
Other expenses	9	(8,280)	(1,614)	(10,143)	(35,338)
Results from operating activities		267,737	598,235	910,574	1,499,413
Finance income	11	13,487	20,780	31,642	35,176
Finance costs	11	(483,972)	(545,848)	(941,372)	(1,028,549)
Total finance costs		(470,485)	(525,068)	(909,730)	(993,373)
Profit/(loss) before income tax		(202,748)	73,167	844	506,040
Income tax expense	12	(89,582)	(169,541)	(230,597)	(409,950)
Profit/(loss) for the period		(292,330)	(96,374)	(229,753)	96,090
Other comprehensive income					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Remeasurements of defined benefit liability		(40,766)	45,677	(61,060)	12,992
Income tax	12	8,153	(9,135)	12,212	(2,598)
Total items that will not be reclassified subsequently to profit or loss		(32,613)	36,542	(48,848)	10,394
Other comprehensive income/(loss) for the period, net of income tax		(32,613)	36,542	(48,848)	10,394
Total comprehensive income/(loss) for the period		(324,943)	(59,832)	(278,601)	106,484
Profit/(loss) attributable to:					
Owners of the Company		(292,330)	(96,374)	(229,753)	96,090
Total comprehensive income/(loss) attributable to:					
Owners of the Company		(324,943)	(59,832)	(278,601)	106,484
Earnings/(loss) per share					
Basic and diluted earnings per ordinary share (in Russian rubles)	21	(0.96)	(0.32)	(0.76)	0.32

These Consolidated Interim Condensed Financial Statements were approved by the management on 22 August 2019 and signed on its behalf by:

Deputy Director General for Corporate Governance
(by power of attorney No. 23/256-n/23-2018 of 12 December 2018)


Z.I. Khazikova

Chief Accountant



I.V. Skiba

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

“Kubanenergo” PJSC

Consolidated Interim Condensed Financial Statement of Financial Position for the three and six months ended 30 June 2019 (unaudited)

(in thousands of Russian rubles)

	Notes	30 June 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	13	55,796,919	55,871,787
Intangible assets	14	223,765	248,821
Right-of-use assets	15	1,090,904	–
Trade and other receivables	17	13,473	11,215
Assets related to employee benefits plans		310,290	291,221
Financial investments	16	1	1
Deferred tax assets		773,763	992,148
Prepayments and other non-current assets	18	6,436	6,038
Total non-current assets		58,215,551	57,421,231
Assets classified as held for sale		39,045	39,045
Total non-current assets		58,254,596	57,460,276
Current assets			
Inventories		1,756,085	1,888,232
Income tax prepayments		610,320	258,888
Trade and other receivables	17	8,788,953	6,709,252
Cash and cash equivalents	19	831,780	2,204,921
Prepayments and other current assets	18	64,654	102,207
Total current assets		12,051,792	11,163,500
Assets classified as held for sale		20,931	20,931
Total assets		70,327,319	68,644,707
Equity and liabilities			
Equity			
Share capital	20	30,379,335	30,379,335
Share premium		6,481,916	6,481,916
Other reserves		(242,422)	(193,574)
Retained earnings		(8,113,313)	(7,739,922)
Total equity attributable to owners of the Company		28,505,516	28,927,755
Total equity		28,505,516	28,927,755
Non-current liabilities			
Loans and borrowings	22	11,576,817	13,283,239
Trade and other payables	23	118,257	5,330
Customer advance payments	24	1,131,706	1,241,652
Employee benefits liabilities		517,017	453,065
Government grants		18,421	24,809
Total non-current liabilities		13,362,218	15,008,095
Current liabilities			
Loans and borrowings	22	15,487,134	11,395,901
Trade and other payables	23	7,983,890	8,393,478
Government grants		12,275	12,401
Customer advance payments	24	4,208,223	4,118,711
Provisions		768,062	788,366
Current income tax liabilities		1	–
Total current liabilities		28,459,585	24,708,857
Total liabilities		41,821,803	39,716,952
Total equity and liabilities		70,327,319	68,644,707

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

“Kubanenergo” PJSC

Consolidated Interim Condensed Financial Statement of Cash Flows for the three and six months ended 30 June 2019

(unaudited)

(in thousands of Russian rubles)

	Notes	Six months ended 30 June	
		2019	2018
Operating activities			
Profit/(loss) for the period		(229,753)	96,090
<i>Adjustments for:</i>			
Depreciation and amortization	10	1,926,800	1,744,695
Finance costs	11	941,372	1,028,549
Finance income	11	(31,642)	(35,176)
Loss on disposal of property, plant and equipment	9	7,612	35,337
Loss on disposal of intangible assets		–	1
Allowance for expected credit losses	10	245,673	(134,310)
Allowance for impairment of inventories		(154)	(478)
Accounts payable write-off	8	(2,469)	(7,951)
Bad debt write-off		3,460	3,192
Accrual of provision		144,943	78,587
Other non-cash transactions		(26,879)	(36,684)
Income tax expense		230,597	409,950
Total effect of adjustments		3,209,560	3,181,802
Change in financial assets related to employee benefit liabilities		(19,069)	28,242
Change in employee benefit liabilities		(15,893)	(20,223)
Operating cash flow before changes in working capital and reserves		3,174,598	3,189,821
Changes in working capital:			
Change in trade and other receivables		(2,320,764)	(1,233,928)
Change in advances paid and other assets		10,474	78,781
Change in inventories		138,580	81,007
Change in government grants		(6,514)	(6,201)
Change in trade and other payables		(113,416)	652,655
Change in customer advance payments		(18,576)	1,882,490
Change in provision		(171,740)	(43,380)
Operating cash flow before income tax and interest paid		692,642	4,601,245
Income tax paid		(351,431)	(341,065)
Interest paid on lease contracts		(46,273)	–
Interest paid		(1,129,551)	(1,145,065)
Net cash from / (used in) operating activities		(834,613)	3,115,115
Investing activities			
Acquisition of property, plant and equipment and intangible assets		(1,748,837)	(3,842,983)
Proceeds from sale of property, plant and equipment and intangible assets		–	–
Placement of bank deposits and acquisition of investments		–	–
Withdrawal of bank deposits and disposal of investments		–	–
Interest received		26,379	29,729
Dividends received		–	–
Net cash used in investing activities		(1,722,458)	(3,813,254)
Financing activities			
Proceeds from loans and borrowings	22	2,915,267	32,760,960
Repayment of loans and borrowings	22	(1,654,301)	(31,128,839)
Dividends paid to owners of the Company		(40)	(513)
Change in lease liabilities		–	–
Lease liability payments		(76,996)	–
Net cash flows from financing activities		1,183,930	1,631,608
Net (decrease)/increase in cash and cash equivalents		(1,373,141)	933,469
Cash and cash equivalents at the beginning of the period	19	2,204,921	1,681,043
Cash and cash equivalents at the end of the period	19	831,780	2,614,512

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

“Kubanenergo” PJSC

Consolidated Interim Condensed Statement of Changes in Equity
for the three and six months ended 30 June 2019 (unaudited)
(in thousands of Russian rubles)

	Attributable to equity holders of the Company						Non- controlling interest	Total equity
	Share capital	Share premium	Reserve for issue of shares	Reserves	Retained earnings	Total		
Balance at 31 December 2018	30,379,335	6,481,916	-	(193,574)	(7,739,922)	28,927,755	28,927,755	
Impact of change in accounting policies	-	-	-	-	-	-	-	
Balance at 1 January 2019 (restated)	30,379,335	6,481,916	-	(193,574)	(7,739,922)	28,927,755	28,927,755	
Loss for the period	-	-	-	-	(229,753)	(229,753)	(229,753)	
Other comprehensive loss	-	-	-	(61,060)	-	(61,060)	(61,060)	
Income tax relating to other comprehensive income	-	-	-	12,212	-	12,212	12,212	
Total comprehensive loss for the period	-	-	-	(48,848)	(229,753)	(278,601)	(278,601)	
Transactions with owners of the Company								
Contributions and distributions	-	-	-	-	(143,638)	(143,638)	(143,638)	
Dividends to shareholders	-	-	-	-	(143,638)	(143,638)	(143,638)	
Total contributions and distributions	-	-	-	-	(143,638)	(143,638)	(143,638)	
Total transactions with owners of the Company	-	-	-	-	(143,638)	(143,638)	(143,638)	
Balance at 30 June 2019	30,379,335	6,481,916	-	(242,422)	(8,113,313)	28,505,516	28,505,516	

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

“Kubanenergo” PJSC

*Consolidated Interim Condensed Statement of Changes in Equity
for the three and six months ended 30 June 2019 (unaudited)
(in thousands of Russian rubles)*

	Attributable to equity holders of the Company							Non- controlling interest	Total equity
	Share capital	Share premium	Treasury shares	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	-	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	-	28,406,175
Profit for the period	-	-	-	-	-	96,090	96,090	-	96,090
Other comprehensive income/(loss)	-	-	-	-	12,992	-	12,992	-	12,992
Income tax relating to other comprehensive income	-	-	-	-	(2,598)	-	(2,598)	-	(2,598)
Total comprehensive income for the period	-	-	-	-	10,394	96,090	106,484	-	106,484
Transactions with owners of the Company									
Contributions and distributions	-	-	-	-	-	(321,570)	(321,570)	-	(321,570)
Dividends to shareholders	-	-	-	-	-	-	-	-	-
Total contributions and distributions	-	-	-	-	-	(321,570)	(321,570)	-	(321,570)
Total transactions with owners of the Company	-	-	-	-	-	(321,570)	(321,570)	-	(321,570)
Balance at 30 June 2018	28,286,813	6,481,916	-	2,092,522	(226,459)	(8,443,703)	28,191,089	-	28,191,089

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

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Notes to the Consolidated Interim Condensed Financial Statements for the three and six months ended 30 June 2019

(unaudited)

(in thousands of Russian rubles)

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 of 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 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.

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Notes to the Consolidated Interim Condensed Financial Statements for the three and six months ended 30 June 2019

(unaudited)

(in thousands of Russian rubles)

(c) Relations with the state

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

As at 30 June 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 and six months ended 30 June 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, except for those related to the application of IFRS 16 “Leases” (Notes 3 (a)).

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

In the reporting period, the Group changed representation of certain indicators in order to provide more accurate information on their state in the consolidated interim condensed statement of financial position, consolidated interim condensed statement of profit or loss and other comprehensive income, and consolidated interim condensed statement of cash flows. To ensure comparability of data, indicators of the previous reporting period have been reclassified:

- Long-term and short-term customer advances (contract liabilities) previously disclosed in Note “Trade and other payables” are now reflected in separate items in the consolidated interim condensed statement of financial position.

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Notes to the Consolidated Interim Condensed Financial Statements for the three and six months ended 30 June 2019

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- Advances paid and other non-financial assets previously disclosed in Note “Trade and other payables” are now reflected in separate items “Advances paid and other current assets” and “Advances paid and other non-current assets” in the consolidated interim condensed statement of financial position.
- Other income and other expenses previously disclosed in Note “Other net income” are now reflected in separate items in the consolidated interim condensed statement of profit or loss and other comprehensive income.
- Allowance for expected credit losses previously disclosed in Note 10 “Operating expenses” is now reflected in a separate item “Reversal/accrual of allowance for expected credit losses” in the consolidated interim condensed statement of profit or loss and other comprehensive income.
- Change in advances paid and other assets previously disclosed in line “Change in trade and other receivables” of the consolidated interim condensed statement of cash flows is now reflected as a separate line “Change in advances paid and other assets” in the consolidated interim condensed statement of cash flows.
- Change in advance customer payments previously disclosed in line “Change in trade and other receivables” of the consolidated interim condensed statement of cash flows is now reflected as a separate line “Change in advance customer payments” in the consolidated interim condensed statement of cash flows.

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 adoption of IFRS 16 “Lease” since 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 its part, is considered as 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).

An individual lease contract may be qualified as a lease contract which asset has low value. Lease payments under such a contract will be presented as expenses by linear method during the lease term.

The Group defines the lease term as a non-cancellable period, during which the Group has the right to use the base assets together with:

- periods covered by option to extend the lease if the Group is reasonably certain to exercise that option; and
- periods covered by option to terminate the lease if the Group is reasonably certain not to exercise that option.

When extending the lease term, the Group considers the following factors:

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Notes to the Consolidated Interim Condensed Financial Statements for the three and six months ended 30 June 2019
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(in thousands of Russian rubles)

- whether it is a special purpose asset;
- location;
- whether the Group and a lessor have alternative contractor (alternative asset);
- expenses related to termination of the lease and conclusion of new (replacing) contract;
- existence of leasehold improvements

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

For the contracts related to lease of land plots under grid facilities for indefinite term or less than 1 year with the availability of yearly prolongation, the Group determines the contract duration using useful life of fixed assets located on the leased land plots the as a base criterion.

For the contracts related to lease of grid facilities for indefinite term or less than 1 year with the availability of yearly prolongation, the Group determines the contract duration using useful life of own fixed assets with comparable technical specifications as a base criterion.

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%

The Group used permitted practical simplifications and did not apply the new standard to lease agreements that expire within twelve months from the date of transition.

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:

	<u>1 January 2019</u>
Assets	
Right-of-use assets	1,120,264
Advances paid and other current assets	(11,398)
Liabilities	
Non-current lease liabilities (part of loans and borrowings)	976,830
Current lease liabilities (part of loans and borrowings)	182,107
Trade and other payables	(50,071)

Below is reconciliation of operating lease liabilities 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.

	<u>1 January 2019</u>
Operating lease liability as of 31 December 2018 disclosed in the Group’s consolidated financial statements	1,475,626
Other operating lease liability	
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)
Finance lease liability recognized as at 31 December 2018	–
Other factors	271,817
Lease liabilities recognized as at 1 January 2019	1,158,937

(b) Other standards and interpretations

Except for 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

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Notes to the Consolidated Interim Condensed Financial Statements for the three and six months ended 30 June 2019

(unaudited)

(in thousands of Russian rubles)

- 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
- 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:

Subsidiary	Country of incorporation	Core activity	Ownership/voting shares, %	
			30 June 2019	31 December 2018
“Recreation Centre “Energetik” JSC	Russian Federation	Recreational services	100	100
“Energoservice of Kuban” JSC	Russian Federation	Repair services	100	100

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6 Segment information

“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.

(a) Information on reportable segments

For the three months ended 30 June 2019:

	<u>Kubanenergo</u>	<u>Other segments</u>	<u>Total</u>
Revenue from external customers	11,169,186	12,422	11,181,608
Inter-segment revenue	567	15,837	16,404
Segment revenue	11,169,753	28,259	11,198,012
Including			
<i>Electricity transmission</i>	10,893,255	–	10,893,255
<i>Technological connection services</i>	204,916	–	204,916
<i>Other revenue</i>	71,582	28,259	99,841
<i>Finance income</i>	12,390	2	12,392
<i>Finance costs</i>	(496,527)	(35)	(496,562)
<i>Depreciation and amortization</i>	(1,040,946)	(655)	(1,041,601)
<i>Segment loss before tax</i>	(362,218)	(28,873)	(391,091)
EBITDA	1,175,255	(28,183)	1,147,072

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For the three months ended 30 June 2018:

	<u>Kubanenergo</u>	<u>Other segments</u>	<u>Total</u>
Revenue from external customers	10,524,062	9,022	10,533,084
Inter-segment revenue	485	9,102	9,587
Segment revenue	10,524,547	18,124	10,542,671
Including			
<i>Electricity transmission</i>	10,399,969	–	10,399,969
<i>Technological connection services</i>	80,166	–	80,166
<i>Other revenue</i>	44,412	18,124	62,536
<i>Finance income</i>	18,756	1	18,757
<i>Finance costs</i>	(517,479)	(17)	(517,496)
<i>Depreciation and amortization</i>	(961,413)	(506)	(961,919)
<i>Segment income /(loss) before tax</i>	9,341	(6,435)	2,906
EBITDA	1,488,233	(5,912)	1,482,321

For the six months ended 30 June 2019:

	<u>Kubanenergo</u>	<u>Other segments</u>	<u>Total</u>
Revenue from external customers	22,980,392	18,854	22,999,246
Inter-segment revenue	951	21,328	22,279
Segment revenue	22,981,343	40,182	23,021,525
Including			
<i>Electricity transmission</i>	22,614,648	–	22,614,648
<i>Technological connection services</i>	252,320	–	252,320
<i>Other revenue</i>	114,375	40,182	154,557
<i>Finance income</i>	26,347	32	26,379
<i>Finance costs</i>	(970,624)	(35)	(970,659)
<i>Depreciation and amortization</i>	(2,078,096)	(836)	(2,078,932)
<i>Segment loss before tax</i>	(316,462)	(36,685)	(353,147)
EBITDA	2,732,258	(35,814)	2,696,444

For the six months ended 30 June 2018:

	<u>Kubanenergo</u>	<u>Other segments</u>	<u>Total</u>
Revenue from external customers	22,255,627	9,351	22,264,978
Inter-segment revenue	790	15,982	16,772
Segment revenue	22,256,417	25,333	22,281,750
Including			
<i>Electricity transmission</i>	22,030,607	–	22,030,607
<i>Technological connection services</i>	143,639	–	143,639
<i>Other revenue</i>	82,171	25,333	107,504
<i>Finance income</i>	30,380	16	30,396
<i>Finance costs</i>	(963,474)	(17)	(963,491)
<i>Depreciation and amortization</i>	(1,923,767)	(634)	(1,924,401)
<i>Segment income /(loss) before tax</i>	382,230	(12,248)	369,982
EBITDA	3,269,471	(11,597)	3,257,874

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30 June 2019:

	<u>Kubanenergo</u>	<u>Other segments</u>	<u>Total</u>
Segment assets	76,472,521	74,779	76,547,300
Including			
<i>Property, plant and equipment and construction in progress</i>	62,069,624	30,259	62,099,883
<i>Capital investment</i>	1,627,393	1,479	1,628,872
Segment liabilities	41,891,715	55,335	41,947,050

31 December 2018:

	<u>Kubanenergo</u>	<u>Other segments</u>	<u>Total</u>
Segment assets	75,908,815	79,547	75,988,362
Including			
<i>Property, plant and equipment and construction in progress</i>	62,534,635	29,617	62,564,252
<i>Capital investment</i>	6,950,196	2,606	6,952,802
Segment liabilities	40,670,269	30,717	40,700,986

(b) Reconciliation of reportable segment revenues and EBITDA:

Reconciliation of reportable segment revenue under RAS and IFRS:

	<u>Three months ended 30 June</u>		<u>Six months ended 30 June</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Segment revenue	11,198,012	10,542,671	23,021,525	22,281,750
Inter-segment revenue elimination	(16,404)	(9,587)	(22,279)	(16,772)
Reclassification of inter-segment revenue to external	–	1,744	–	1,744
Adjustment for sales revenue (external)	(2,955)	(10,036)	(5,875)	(10,036)
Revenue per consolidated statement of profit or loss comprehensive income	11,178,653	10,524,792	22,993,371	22,256,686

Reconciliation of reportable segment EBITDA under RAS and IFRS:

	<u>Three months ended 30 June</u>		<u>Six months ended 30 June</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
EBITDA of reportable segments under RAS	1,147,072	1,482,321	2,696,444	3,257,874
Adjustment for cost of intangible assets	20,960	19,102	36,376	34,386
Adjustment for allowance for expected credit losses and impairment of advances paid	–	–	–	–
Adjustment for lease	57,653	–	114,579	–
Additional accrual of contingencies	(4,331)	–	6,511	–
Discounting of payables	–	831	2,995	2,345
Adjustment of value of property, plant and equipment	2,808	1,043	5,791	4,288
Discounting of receivables	1,095	1,192	2,268	2,435
Adjustment for payables	2,522	5,896	2,970	5,896
Recognition of pension and other long-term employee benefit liabilities	34,774	16,477	34,962	14,023
Adjustment for doubtful accounts receivable	(5,825)	(16,250)	(6,430)	(17,381)

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Taxes adjustment	(6,749)	(107)	(7,697)	(223)
Adjustment of revenue from electricity transmission services	(2,955)	(10,036)	(5,875)	(9,077)
Adjustment for accrual of provision for unused vacations and bonuses	468	(6,481)	(15,464)	(14,416)
Other adjustments	231	(720)	1,586	(866)
Reporting segment EBITDA under IFRS	1,247,723	1,493,268	2,869,016	3,279,284
Depreciation and amortization	(966,499)	(874,253)	(1,926,800)	(1,744,695)
Interest expenses on financial liabilities at amortized cost	(460,439)	(545,848)	(895,099)	(1,028,549)
Interest expenses on lease liabilities	(23,533)	–	(46,273)	–
Income tax expense	(89,582)	(169,541)	(230,597)	(409,950)
Consolidated profit/loss for the period per consolidated statement of profit or loss and other comprehensive income	(292,330)	(96,374)	(229,753)	96,090

Reconciliation of the total sum of the reportable segments assets:

	Six months ended 30 June 2019	Year ended 31 December 2018
Total sum of segment assets	76,547,300	75,988,362
Recognition of right-of-use lease assets under IFRS 16	1,090,904	–
Recognition of assets related to employee benefit liabilities	310,290	291,221
Adjustment for deferred tax	(96,943)	226,580
Adjustment for financial investments	8,132	8,132
Adjustment for bad debt provision	(4,574)	1,856
Reduction of advances receivables by VAT from advances paid	(3,280)	(20,655)
Inter-segment settlements	(10,288)	(6,031)
Discounting of receivables	(13,039)	(7,451)
Reclassification of lease receivables to lease liability	(10,765)	–
Write-off of receivables	(18,795)	(12,920)
Intergroup financial assets	(45,687)	(45,687)
Adjustment for value of intangible assets	(81,825)	(77,745)
Reduction of VAT recoverable by VAT from advances paid	(1,081,165)	(1,048,328)
Adjustment for value of property, plant and equipment	(6,242,996)	(6,632,489)
Other adjustments	(19,950)	(20,138)
Total sum of assets in the consolidated statement of financial position	70,327,319	68,644,707

Reconciliation of the total sum of the reportable segment liabilities:

	Six months ended 30 June 2019	Year ended 31 December 2018
Total sum of segment liabilities	41,947,050	40,700,986
Recognition of lease liabilities under IFRS 16	1,129,314	–
Adjustment for liabilities under IFRS 16	(30,432)	–
Recognition of pension and other long-term employee benefit liabilities	517,017	453,065
Adjustment for accrual of provision for unused vacations and bonuses	151,919	136,455
Additional adjustment for litigation provision	21,014	27,525
Reduction of other payables by the sum of VAT from advances received	(3,280)	(20,655)
Inter-segment settlements	(10,288)	(6,031)
Deferred revenues write-off	(89,001)	(86,031)
Adjustment for deferred tax	(726,769)	(438,986)
Reduction of advance payables by the sum of VAT from advances received	(1,081,165)	(1,048,328)
Other adjustments	(3,576)	(1,048)
Total sum of liabilities in the consolidated statement of financial position	41,821,803	39,716,952

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7 Revenue

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Electricity transmission	10,889,849	10,389,558	22,608,048	22,020,001
Technological connection services	204,916	80,166	252,320	143,639
Repair services and maintenance	7,416	9,232	14,169	17,236
Other revenue	70,900	39,342	109,796	65,298
Total revenue from contracts with customers	11,173,081	10,518,298	22,984,333	22,246,174
Lease contract revenue	5,572	6,494	9,038	10,512
Total revenue	11,178,653	10,524,792	22,993,371	22,256,686

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

8 Other income

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Income from identified non-contracted electricity consumption	28,305	13,071	48,201	22,303
Income in the form of fines and penalties on commercial contracts	279,457	319,054	317,670	340,788
Income from compensation of losses due retirement/disposal of power facilities	150,684	–	150,684	–
Income from donated property, plant and equipment and inventories received	9,465	12,367	16,005	17,463
Insurance indemnity	10,612	13,423	20,283	15,190
Payables write-off	1,427	4,205	2,469	7,951
	479,950	362,120	555,312	403,695

9 Other expenses

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Loss on disposal of property, plant and equipment, (net)	(5,749)	(1,614)	(7,612)	(35,338)
Other expenses	(2,531)	–	(2,531)	–
	(8,280)	(1,614)	(10,143)	(35,338)

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10 Operating expenses

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Personnel costs	1,528,516	1,512,545	3,094,521	3,043,513
Depreciation and amortization	966,499	874,253	1,926,800	1,744,695
<i>Material expenses, including:</i>				
Electricity for compensation of losses	1,612,906	1,298,876	3,929,272	3,586,909
Purchased electricity and thermal power for own needs	16,489	14,779	64,772	60,819
Other material costs	561,212	367,099	874,181	599,806
<i>Production work and services, including:</i>				
Electricity transmission services	4,980,637	4,688,638	9,882,506	9,496,476
Repair and maintenance services	600,171	191,862	710,236	246,482
Other production works and services	21,849	16,535	34,434	27,413
Taxes and levies other than income tax	166,513	222,943	323,487	445,457
Short-term lease/Lease	—	59,434	2,695	117,937
Insurance	18,985	19,261	38,316	38,690
<i>Other third-party services, including:</i>				
Communication services	18,032	16,805	35,293	32,655
Security services	50,756	60,921	101,379	124,727
Consulting, legal and audit services	4,437	3,633	13,666	11,006
Expenses on software and support	16,562	19,262	41,484	40,758
Transportation services	1,766	662	2,731	689
<i>Other services, including:</i>				
Expenses on service contracts	306,343	269,069	508,512	509,018
Other third-party services	94,611	82,779	155,348	141,448
Provisions	76,407	51,364	144,943	78,587
<i>Other expenses, including:</i>				
Travel expenses	44,251	40,763	79,223	86,357
Expenses on services for organization, functioning and development of the UES	28,169	29,130	55,437	55,918
Expenses recognized as fines, penalties, and forfeits for breach of contract	(6,698)	375,346	119,252	380,860
Other operating expenses	189,411	51,912	243,805	389,720
	11,297,824	10,267,871	22,382,293	21,259,940

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

11 Finance income and cost

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Finance income				
Interest income on loans, bank deposits, bills and balances in bank accounts	12,392	18,757	26,379	30,396
Effect of initial discounting of financial liabilities	—	831	2,995	2,345
Amortization of discount on financial assets	1,095	1,192	2,268	2,435
	13,487	20,780	31,642	35,176

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	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Finance costs				
Interest expenses on financial liabilities measured at amortised cost	435,409	462,785	846,878	932,351
Interest expenses on lease liabilities	23,533	–	46,273	–
Interest expense on long-term employee benefits payable	9,149	10,521	18,785	21,795
Effect of initial discounting of financial assets	7,790	107	7,856	173
Amortization of discount on financial liabilities	1,291	1,160	1,519	2,955
Other finance costs	6,800	71,275	20,061	71,275
	483,972	545,848	941,372	1,028,549

Other finance costs are interest accrued from payables restructuring agreements.

12 Income tax

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Current income tax				
Accrual of current tax	62,580	(74,900)	–	(254,158)
Adjustment for previous periods tax	–	–	–	–
Total current income tax	62,580	(74,900)	–	(254,158)
Deferred income tax	(152,162)	(94,641)	(230,597)	(155,792)
Total income tax expense	(89,582)	(169,541)	(230,597)	(409,950)

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 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Profit/(loss) before tax	(202,748)	73,167	844	506,040
Income tax at the applicable tax rate	40,550	(14,633)	(169)	(101,208)
Tax effect on not taxable or non-deductible for tax purposes items	(130,132)	(154,908)	(230,428)	(308,742)
	(89,582)	(169,541)	(230,597)	(409,950)

Income tax recognized in other comprehensive income:

	Three months ended 30 June 2019			Six months ended 30 June 2019		
	Before tax	Income tax	Net of tax	Before tax	Income tax	Net of tax
Remeasurement of the defined benefit liabilities	(40,766)	8,153	(32,613)	(61,060)	12,212	(48,848)
	(40,766)	8,153	(32,613)	(61,060)	12,212	(48,848)

Three months ended 30 June 2018

Six months ended 30 June 2018

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	<u>Before tax</u>	<u>Income tax</u>	<u>Net of tax</u>	<u>Before tax</u>	<u>Income tax</u>	<u>Net of tax</u>
Remeasurement of the defined benefit liabilities	<u>45,677</u>	<u>(9,135)</u>	<u>36,542</u>	<u>12,992</u>	<u>(2,598)</u>	<u>10,394</u>
	<u>45,677</u>	<u>(9,135)</u>	<u>36,542</u>	<u>12,992</u>	<u>(2,598)</u>	<u>10,394</u>

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13 Property, plant and equipment

<i>Initial / deemed cost</i>	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
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	3	–	(3)	–	–	–
Additions	6	7,770	15,897	16,692	4,217,273	4,257,638
Commissioning	94,458	543,703	670,529	100,364	(1,409,054)	–
Disposal	(809)	(46,096)	(4,883)	(1,537)	(3,320)	(56,645)
Transfer to non-current assets held for sale	(631)	–	–	10,756	–	10,125
At 30 June 2018	7,936,754	38,588,836	16,683,910	7,809,273	11,172,182	82,190,955
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	(6)	–	3	3	–	–
Introduction of property, plant and equipment (reallocation of impairment loss)	–	(262)	(525)	–	787	–
Depreciation charge	(137,845)	(810,921)	(458,004)	(300,637)	–	(1,707,407)
Disposal	502	12,326	3,724	1,537	40	18,129
Transfer to non-current assets held for sale	184	–	–	(2,263)	–	(2,079)
Impairment/recovery of impairment	–	–	–	–	–	–
At 30 June 2018	(2,746,904)	(11,516,221)	(7,417,113)	(5,311,002)	(91,500)	(27,082,740)
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 30 June 2018	5,189,850	27,072,615	9,266,797	2,498,271	11,080,682	55,108,215

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	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	(2,211)	(1,186)	2,477	920	–	–
Additions	576	5,363	50,781	53,359	1,627,971	1,738,050
Commissioning	523,030	3,172,335	115,303	106,693	(3,917,361)	–
Disposal	(3,094)	(5,482)	(883)	(16,007)	(7,645)	(33,111)
Transfer to non-current assets held for sale	–	–	–	–	–	–
At 30 June 2019	8,596,604	42,546,426	18,166,985	8,106,152	9,015,156	86,431,323
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	1,149	336	(1,171)	(314)	–	–
Introduction of property, plant and equipment (reallocation of impairment loss)	–	(548)	(251)	–	799	–
Depreciation charge	(153,191)	(865,011)	(506,855)	(272,173)	–	(1,797,230)
Disposal	1,832	3,749	639	11,203	–	17,423
Transfer to non-current assets held for sale	–	–	–	–	–	–
Impairment/recovery of impairment	–	–	–	–	–	–
At 30 June 2019	(3,040,302)	(13,203,148)	(8,449,977)	(5,863,474)	(77,503)	(30,634,404)
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 30 June 2019	5,556,302	29,343,278	9,717,008	2,242,678	8,937,653	55,796,919

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For the six months ended 30 June 2019, capitalized interest amounted 247,724 thousand rubles (for the six months ended 30 June 2018: 137,325 thousand rubles), capitalization rate was 7.93 % (for the six months ended 30 June 2018: 7.04%).

For the six months ended 30 June 2019, the depreciation payments were capitalised into the cost of capital facilities in the amount of 2,861 thousand rubles (for the six months ended 30 June 2018: 3,500 thousand rubles).

As at 30 June 2019 and 31 December 2019, there no property, plant and equipment acting as collateral for loans.

14 Intangibles assets

	Software	Licences and certificates	R&D	Other	Total
<i>Initial cost</i>					
At 1 January 2018	377,626	5,295	9,654	28,558	421,133
Additions	32,537	–	9,308	(5,508)	36,337
Disposals	(11,852)	–	(2)	–	(11,854)
At 30 June 2018	<u>398,311</u>	<u>5,295</u>	<u>18,960</u>	<u>23,050</u>	<u>445,616</u>
<i>Accumulated amortization and impairment</i>					
At 1 January 2018	(255,631)	(5,295)	–	(9,772)	(270,698)
Amortization charge	(35,049)	–	–	(2,343)	(37,392)
Disposals	11,852	–	–	–	11,852
At 30 June 2018	<u>(278,828)</u>	<u>(5,295)</u>	<u>–</u>	<u>(12,115)</u>	<u>(296,238)</u>
<i>Net book value</i>					
At 1 January 2018	<u>121,995</u>	<u>–</u>	<u>9,654</u>	<u>18,786</u>	<u>150,435</u>
At 30 June 2018	<u>119,483</u>	<u>–</u>	<u>18,960</u>	<u>10,935</u>	<u>149,378</u>
<i>Initial cost</i>					
At 1 January 2019	505,189	5,295	40,934	36,169	587,587
Reclassification between the groups	–	–	7,500	(7,500)	–
Additions	20,394	–	–	–	20,394
Disposals	–	–	–	(8,297)	(8,297)
At 30 June 2019	<u>525,583</u>	<u>5,295</u>	<u>48,434</u>	<u>20,372</u>	<u>599,684</u>
<i>Accumulated amortization and impairment</i>					
At 1 January 2019	(318,369)	(5,295)	–	(15,102)	(338,766)
Reclassification between the groups	–	–	–	–	–
Amortization charge	(42,899)	–	–	(2,551)	(45,450)
Disposals	–	–	–	8,297	8,297
At 30 June 2019	<u>(361,268)</u>	<u>(5,295)</u>	<u>–</u>	<u>(9,356)</u>	<u>(375,919)</u>
<i>Net book value</i>					
At 1 January 2019	<u>186,820</u>	<u>–</u>	<u>40,934</u>	<u>21,067</u>	<u>248,821</u>
At 30 June 2019	<u>164,315</u>	<u>–</u>	<u>48,434</u>	<u>11,016</u>	<u>223,765</u>

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For the six months ended 30 June 2019, capitalized amortization of intangible assets in amount of 45,393 thousand rubles was included in operating expenses and 57 thousand rubles were capitalized to the cost of capital construction (for the six months ended 30 June 2018, amortization of intangible assets in amount of 37,288 thousand rubles was included in operating expenses and 104 thousand rubles were capitalized to the cost of capital construction).

Other intangible assets include electrical schemes and calculation models used to calculate electrical modes and short-circuit currents, including graphic diagrams and layouts in the amount of 11,016 thousand rubles as of 30 June 2019 (as of 31 December 2018 – 21,067 thousand rubles).

15 Right-of-use assets

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Total
<i>Initial cost</i>					
At 1 January 2019	529,699	18,906	562,801	8,858	1,120,264
Additions	59,464	–	344	5,110	64,918
Changes in lease contracts	5,538	(144)	(11,158)	–	(5,764)
Disposal and termination of lease contract	(1,703)	–	–	(1,071)	(2,774)
At 30 June 2019	592,998	18,762	551,987	12,897	1,176,644
<i>Accumulated amortization and impairment</i>					
At 1 January 2019	–	–	–	–	–
Reclassification between the groups	–	–	–	–	–
Amortization charge	(16,570)	(2,234)	(67,445)	(1,375)	(87,624)
Changes in lease contracts	787	126	850	–	1,763
Impairment/recovery of impairment	–	–	–	–	–
Disposal and termination of lease contract	97	–	–	24	121
At 30 June 2019	(15,686)	(2,108)	(66,595)	(1,351)	(85,740)
<i>Net book value</i>					
At 1 January 2019	529,699	18,906	562,801	8,858	1,120,264
At 30 June 2019	577,312	16,654	485,392	11,546	1,090,904

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.

16 Financial investments

Financial assets at fair value through other comprehensive income are non-quoted securities reflected at fair value (3rd level of fair value hierarchy).

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17 Trade and other receivables

	<u>30 June 2019</u>	<u>31 December 2018</u>
Non-current trade and other accounts receivable		
Trade receivables	576	744
Other receivables	12,897	10,471
	<u>13,473</u>	<u>11,215</u>
Current trade and other accounts receivable		
Trade receivables	9,763,684	7,299,355
Allowance for expected credit loss on trade receivables	(1,384,796)	(1,103,966)
Other receivables	975,153	1,132,882
Allowance for expected credit loss on other receivables	(565,088)	(619,019)
	<u>8,788,953</u>	<u>6,709,252</u>

Information on balances with related parties is disclosed in Note 28.

18 Advances paid and other assets

	<u>30 June 2019</u>	<u>31 December 2018</u>
Non-current		
Advances paid	5,291	4,891
VAT on advances of buyers and customers	1,145	1,147
	<u>6,436</u>	<u>6,038</u>
Current		
Advances paid	40,891	53,421
Allowance for impairment of advances paid	(15,630)	(17,507)
VAT recoverable	4,865	5,186
VAT on advances of buyers and customers and VAT on advances for purchase of property, plant and equipment	25,198	41,246
Prepayment of taxes, other than income	9,330	19,861
	<u>64,654</u>	<u>102,207</u>

Information on balances with related parties is disclosed in Note 28.

19 Cash and cash equivalents

	<u>30 June 2019</u>	<u>31 December 2018</u>
Cash at bank and in hand	829,780	2,200,921
Cash equivalents	2,000	4,000
	<u>831,780</u>	<u>2,204,921</u>

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	<u>Rating</u>	<u>Rating agency</u>	<u>30 June 2019</u>	<u>31 December 2018</u>
Treasury Department of the Krasnodar region	–	–	678,154	1,012,089
Bank Rossiya (AB Rossiya)	ruAA	Expert RA	5,512	696,897
Russian Regional Development Bank	Ba3	Moody’s	1,107	450,001
Mosoblbank PJSC	–	–	21,547	22,130
Sberbank*	Baa3	Moody’s	33,351	13,376
Gazprombank*	Ba1	Moody’s	39,336	6,387
VTB bank*	Baa3	Moody’s	50,716	19
Cash in hand	–	–	30	22
Other	–	–	27	–
			829,780	2,200,921

* Government related bank

Cash equivalents include short-term bank deposits:

	<u>Interest rate</u>	<u>Rating</u>	<u>Rating agency</u>	<u>30 June 2019</u>	<u>31 December 2018</u>
Sberbank*	6.9%-6.9%	Baa3	Moody’s	2,000	4,000
				2,000	4,000

* Government related bank

As at 30 June 2019 and 31 December 2019, all cash and equivalents balances are in rubles.

20 Equity

(a) Share capital

	<u>Ordinary shares</u>	
	<u>30 June 2019</u>	<u>31 December 2018</u>
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 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.

On 20 June 2019, the Annual General Meeting of Shareholders decided to pay out the dividends on the Company’s placed shares by the results of business activity of Kubanenergo PJSC in 2018; the sum of declared dividends: 143,638 thousand rubles (minutes of the meeting of the Annual General Meeting of Shareholders No.42 of 20 June 2019). The sum of dividends per one ordinary share of the Company is 0.472815 rubles.

(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)

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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).

On 14 June 2019, the Board of Directors of Kubanenergo PJSC approved a decision on additional issue and securities prospectus of the Company (minutes of the meeting No.347/2019 of 17 June 2019).

On 18 July 2019, the Bank of Russia conducted state registration of the additional issue and securities prospectus of the Company (state registration number 1-02-00063-A of 18 July 2019).

Information on the current issue of additional shares is posted on the official website of Kubanenergo PJSC: <http://kubanenergo.ru/>.

21 Earnings per share

The calculation of the basic profit per share for the three and six months ended 30 June 2019 was based on the profit attributable to holders of ordinary shares and average weighted number of ordinary shares in circulation.

The Company has no dilutive financial instruments.

<i>In thousands of shares</i>	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Ordinary shares at 1 January	303,793	282,868	303,793	282,868
Effect of offered shares	–	20,925	–	20,925
Weighted average number of shares for the period ended 30 June	303,793	303,793	303,793	303,793
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Weighted average number of ordinary shares for the reporting period ended 30 June (in thousands of pieces)	303,793	303,793	303,793	303,793
Earnings/(loss) for the period attributable to holders of ordinary shares	(292,330)	(96,374)	(229,753)	96,090
Earnings/(loss) per ordinary share – basic and diluted (in Russian rubles)	(0.96)	(0.32)	(0.76)	0.32

22 Loans and borrowings

	30 June 2019	31 December 2018
Non-current liabilities		
Unsecured loans and borrowings	18,843,587	17,582,621
Unsecured bond loans	7,000,000	7,000,000
Lease liabilities	1,129,314	–
Less: current portion of long-term lease liabilities	(170,876)	–
Less: current portion of long-term loans and borrowings liabilities	(11,825,208)	(7,899,382)
Less: current portion of long-term bond loans	(3,400,000)	(3,400,000)
	11,576,817	13,283,239
Current liabilities		
Unsecured loans and borrowings	91,050	96,519
<i>Lease liabilities:</i>		
Current portion of long-term lease liabilities	170,876	–
Current portion of long-term loans and borrowings liabilities	11,825,208	7,899,382
Current portion of long-term bond loans	3,400,000	3,400,000

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	<u>30 June 2019</u>	<u>31 December 2018</u>
	<u>15,487,134</u>	<u>11,395,901</u>
Including:		
Interests payable on loans and borrowings	12,484	15,719
Interests payable on bond loans	77,944	80,178
	<u>90,428</u>	<u>95,897</u>

As at 30 June 2019 and 31 December 2018, all loans and borrowings balances are in rubles.

For the six months ended 30 June 2019, the Group issued bonded loans and attracted the following material bank credits:

	<u>Effective interest rate</u>	<u>Maturity</u>	<u>Nominal value</u>
Unsecured bank credits *	8.25%-9.3%	2019-2022	2,771,153
Unsecured bank credits	8.75%-9.35%	2020-2020	143,114
Other unsecured loans and borrowings	15.0%-15.0%	2019-2019	1,000
			<u>2,915,267</u>

* Loans and borrowings from state-controlled entities

For the six months ended 30 June 2019, the Group repaid the following material bond and bank loans:

	<u>Nominal value</u>
Loans and borrowings from government related companies	1,085,571
Other loans and borrowings	568,730
	<u>1,654,301</u>

23 Trade and other payables

	<u>30 June 2019</u>	<u>31 December 2018</u>
Non-current accounts payable		
Trade payables	117,800	4,643
Other payables	457	687
Total financial liabilities	<u>118,257</u>	<u>5,330</u>
Current accounts payable		
Trade payables	5,069,782	5,257,325
Other payables and accrued expenses	882,319	1,368,805
Payables to employees	1,000,020	1,038,820
Dividends payable	144,517	919
Total financial liabilities	<u>7,096,638</u>	<u>7,665,869</u>
Taxes payable		
VAT	570,664	327,679
Property tax	149,815	214,646
Social security contributions	119,020	120,865
Other taxes payables	47,753	64,419
	<u>887,252</u>	<u>727,609</u>
	<u>7,983,890</u>	<u>8,393,478</u>

24 Customer advance payments

	<u>30 June 2019</u>	<u>31 December 2018</u>
Advances for network connection services	1,131,706	1,241,652
Total long-term customer advance payments	<u>1,131,706</u>	<u>1,241,652</u>
Advances for network connection services	4,154,962	4,118,711
Other customer advance payments	53,261	—

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	<u>30 June 2019</u>	<u>31 December 2018</u>
Total short-term customer advance payments	4,208,223	4,118,711

25 Financial risks 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.

The carrying amount of the Group’s financial instruments approximates their fair value, therefore, additional disclosure is not provided (or is not required).

The interest rate used to discount the expected future cash flows for long-term and short-term loans borrowings for the purpose of determining the fair value disclosed as at 30 June 2019 was 8.25% -15.0% (as at 31 December 2018: 7.60%-9.25%).

During the six months ended 30 June 2019, there were no transfers between the Levels of the fair value hierarchy as well as no changes in the methods of evaluation.

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.

As at 30 June 2019, the sum of free limit on open but unused credit lines of the Group amounted 19,119,029 thousand rubles (19,220,378 thousand rubles as at 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.

26 Capital commitments

As at 30 June 2019, the Group has outstanding commitments under contracts for purchase and construction of property, plant and equipment items for 2,223,943 thousand rubles, including VAT (as at 31 December 2018: 2,614,233 thousand rubles, including VAT).

27 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

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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 625 million rubles, which does not exceed 1% of the value of the Group’s assets.

At 30 June 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.

28 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 Company’s parent as at 30 June 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.

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As at 30 June 2019, liability to the parent company on payment of dividends on ordinary shares of the Company was 133,262 thousand rubles by the results of 2018 (as at 31 December 2018, 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 on the key management personnel and are included in personnel costs.

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Short-term remuneration to employees	21,899	18,974	41,902	50,674
Post-employment benefits and other long-term remunerations	15	30	30	60
	<u>21,914</u>	<u>19,004</u>	<u>41,932</u>	<u>50,734</u>

As of 30 June 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 2,200 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 constitute 2.40% and 1.89% of total Group revenues for the three and six months ended 30 June 2019 (for the three and six months ended 30 June 2018: 2.28% and 1.83%), including 1.95% and 1.67% of electricity transmission revenues (for the three and six months ended 30 June: 2.12% and 1.71%%).

Electricity transmission costs (including compensation of technological losses) for government-related entities constitute 2.83% and 4.10% of total electricity transmission costs for the three and six months ended 30 June 2019 (for the three and six months ended 30 June 2019: 3.20% and 2.93%).

Interest expenses on government-related banks loans and borrowings for the three and six months ended 30 June 2019 constitute 76.46% and 76.55% of total interest expenses (for the three and six months ended 30 June 2018: 90.97% and 89.78%).

As of 30 June 2019, cash and cash equivalents held in government-related banks amounted to 803,557 thousand rubles (as of 31 December 2018: 1,035,852 thousand rubles).

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

29 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 six months ended 30 June 2019, and as of 30 June 2019.

On 18 July 2019, the Bank of Russia conducted state registration of the additional issue and securities prospectus of the Company (state registration number 1-02-00063-A of 18 July 2019). Information on the current issue of additional shares is posted on the official website of Kubanenergo PJSC: <http://kubanenergo.ru/>.

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