

**Kubanenergo, PJSC**

**Consolidated Interim Condensed Financial Statements  
Prepared in accordance with IAS 34 "Interim Financial  
Statements" for three and nine months ended on  
September 30, 2019, and as for such date**

*(Unaudited)*

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**Kubanenergo, PJSC**

Consolidated Interim Condensed Profit and Loss Statement and Other Comprehensive Income  
for three and nine months ended on September 30, 2019 (Unaudited)  
(in thousand Russian Rubles)

	Comment	For three months, ended on September 30		For nine months, ended on September 30	
		2019	2018	2019	2018
Revenue	7	12,759,272	12,556,971	35,752,643	34,813,657
Operating Expenses	10	(10,528,457)	(10,879,548)	(32,910,750)	(32,139,488)
Recovery/(Accrual) of Reserve for Expected Credit Losses		265,200	(9,167)	19,527	125,143
Other Income	8	142,490	240,298	697,802	643,993
Other Expenses	9	(230,660)	19,467	(240,803)	(15,871)
<b>Business Operation Results</b>		<b>2,407,845</b>	<b>1,928,021</b>	<b>3,318,419</b>	<b>3,427,434</b>
Financial Income	11	15,633	17,638	47,275	52,814
Financial Expenses	11	(509,784)	(486,810)	(1,451,156)	(1,515,359)
<b>Total Financial Expenses</b>		<b>(494,151)</b>	<b>(469,172)</b>	<b>(1,403,881)</b>	<b>(1,462,545)</b>
<b>Profit/ (loss) before income tax</b>		<b>1,913,694</b>	<b>1,458,849</b>	<b>1,914,538</b>	<b>1,964,889</b>
Corporate Income Tax Expense	12	(570,193)	(334,002)	(800,790)	(743,952)
<b>Profit/ (Loss) for the Period</b>		<b>1,343,501</b>	<b>1,124,847</b>	<b>1,113,748</b>	<b>1,220,937</b>
<b>Other Comprehensive Income</b>					
<i>Articles That May Not Be Further Reclassified as the Profit or Loss</i>					
Retirement Scheme Liabilities Revaluation with Fixed Payments		(24,715)	51,638	(85,775)	64,630
Corporate Income Tax	12	4,943	(10,328)	17,155	(12,926)
<b>Total Articles That May Not Be Further Reclassified as the Profit or Loss</b>		<b>(19,772)</b>	<b>41,310</b>	<b>(68,620)</b>	<b>51,704</b>
<b>Other Comprehensive Income/(Loss) for the Period Less the Corporate Income Tax</b>		<b>(19,772)</b>	<b>41,310</b>	<b>(68,620)</b>	<b>51,704</b>
<b>Total Comprehensive Income/(Loss) for the Period</b>		<b>1,323,729</b>	<b>1,166,157</b>	<b>1,045,128</b>	<b>1,272,641</b>
<b>Profit/(Loss) Due and Payable to:</b>					
the Company's Owners		1,343,501	1,124,847	1,113,748	1,220,937
<b>Total Comprehensive Income/(Loss) Due and Payable to:</b>					
the Company's Owners		1,323,729	1,166,157	1,045,128	1,272,641
<b>Profit/ (Loss) per Share</b>					
Basic and Diluted Profit per an Ordinary Share (Rubles)	21	4,02	3,70	3,34	4,02

These Consolidated Interim Condensed Financial Statements were ratified by the Executive Board on November 25, 2019, and signed on behalf of the Executive Board by the following persons:

Deputy General Director for Economics and Finance  
(subject to the Power of Attorney dd. December 12, 2018  
registered under No. 23/256-Н/23-2018-1215)

O.V. Ocheredko

Chief Accountant

I.V. Skiba



Attached comments are the integral part of these Consolidated Interim Condensed Financial Statements.

**Kubanenergo, PJSC**

Consolidated Interim Condensed Statement of Financial Standing  
for three and nine months ended on September 30, 2019 (Unaudited)  
(in thousand Russian Rubles)

	Comment	September 30, 2019	December 31, 2018
<b>Assets</b>			
<b>Non-Current Assets</b>			
Fixed Assets	13	56,335,358	55,871,787
Intangible assets	14	240,578	248,821
Right-of-Use Assets	15	1,041,946	–
Trade accounts receivable	17	12,098	11,215
Assets Related to Employees Remuneration Liabilities		297,295	291,221
Financial Investments		1	1
Deferred Tax Assets		532,705	992,148
Paid Advances and Other Non-Current Assets	18	5,132	6,038
<b>Total Non-Current Assets</b>		<b>58,465,113</b>	<b>57,421,231</b>
Assets Classified as Available for Sales		39,045	39,045
<b>Total Non-Current Assets</b>		<b>58,504,158</b>	<b>57,460,276</b>
<b>Current Assets</b>			
Stock		1,958,524	1,888,232
Corporate Income Tax Advance Payment		286,678	258,888
Trade and Other Accounts Receivable	17	7,896,159	6,709,252
Cash and Cash Equivalents	19	1,857,172	2,204,921
Paid Advances and Other Non-Current Assets	18	42,365	102,207
<b>Total Current Assets</b>		<b>12,040,898</b>	<b>11,163,500</b>
Assets Classified as Available for Sales		20,931	20,931
<b>Total Current Assets</b>		<b>12,061,829</b>	<b>11,184,431</b>
<b>Total Assets</b>		<b>70,565,987</b>	<b>68,644,707</b>
<b>Capital and Liabilities</b>			
<b>Capital</b>			
<b>Authorized Capital</b>	20	30,379,335	30,379,335
Share Premium		6,481,916	6,481,916
Reserve for Equity Issuing		3,008,053	–
Other Reserve		(262,194)	(193,574)
Accumulated Loss		(6,769,293)	(7,739,922)
<b>Total Capital Due and Payable to the Company's Owners</b>		<b>32,837,817</b>	<b>28,927,755</b>
<b>Total Capital</b>		<b>32,837,817</b>	<b>28,927,755</b>
<b>Long-Term Liabilities</b>			
Credits and Loans	22	15,777,436	13,283,239
Trade and Other Accounts Payable	23	123,563	5,330
Customer Advance Payments	24	1,095,022	1,241,652
Employees Remuneration Liabilities		537,325	453,065
Public Subsidies		15,358	24,809
<b>Total Long-Term Liabilities</b>		<b>17,548,704</b>	<b>15,008,095</b>
<b>Short-Term Liabilities</b>			
Credits and Loans	22	7,963,445	11,395,901
Trade and Other Accounts Payable	23	7,254,465	8,393,478
Public Subsidies		12,268	12,401
Customer Advance Payments	24	4,165,258	4,118,711
Reserves		784,028	788,366
Debt subject to Current Income Tax		2	–
<b>Total Short-Term Liabilities</b>		<b>20,179,466</b>	<b>24,708,857</b>
<b>Other Liabilities</b>		<b>37,728,170</b>	<b>39,716,952</b>
<b>Total Capital and Liabilities</b>		<b>70,565,987</b>	<b>68,644,707</b>

Attached comments are the integral part of these Consolidated Interim Condensed Financial Statements.

**Kubanenergo, PJSC**  
*Consolidated Interim Condensed Statement of Financial Standing*  
*for three and nine months ended on September 30, 2019 (Unaudited)*  
*(in thousand Russian Rubles)*

		For nine months, ended on September 30	
	Comment	2019	2018
<b>Cash Flow from Business Operations</b>			
<b>Profit/ (Loss) for the Period</b>		<b>1,113,748</b>	<b>1,220,937</b>
<i>Adjustments:</i>			
Depreciation of Fixed Assets, Right-of-Use Assets and Intangible Assets	10	2,903,731	2,643,522
Financial Expenses	11	1,451,156	1,515,359
Financial Income	11	(47,275)	(52,814)
Impairment/(Reversal of Impairment) of Fixed Assets and Right-of-Use Assets		–	33
Losses from Property Disposal	9	240,110	15,871
Reserve for Expected Credit Losses	10	(19,527)	(125,143)
Reserve for Stock Impairment		(285)	(478)
Accounts payable Debiting	8	(29,300)	(14,279)
Bad Debts Writing Off		7,812	5,114
Reserves Accruing		214,165	267,196
Other Non-Cash Transactions		(15,887)	(23,734)
Corporate Income Tax Expense		800,790	743,952
<b>Adjustments Overall Influence</b>		<b>5,505,490</b>	<b>4,974,599</b>
Changing for Assets Related to Employees Remuneration Liabilities		(6,074)	53,479
Changes for Employees Remuneration Liabilities		(28,685)	(33,956)
<b>Cash Flow from Business Operations before Changes in the Working Capital and Reserves</b>		<b>6,584,479</b>	<b>6,215,059</b>
<b>Changes in the Working Capital</b>			
Changes in Trade and Other Accounts Receivable		(1,087,965)	(2,614,030)
Changes of Paid Advances and Other Assets		9,851	2,739
Stock Changes		357,625	(26,513)
Changes in Public Subsidies		(9,584)	(9,301)
Changes in Trade and Other Accounts Receivable		(1,149,062)	158,098
Changes of Customer Advance Payments		(98,225)	3,103,677
Changes in Reserves		(228,648)	(102,601)
<b>Cash Flow from Business Operations Before Corporate Income Tax and Interests Payment</b>		<b>4,378,471</b>	<b>6,727,128</b>
Paid Corporate Income Tax		(351,980)	(341,404)
Interests Paid subject to Lease Agreements		(70,801)	–
Paid Interests		(1,504,922)	(1,518,414)
<b>Net Cash, Received/(Used) from/(in) Business Operations</b>		<b>2,450,768</b>	<b>4,867,310</b>
<b>Cash Flow from Investment Operations</b>			
Fixed Assets and Intangible Assets Acquiring		(3,367,718)	(5,069,733)
Received Income		40,064	46,273
<b>Net Cash Used in Investment Operations</b>		<b>(3,327,654)</b>	<b>(5,023,460)</b>
<b>Cash Flow from Financial Operations</b>			
Borrowed Funds Raising	22	8,563,268	38,983,632
Borrowed Assets Repayment	22	(10,772,977)	(37,128,839)
Proceeds from Shares Issuing		3,008,053	–
Dividends Paid to the Company Owners		(143,642)	(321,149)
Changes in Leasing Liabilities		–	–
Payments for Leasing Liabilities		(125,565)	–
<b>Net Cash Received from Financial Operations</b>		<b>529,137</b>	<b>1,533,644</b>
<b>Net (Decrease)/(Increase) of Cash and Cash Equivalents</b>		<b>(347,749)</b>	<b>1,377,494</b>
Cash and Cash Equivalents as for the Beginning of the Reporting Period		2,204,921	1,681,043
<b>Cash and Cash Equivalents as for the End of the Reporting Period</b>	19	<b>1,857,172</b>	<b>3,058,537</b>

Attached comments are the integral part of these Consolidated Interim Condensed Financial Statements.

## Kubanenergo, PJSC

Consolidated Interim Statement of Changes in Equity  
for three and nine months ended on September 30, 2019 (Unaudited)  
(in thousand Russian Rubles)

	Capital Due and Payable to the Company's Owners							
	Authorized Capital	Share Premium	Reserve for Equity Issuing	Reserves	Retained Profit	Total	Non- Controlling Interest	Total Capital
<b>Balance as for December 31, 2018</b>	30,379,335	6,481,916	—	(193,574)	(7,739,922)	28,927,755	—	28,927,755
Impact of the Changes to Accounting Policy	—	—	—	—	—	—	—	—
<b>Balance as for January 1, 2019 (Revaluated)</b>	30,379,335	6,481,916	—	(193,574)	(7,739,922)	28,927,755	—	28,927,755
Profit for the Reporting Period	—	—	—	—	1,113,748	1,113,748	—	1,113,748
Other Comprehensive Income	—	—	—	(85,775)	—	—	—	(85,775)
Corporate Income Tax as to the Other Comprehensive Income	—	—	—	17,155	—	17,155	—	17,155
<b>Total Comprehensive Income for the Reporting Period</b>	—	—	—	(68,620)	1,113,748	1,045,128	—	1,045,128
<b>Transactions with the Company's Owners</b>								
Reserve for Equity Issuing	—	—	3,008,053	—	—	3,008,053	—	3,008,053
<b>Contributions and Payments</b>								
Dividends to Shareholders	—	—	—	—	(143,119)	(143,119)	—	(143,119)
<b>Total Contribution and Payments</b>	—	—	3,008,053	—	(143,119)	(143,119)	—	(143,119)
<b>Total Transactions with the Company's Owners</b>	—	—	3,008,053	—	(143,119)	2,864,934	—	2,864,934
<b>Balance for September 30, 2019</b>	<b>30,379,335</b>	<b>6,481,916</b>	<b>3,008,053</b>	<b>(262,194)</b>	<b>(6,769,293)</b>	<b>32,837,817</b>	<b>—</b>	<b>32,837,817</b>

Attached comments are the integral part of these Consolidated Interim  
Condensed Financial Statements.

**Kubanenergo, PJSC**  
*Consolidated Interim Statement of Changes in Equity*  
*for three and nine months ended on September 30, 2019 (Unaudited)*  
*(in thousand Russian Rubles)*

	Capital Due and Payable to the Company's Owners							Non-Controlling Interest	Total Capital
	Authorized Capital	Share Premium	Treasury Stock	Reserve for Equity Issuing	Reserves	Retained Profit	Total		
Balance as for December 31, 2017	28,286,813	6,481,916	-	2,092,522	(236,851)	(8,218,225)	28,406,175	-	28,406,175
Impact of the Changes to Accounting Policy	-	-	-	-	(2)	2	-	-	-
Balance as for January 1, 2018 (Revaluated)	28,286,813	6,481,916	-	2,092,522	(236,853)	(8,218,223)	28,406,175	-	28,406,175
Profit for the Reporting Period	-	-	-	-	-	1,220,937	1,220,937	-	1,220,937
Other Comprehensive Income	-	-	-	-	64,630	-	64,630	-	64,630
Corporate Income Tax as to the Other Comprehensive Income	-	-	-	-	(12,926)	-	(12,926)	-	(12,926)
<b>Total Comprehensive Income for the Reporting Period</b>	-	-	-	-	<b>(51,704)</b>	<b>1,220,937</b>	<b>1,272,641</b>	-	<b>1,272,641</b>
Transactions with the Company's Owners									
Contributions and Payments	-	-	-	-	-	(321,570)	(321,570)	-	(321,570)
Dividends to Shareholders	-	-	-	-	-	-	-	-	-
Total Contribution and Payments	-	-	-	-	-	(321,570)	(321,570)	-	(321,570)
Total Transactions with the Company's Owners	-	-	-	-	-	(321,570)	(321,570)	-	(321,570)
Balance for September 30, 2018	28,286,813	6,481,916	-	2,092,522	(185,149)	(7,318,856)	29,357,246	-	29,357,246

Attached comments are the integral part of these Consolidated Interim Condensed Financial Statements.

## **Kubanenergo, PJSC**

*Comments to Consolidated Interim Condensed Financial Statements  
for three and nine months ended on September 30, 2019 (Unaudited)  
(in thousand Russian Rubles)*

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### **1 Background Information**

#### **(a) Group and Its Operations**

Principal operations of Kubanenergo, PJSC, (hereinafter referred to as the Company) and its subsidiary companies (hereinafter jointly referred to as the Group or Kubanenergo Group of Companies) are rendering the services in connection with electric power supply transmission and distribution via electric power networks, rendering the services in connection with consumers technological connection to networks.

Its ultimate parent company is Rosseti, PJSC.

In 1993 Krasnodarenergo, Krasnodar Power Engineering and Electrification Production Enterprise, was transformed into Kuban Open Joint-Stock Company of Power Industry and Electrification (hereinafter referred to as Kubanenergo, OJSC, or the Company) subject to Decree # 922 made by the President of the Russian Federation dd. August 14, 1992 “*About Special Aspects of Public Companies, Associations, Fuel and Energy Complex Organizations Transforming into Joint-Stock Companies*”, Decree # 923 made by the President of the Russian Federation dd. August 15, 1992, “*About Arranging the Electric Power Complex Management in the Russian Federation in the Context of Privatization*”, Decree # 1334 made by the President of the Russian Federation dd. November 05, 1992, “*About Implementing in the Electric Power Industry Decree # 922 made by the President of the Russian Federation dd. August 14, 1992 “About Special Aspects of Public Companies, Associations, Fuel and Energy Complex Organizations Transforming into Joint-Stock Companies”*”.

Due to making amendments to the Civil Code of the Russian Federation, the Annual General Meeting held on June 22, 2015, approved a new corporate name as to the form of business entity. The name of Kuban Open Joint-Stock Company of Power Industry and Electrification (Kubanenergo, OJSC) was changed into Kuban Public Joint-Stock Company of Power Industry and Electrification (Kubanenergo, PJSC). Company’s Legal Address (Place of Location): 2A Stavropolskaya str., Krasnodar, Krasnodar Area, 350033 Russia.

The Company’s principal business operations are services rendering in connection with electric power transmission via electric power networks, and rendering the services in connection with consumers technological connection to networks.

5 Company’s joint-stock companies are specified in the note with 100% participation in their authorized capitals.

#### **(6) Economic Environment Where the Group is Performing Its Operations**

The Group is Performing Its Operations within the Russian Federation.

In Russia economic reforms are going on and legal, tax and administrative infrastructures are actively developing to comply with the market economy requirements. The stability of the Russian economy in future will greatly depend upon such reforms course and upon the efficiency of the measures taken by the government in the sphere of economy, financial and monetary policy.

The Russian economy is being adversely affected by the sanctions introduced by certain countries against Russia that resulted in lowering the capital's availability and its cost increasing, and to uncertainties raising as to the further economic growth that may adversely affect the financial standing, operating results and economic prospects of the Group. The Group's Executive Board considers that it is taking appropriate measures to support the Group's economic stability under current conditions.

The provided Consolidated Interim Condensed Financial Statements reflect the Executive Board’s point of view of the influence made by the business climate within the Russian Federation to the Group’s operations and financial standing. The actual influence of any further business conditions may differ from the Executive Board’s estimations.

## **Kubanenergo, PJSC**

*Comments to Consolidated Interim Condensed Financial Statements  
for three and nine months ended on September 30, 2019 (Unaudited)  
(in thousand Russian Rubles)*

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### **(B) Relations with the State**

The Russian Government represented by the Federal Agency for State Property Management is the Company's ultimate controlling party.

As for September 30, 2019 the Russian Federation's share in the authorized capital of its ultimate parent company Rosseti, PJSC, made 88.04%, including 88.89% of ordinary voting shares, 7.01% of preferred shares, that in its turn owns 92.78% of the Company's voting ordinary shares.

As for December 31, 2018 the Russian Federation's share in the authorized capital of its ultimate parent company Rosseti, PJSC, made 88.04%, including 88.89% of ordinary voting shares, 7.01% of preferred shares, that in its turn owns 92.78% of the Company's voting ordinary shares.

The State is directly influencing the Group's operations by means of the fares regulation. Subject to the Russian law the Group's fares are governed by the executive authorities of the Russian Federation constituent units in the sphere of fares state regulation. Among the Group's consumers are major enterprises controlled by the State.

## **2 The Principles of Consolidated Financial Statements Preparation**

### **(a) Application as to Compliance with the IAS**

These Consolidated Interim Condensed Financial Statements for three and nine months ended on September 30, 2019, are prepared subject to IAS 34 "*Interim Financial Statements*".

These Consolidated Interim Condensed Financial Statements shall be considered together with the consolidated financial statements for the year ended on December 31, 2018, prepared subject to the International Accounting Standards (hereinafter referred to as the IAS).

### **(6) Using Accounting Estimates and Qualified Judgements**

Preparing the Consolidated Interim Condensed Financial Statements subject to the IAS requires using by the Executive Board qualified judgments, admissions and accounting estimates influencing the accounting policy provisions applying and the amounts to book assets, liabilities, income and expenses. Actual results may differ from such estimates

Principal estimates and judgements used by the Group when preparing the consolidated interim condensed financial statements correspond to those described in the audited consolidated financial statements ended on December 31, 2018, except for any estimations and admissions applied due to IFRS 16 "*Leasing*" coming into effect (Note 3 (a)).

The Executive Board is constantly revising the estimates and admissions based upon the received experience and other factors being the grounds for defining assets and liabilities accounting value. Changes in estimates and admissions shall be recognized in the period they were made in, in case such changes refer only to this particular period or recognized in the period when the change is made and in further periods in case such change affects both such and future periods.

**(B) Changes to Presentation**

**Comparative Data Reclassification**

In the reporting period the Group has changed separate indices to provide more accurate information about the nature thereof in the consolidated interim condensed statement of financial standing, consolidated interim condensed profit and loss statement and other comprehensive income, consolidated interim condensed cash flow statement. To ensure comparability the previous reporting period indices were reclassified:

- Long-term and short-term customer advance payments (contractual obligations) earlier disclosed in Note "Trade and Other Accounts Payable" are referred a separate item in the consolidated interim condensed statement of financial standing.
- Paid advances and other non-financial assets earlier disclosed in Note "Trade and Other Accounts Receivable" are referred to separate items, namely, "Paid Advances and Other Current Assets", "Paid Advances and Other Non-Current Assets" in the consolidated interim condensed statement of financial standing.
- Other income and other expenses earlier disclosed in Note "Other Net Income" are referred to separate items in the consolidated interim condensed profit and loss statement and other comprehensive income.
- Reserve for expected credit losses earlier disclosed in Note 10 "Operating Expenses" was referred to separate item "Recovery/(Accrual) of Reserve for Expected Credit Losses" in the consolidated interim condensed profit and loss statement and other comprehensive income.
- Changes of paid advances and other assets earlier disclosed in Line "Changes in Trade and Other Accounts Receivable" of the consolidated interim condensed cash flow statement are referred to separate Line "Changes of Paid Advances and Other Assets of the consolidated interim condensed cash flow statement.
- Changes of customer advance payments earlier disclosed in Line "Changes in Trade and Other Accounts Payable" of the consolidated interim condensed cash flow statement are referred to separate Line "Changes of Customer Advance Payments" of the consolidated interim condensed cash flow statement.

**3 Accounting Policy Fundamental Principles**

The fundamental elements of the accounting policy and estimation methods used by the Group correspond to those described in the audited consolidated financial statements for the year ended on December 31, 2018 except for the influence of applying from January 01, 2019 IFRS 16 "Leasing" as specified below.

**(a) IFRS 16 "Leasing"**

New Standard IFRS 16 "Leasing" adopted in 2016 replaces Standard IAS 17 "Leasing" and relevant interpretations of the IAS provisions related to leasing; cancelling the leasing classification into operating and financial, the Standard is the consolidated guidance for leasing booking by the rent receiver.

The agreement in general or its separate components are deemed a leasing agreement in case subject to such agreement the right is transferred to control such identified assets use within the definite period in exchange for remuneration.

## **Kubanenergo, PJSC**

*Comments to Consolidated Interim Condensed Financial Statements  
for three and nine months ended on September 30, 2019 (Unaudited)  
(in thousand Russian Rubles)*

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The right-of-use assets are initially estimated at cost and depreciated up to the earlier of the following dates: the date of the right-of-use assets useful life expiration or leasing term expiration date. The cost of right-of-use assets includes the amount of initial estimation of such leasing liability, leasing payments made before or as for such leasing start date and initial direct costs. Upon recognizing such right-of-use assets are booked at cost less the accumulated depreciation and accumulated impairment losses amounts. Such right-of-use assets are included to the statement of financial standing as a separate item.

The leasing liability shall be initially estimated at the given cost of leasing payments not performed as for the date of leasing start and further on are estimated at depreciable cost recognizing the expenses as interests as components of financial expenses of consolidated profit and loss statement. Such leasing liabilities are specified in the Statement of Financial Standing as components of Items "Credits and Loans" (long-term and short-term).

As to a separate lease agreement a decision may be made to qualify the agreement as a lease one where the assets are of low cost. Any and all rents subject to such agreement shall be recognized as expenses using linear method within the leasing term.

The Group will fix the leasing term as a period not subject to earlier termination when the Group may use the basic assets, together with:

- the periods where the option for leasing prolonging is valid in case the Group has enough reasons to be sure that it will exercise the option; and
- the periods where the option for leasing termination is valid in case the Group has enough reasons to be sure that it will fail to exercise the option.

When estimating the leasing term the Group will consider the following factors:

- if the leased object is specialized;
- object's location;
- if the Group or lessor has a practical option to choose any alternate contractor (to choose any alternate assets);
- expenditure in connection with leasing termination and a new (substituting) agreement making;
- any available significant improvements of leased objects.

The Group's principal lease objects are power supply network facilities (transmission networks, equipment for electric power transmission, etc.) and land plots. The Group also takes on lease non-residential property and vehicles.

For land plots lease agreements power supply network facilities with an indefinite period or with the period subject to the agreement of 1 year at most with the annual prolonging option the Group shall fix the agreement validity term using as the basic criterion fixed assets facilities useful lives located at the land plots taken on lease.

For power supply network facilities lease agreements with an indefinite period or with the period subject to the agreement of 1 year at most with the annual prolonging option the Group shall fix the agreement validity term using as the basic criterion its own fixed assets facilities useful lives with similar technical features.

The Group has employed the modified hindsight implying the reflection of cumulative effect of the standard initial applying as for the date of initial applying, being January 01, 2019. The average weighted rate of additional borrowed assets raising applied as to the leasing liabilities recognized in the statement of financial standing as for the date of initial applying made 8.77%.

The Group also used allowed practical simplifications and did not apply the new standard to lease agreements whose term expires within twelve months as of the date of transfer.

There were no facts of impairment of automated switching programs (ASP) as for January 01, 2019.

The effect of IFRS 16 "Leasing" initial applying had the following impact on the Group's assets and liabilities:

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	<u>As for January 01, 2019</u>
<b>Assets</b>	
Right-of-Use Assets	1,120,264
Paid Advances and Other Non-Current Assets	(11,398)
<b>Liabilities</b>	
Long-Term Leasing Liabilities (referred to Credits and Loans)	976,830
Short-Term Leasing Liabilities (referred to Credits and Loans)	182,107
Trade and Other Accounts Payable	(50,071)

We provide below the reconciliation between the contractual obligations in operating leasing disclosed subject to IAS 17 as for December 31, 2018, and leasing obligations recognized in the statement of financial standing as for January 01, 2019, subject to IFRS 16 "Leasing".

	<u>As for January 01, 2019</u>
<b>Liability as to Operating Leasing as for December 31, 2018, disclosed in the Group's consolidated financial statements</b>	<b>1,475,626</b>
<b>Other Operating Leasing Liabilities</b>	
Options for Leasing Prolonging/Cancelation the Group is Sure to Perform	682,094
Exemption Related to Short-Term Lease Agreements Recognizing	(4,896)
Discounting Effect	(1,243,742)
Liabilities Not Referred to Leasing Subject to IFRS 16	(21,962)
Liabilities as to Financial Leasing Recognized as for December 31, 2018	-
Other Factors	271,817
<b>Leasing Liabilities Recognized as for January 01, 2019</b>	<b><u>1,158,937</u></b>

**(6) Other Standards and Interpretations**

Except for the changes made to the accounting policy described in Section 3(a), the following amendments and comments having come into effect as of January 01, 2019, did not affect these Consolidated Interim Condensed Financial Statements:

- Comment 23 made by the International Financial Reporting Interpretation Committee (IFRIC) "Uncertainty as to the Rules for Corporate Income Tax Estimation".
- Amendments to IFRS 9 "Provisions about Earlier Repayment with Probable Negative Repayment".
- Amendments to IFRS 3 "Businesses Uniting".
- Amendments to IFRS 11 "Joint Entrepreneurship".
- Amendments to IAS 12 "Corporate Income Taxes" – tax consequences of payments for financial instruments classified as Equity.
- Amendments to IAS 23 "Borrowing Costs".
- Amendments to IAS 28 "Long-Term Investments to Associated Companies and Joint Ventures".
- Amendments to IAS 19 "Amendments Making to the Program, Program Reducing or Liabilities Settlement as to the Program".

The following new standards and interpretations were issued and will come into effect as to annual periods starting from January 01, 2020 or after such date, and were not applied by the Group in advance:

- IFRS 17 "Insurance Policies".
- Amendments to IFRS 3 "Businesses Uniting" – "Business Defining".
- Amendments to IAS 1 "Financial Statements Submitting" and IAS 8 "Accounting Policy, Amendments to Accounting Estimations and Errors".

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In March 2018 the Council for IFRS issued a revised version of the Conceptual Grounds for Financial Statements. Such revised version will come into effect and become binding starting from annual periods after January 01, 2020.

At present the Group is reviewing the impact of such revised version of Conceptual Grounds and new standards and interpretations on the consolidated financial statements.

### **4 Fair Value Estimation**

Certain provisions of the Group's accounting policy and some disclosures require fair value estimation of both financial and non-financial assets and liabilities.

When estimating the assets' or liabilities' fair value the Group applies where applicable observed market data. Fair value estimations are referred to various fair value hierarchy levels depending on initial data used within the context of respective estimation methods:

- Level 1: quoted (unadjusted) prices for identical assets and liabilities at active markets.
- Level 2: source data besides the quoted prices applied to make estimations for Level 1 observed either directly (such as prices) or indirectly (such as estimated based on the prices).
- Level 3: source data for assets and liabilities not based on observed market data (unobservable source data).

In case the source data used for assets or liabilities fair value estimation may be referred to various fair value hierarchy levels, such fair value estimation in general shall be referred to the hierarchy level corresponding to the source data of the lowest level being essential for the whole estimation.

The Group recognizes the shifts between the fair value hierarchy levels as for the date of the reporting period ending when such changes happened.

## 5 Principal Subsidiary Companies

Kubanenergo, Group of Companies, includes Kubanenergo, PJSC, and its five subsidiary companies, enlisted below:

<u>Subsidiary Companies</u>	<u>Country of Incorporation</u>	<u>Principal Business Operations</u>	<u>Participation Interest / Voting Shares, %</u>	
			<u>September 30, 2019</u>	<u>December 31, 2018</u>
Energetik Recreation House, JSC	Russian Federation	Recreation Arrangement	100	100
Energoservice of Kuban, JSC	Russian Federation	Repair Services	100	100

## 6 Information for Segments

Kubanenergo, PJSC, is the supreme body making decisions regarding business operations.

The Group's principal operations are services rendering in connection with electric power supply transmission and distribution, in connection with technological connection to electric power networks in certain Russian regions (Krasnodar Area and Republic of Adygea).

To reflect the operating results for each reporting segment proceeds, EBITDA indices are used since they are included to the internal management statements prepared subject to RAS statements data, and reviewed and estimated by the Management Board on a regular basis. EBITDA index is estimated as the profit or loss before interests paid, taxation and depreciation. The Management Board considers that such indices are most urgent when estimating the results for certain segments with regard to other segments and other companies performing their operations in such industries.

Subject to Requirement IFRS 8 "Operating Segments" based on the data of the proceeds for segments, EBITDA and assets total amount submitted to the Management Board the Group has separated one reporting segment specified below being the Group's strategic business unit. Such strategic business unit renders services in connection with electric power transporting including the services for technological connection in Russian geographical regions (Krasnodar Area and Republic of Adygea), and they are managed in general. Segment "Others" unites several operating segments whose principal operations refer to repair services rendering, leasing and recreation arrangement services rendering.

Such segments figures are based upon management information prepared relying upon the RAS (Russian Accounting Standards) reports data and may differ from similar data reflected in financial statements prepared subject to the IFRS. Figures reconciliation in the estimation submitted to the Management Board and similar figures in such consolidated interim condensed financial statements includes the reclassifications and adjustments required for reports submitting subject to the IFRS.

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**(a) Information about the Reporting Segments**

For three months ended on September 30, 2019:

	<u>Kubanenergo</u>	<u>Other Segments</u>	<u>Total</u>
Proceeds from External Customers	12,703,998	58,237	12,762,235
Proceeds from Sales between Segments	1,077	11,089	12,166
<b>Segment's Proceeds</b>	<b><u>12,705,075</u></b>	<b><u>69,326</u></b>	<b><u>12,774,401</u></b>
Including:			
<i>Electric Power Transmission</i>	12,265,511	–	12,265,511
<i>Services in Connection with Technological Connection to Power Supply Networks</i>	366,210	–	366,210
<i>Other Proceeds</i>	73,354	69,326	142,680
<i>Financial Income</i>	13,718	126	13,844
<i>Financial Expenses</i>	(529,289)	–	(529,289)
<i>Depreciation</i>	(1,060,374)	(997)	(1,061,371)
<i>Profit/ (Loss) before Tax</i>	1,716,670	20,507	1,737,177
<b>EBITDA</b>	<b><u>3,306,333</u></b>	<b><u>21,504</u></b>	<b><u>3,327,837</u></b>

For three months ended on September 30, 2018:

	<u>Kubanenergo</u>	<u>Other Segments</u>	<u>Total</u>
Proceeds from External Customers	12,509,307	42,164	12,551,471
Proceeds from Sales between Segments	1,236	13,599	14,835
<b>Segment's Proceeds</b>	<b><u>12,510,543</u></b>	<b><u>55,763</u></b>	<b><u>12,566,306</u></b>
Including:			
<i>Electric Power Transmission</i>	12,351,079	–	12,351,079
<i>Services in Connection with Technological Connection to Power Supply Networks</i>	81,422	–	81,422
<i>Other Proceeds</i>	78,042	55,763	133,805
<i>Financial Income</i>	23,830	27	23,857
<i>Financial Expenses</i>	(478,227)	–	(478,227)
<i>Depreciation</i>	(1,026,392)	(907)	(1,027,299)
<i>Segment's Profit/ (Loss) before Tax</i>	1,389,138	13,864	1,403,002
<b>EBITDA</b>	<b><u>2,893,757</u></b>	<b><u>14,771</u></b>	<b><u>2,908,528</u></b>

For nine months ended on September 30, 2019:

	<u>Kubanenergo</u>	<u>Other Segments</u>	<u>Total</u>
Proceeds from External Customers	35,684,390	77,091	35,761,481
Proceeds from Sales between Segments	2,028	32,417	34,445
<b>Segment's Proceeds</b>	<b><u>35,686,418</u></b>	<b><u>109,508</u></b>	<b><u>35,795,926</u></b>
Including:			
<i>Electric Power Transmission</i>	34,880,159	–	34,880,159
<i>Services in Connection with Technological Connection to Power Supply Networks</i>	618,530	–	618,530
<i>Other Proceeds</i>	187,729	109,508	297,237
<i>Financial Income</i>	40,065	158	40,223
<i>Financial Expenses</i>	(1,499,913)	(35)	(1,499,948)
<i>Depreciation</i>	(3,138,470)	(1,833)	(3,140,303)
<i>Segment's Profit/ (Loss) before Tax</i>	1,400,208	(16,178)	1,384,030
<b>EBITDA</b>	<b><u>6,038,591</u></b>	<b><u>(14,310)</u></b>	<b><u>6,024,281</u></b>

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For nine months ended on September 30, 2018:

	<u>Kubanenergo</u>	<u>Other Segments</u>	<u>Total</u>
Proceeds from External Customers	34,764,934	51,515	34,816,449
Proceeds from Sales between Segments	2,026	29,581	31,607
<b>Segment's Proceeds</b>	<b>34,766,960</b>	<b>81,096</b>	<b>34,848,056</b>
Including:			
<i>Electric Power Transmission</i>	34,381,686	–	34,381,686
<i>Services in Connection with Technological Connection to Power Supply Networks</i>	225,061	–	225,061
<i>Other Proceeds</i>	160,213	81,096	241,309
<i>Financial Income</i>	54,210	43	54,253
<i>Financial Expenses</i>	(1,441,701)	(17)	(1,441,718)
<i>Depreciation</i>	(2,950,159)	(1,541)	(2,951,700)
<i>Segment's Profit/ (Loss) before Tax</i>	1,771,368	1,616	1,772,984
<b>EBITDA</b>	<b>6,163,228</b>	<b>3,174</b>	<b>6,166,402</b>

September 30, 2019

	<u>Kubanenergo</u>	<u>Other Segments</u>	<u>Total</u>
<b>Segment's Assets</b>	<b>76,725,400</b>	<b>78,302</b>	<b>76,803,702</b>
Including:			
<i>Fixed Assets and Construction in Progress</i>	62,406,910	31,377	62,438,287
<i>Capital Investments</i>	3,070,441	3,593	3,074,034
<b>Segments Liabilities</b>	<b>37,974,751</b>	<b>43,245</b>	<b>38,017,996</b>

December 31, 2018:

	<u>Kubanenergo</u>	<u>Other Segments</u>	<u>Total</u>
<b>Segment's Assets</b>	<b>75,908,815</b>	<b>79,547</b>	<b>75,988,362</b>
Including:			
<i>Fixed Assets and Construction in Progress</i>	62,534,635	29,617	62,564,252
<i>Capital Investments</i>	6,950,196	2,606	6,952,802
<b>Segments Liabilities</b>	<b>40,670,269</b>	<b>30,717</b>	<b>40,700,986</b>

(6) Reconciliation of the figures for reporting segments in proceeds and EBITDA is provided below:

Comparing RAS and IFRS data of reporting segments in proceeds:

	<u>For three months, ended on September 30</u>		<u>For nine months, ended on September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>Segment's Proceeds</b>	<b>12,774,401</b>	<b>12,534,699</b>	<b>35,795,926</b>	<b>34,816,449</b>
Proceeds from Sales between Segments	(12,166)	(14,835)	(34,445)	(31,607)
Reclassification of Inter-Segment Proceeds into External	–	41,728	–	43,472
Proceeds Reversing Entry as to Electric Power Transmission	(2,963)	(4,621)	(8,838)	(14,657)
<b>Proceeds in the Consolidated Profit and Loss Statement and Other Comprehensive Income</b>	<b>12,759,272</b>	<b>12,556,971</b>	<b>35,752,643</b>	<b>34,813,657</b>

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Comparing RAS and IFRS data of reporting segments in EBITDA:

	For three months, ended on September 30		For nine months, ended on September 30	
	2019	2018	2019	2018
<b>EBITDA for Reporting Segments subject to RAS</b>	<b>3,327,837</b>	<b>2,908,528</b>	<b>6,024,281</b>	<b>6,166,402</b>
Intangible Assets Cost Adjustment	14,508	11,842	50,884	46,228
Adjustment as to the Reserve for Expected Credit Losses and Paid Advances Impairment	–	–	–	–
Adjustments as to Leasing	62,699	–	177,278	–
Estimated Liabilities Additional Accruing	(180)	–	6,331	–
Accounts Payable Discounting	933	1,672	3,928	4,017
Fixed Assets Cost Adjustment	(88)	(58,392)	5,703	(54,104)
Accounts Receivable Discounting	1,491	1,177	3,759	3,612
Adjustment as to Accounts Payable	(848)	921	2,122	6,817
Acknowledgment of Pension and Other Long-Term Liabilities to Employees	(203)	(2,535)	34,759	11,488
Adjustment as to Disputed Accounts Receivable	(35,953)	27,791	(42,383)	10,410
Adjustments as to Taxes	(50)	(27)	(7,747)	(250)
Adjustment as to Proceeds from Electric Power Transmission	(2,963)	(4,621)	(8,838)	(13,698)
Adjustment as to Accrued Reserves for Carry-Over Vacations and Bonuses	33,542	6,678	18,078	(7,738)
Other Adjustments	(316)	(48,548)	1,270	(49,414)
<b>EBITDA for Reporting Segments subject to IFRS</b>	<b>3,400,409</b>	<b>2,844,486</b>	<b>6,269,425</b>	<b>6,123,770</b>
Depreciation	(976,931)	(898,827)	(2,903,731)	(2,643,522)
Interest Expenses as to Financial Liabilities Recognized at Depreciation Cost	(485,256)	(486,810)	(1,380,355)	(1,515,359)
Interest Expenses for Leasing Liabilities	(24,528)	–	(70,801)	–
Corporate Income Tax Expense	(570,193)	(334,002)	(800,790)	(743,952)
<b>Consolidated Proceeds/ Loss for the Period in the Consolidated Profit and Loss Statement and Other Comprehensive Income</b>	<b>1,343,501</b>	<b>1,124,847</b>	<b>1,113,748</b>	<b>1,220,937</b>

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## Reconciliation of the Total Amount of Reporting Segments Assets:

	For nine months ended on September 30, 2019	Year ended on December 31 2018
<b>Total Amount of the Segments Assets</b>	<b>76,803,702</b>	<b>75,988,362</b>
Recognizing ASP for leasing within Standard IFRS 16	1,041,946	–
Recognizing the Assets Related to Employees Remuneration Liabilities	297,295	291,221
Adjustment as to Deferred Tax	(216,481)	226,580
Adjustment as to Financial Investments	8,132	8,132
Adjustment as to Reserve for Doubtful Debt	(40,527)	1,856
Reducing Accounts Receivable subject to Advances for VAT from issued Advances	(15,795)	(20,655)
Settlements between Segments	(8,691)	(6,031)
Accounts Receivable Discounting	(11,548)	(7,451)
Reclassification of Accounts Receivable and Leasing Liabilities	(6,609)	–
Accounts Receivable Debiting	(21,712)	(12,920)
Intra-Group Financial Assets	(45,687)	(45,687)
Intangible Assets Cost Adjustment	(88,610)	(77,745)
Reducing Recoverable VAT Amount for VAT Amount from Received Advances	(1,066,619)	(1,048,328)
Fixed Assets Cost Adjustment	(6,043,576)	(6,632,489)
Other Adjustments	(19,233)	(20,138)
<b>Assets Total Amount in the Consolidated Statement of Financial Standing</b>	<b>70,565,987</b>	<b>68,644,707</b>

## Reconciliation of the Total Amount of Reporting Segments Liabilities:

	For nine months ended on September 30, 2019	Year ended on December 31 2018
<b>Total Amount of the Segments Liabilities</b>	<b>38,017,996</b>	<b>40,700,986</b>
Recognizing Leasing Liabilities within Standard IFRS 16	1,057,197	–
Acknowledgment of Pension and Other Long-Term Liabilities to Employees	537,325	453,065
Adjustment as to Accrued Reserves for Carry-Over Vacations and Bonuses	118,377	136,455
Additional Adjustment of Reserve for Judicial Proceedings	21,194	27,525
Reducing Other Accounts Payable for VAT Amount from Received Advances	(15,795)	(20,655)
Settlements between Segments	(8,691)	(6,031)
Deferred Income Debiting	(88,153)	(86,031)
Adjustment as to Deferred Tax	(840,665)	(438,986)
Reducing Accounts Payable for Received Advances for VAT Amount from Received Advances	(1,066,619)	(1,048,328)
Other Adjustments	(3,996)	(1,048)
<b>Total Amount of Liabilities in the Consolidated Statement of Financial Standing</b>	<b>37,728,170</b>	<b>39,716,952</b>

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**7 Revenue**

	For three months, ended on September 30		For nine months, ended on September 30	
	2019	2018	2019	2018
Electric Power Transmission	12,261,599	12,345,332	34,869,647	34,365,333
Services in Connection with Technological Connection to Power Supply Networks	366,210	81,422	618,530	225,061
Repair and Maintenance Services	8,271	7,913	22,440	25,149
Other Proceeds	113,149	112,804	222,945	178,102
<b>Total Proceeds under Customer Agreements</b>	<b>12,749,229</b>	<b>12,547,471</b>	<b>35,733,562</b>	<b>34,793,645</b>
<b>Proceeds under Lease Agreements</b>	<b>10,043</b>	<b>9,500</b>	<b>19,081</b>	<b>20,012</b>
<b>Total Proceeds</b>	<b>12,759,272</b>	<b>12,556,971</b>	<b>35,752,643</b>	<b>34,813,657</b>

Other proceeds include in general the proceeds from services rendering to restrict the electric power consumption mode, electric power meters mounting/dismounting, services rendering for electric power metering and other services.

**8 Other Income**

	For three months, ended on September 30		For nine months, ended on September 30	
	2019	2018	2019	2018
Income from Discovered Electric Power Consumption without Agreements	16,949	21,429	65,150	43,732
Income as fines, forfeits and penalties subject to business contracts	31,167	180,153	348,837	520,941
Income from Losses Reimbursement due to Power Supply Network Property Disposal/Liquidation	33,513	–	184,197	–
Income from Fixed Assets and Business Inventories Received Free of Charge	8,510	12,770	24,515	30,233
Insurance Compensation	25,520	19,618	45,803	34,808
Accounts payable Debiting	26,831	6,328	29,300	14,279
	<b>142,490</b>	<b>240,298</b>	<b>697,802</b>	<b>643,993</b>

**9 Other expenses**

	For three months, ended on September 30		For nine months, ended on September 30	
	2019	2018	2019	2018
Losses from Property Disposal, (net)	232,498	(19,467)	240,110	15,871
Other expenses	(1,838)	–	693	–
	<b>230,660</b>	<b>(19,467)</b>	<b>240,803</b>	<b>15,871</b>

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**10 Operating Expenses**

	For three months, ended on September 30		For nine months, ended on September 30	
	2019	2018	2019	2018
Employees Remuneration Expenses	1,453,608	1,504,268	4,548,129	4,547,781
Depreciation	976,931	898,827	2,903,731	2,643,522
Impairment/(Reversal of Impairment) of Fixed Assets and Right-of-Use Assets	–	33	–	33
<i>Material Expenses, including</i>				
Electric Power to Reimburse Technological Losses	1,622,501	1,662,692	5,551,773	5,249,601
Purchased Electric and Heating Power for Own Needs	14,346	14,142	79,118	74,961
Other Material Expenses	450,364	357,451	1,324,545	957,257
<i>Production-related works and services, including:</i>				
Electric Power Transmission Services	4,336,013	5,130,136	14,218,519	14,626,612
Repair and Maintenance Services	611,991	131,448	1,322,227	377,930
Other Works and Production, Maintenance and Delivery Services	18,333	13,760	52,767	41,173
Taxes and Dues Except for Corporate Income Tax	160,728	223,779	484,215	669,236
Short-Term Leasing / Leasing	813	61,953	3,508	179,890
Insurance	18,958	19,329	57,274	58,019
<i>Other Third-Party Companies Services, including:</i>				
Communication Services	20,209	21,049	55,502	53,704
Security	51,422	53,932	152,801	178,659
Consulting, Legal and Audit Services	16,999	9,432	30,665	20,438
Expenses for Software and Support	23,782	24,334	65,266	65,092
Transportation Services	605	513	3,336	1,202
<i>Other Services, including:</i>				
Expenses for Power Service Contracts	321,214	109,946	829,726	618,964
Other Third-Party Companies Services	86,050	71,980	241,398	213,428
Reserves	71,588	188,609	216,531	267,196
<i>Other expenses, including:</i>				
Business Trip Expenses	44,270	80,902	123,493	167,259
Expenses for Services subject to the Unified Electric Power System (UEPS) Arranging, Functioning and Development	31,713	–	87,150	55,918
Expenses Recognized as Fines, Forfeits, Penalties in Case of Agreement Provisions Violating	(92,135)	44,961	27,117	425,821
Other Operating Expenses	288,154	256,072	531,959	645,792
	<b>10,528,457</b>	<b>10,879,548</b>	<b>32,910,750</b>	<b>32,139,488</b>

Reserves are liabilities accruing subject to lawsuits made by the Group as to ordinary operations.

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**11 Financial Income and Expenses**

	For three months, ended on September 30		For nine months, ended on September 30	
	2019	2018	2019	2018
<b>Financial Income</b>				
Interest income for issued loans, bank deposits, promissory notes and balances at bank accounts	13,209	14,789	39,588	45,185
Effect from Financial Liabilities Initial Discounting	933	1,672	3,928	4,017
Financial Assets Discounts Depreciation	1,491	1,177	3,759	3,612
	<u>15,633</u>	<u>17,638</u>	<u>47,275</u>	<u>52,814</u>
	For three months, ended on September 30		For nine months, ended on September 30	
	2019	2018	2019	2018
<b>Financial Expenses</b>				
Interest Expenses for Financial Liabilities Recognized at Depreciation Cost	475,599	441,781	1,322,477	1,374,132
Interest Expenses for Leasing Liabilities	24,528	–	70,801	–
Interest Expenses for Long-Term Employees Remuneration Liabilities	8,385	9,851	27,170	31,646
Effect from Financial Liabilities Initial Discounting	–	3,307	7,856	3,480
Financial Assets Discounts Depreciation	513	379	2,032	3,334
Other Financial Expenses	759	31,492	20,820	102,767
	<u>509,784</u>	<u>486,810</u>	<u>1,451,156</u>	<u>1,515,359</u>

Other financial expenses are interests accrued as to agreements for accounts payable restructuring

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**12 Corporate Income Tax**

	For three months, ended on September 30		For nine months, ended on September 30	
	2019	2018	2019	2018
<b>Current Corporate Income Tax</b>				
Current Income Accruing	(324,156)	(309,964)	(324,156)	(564,122)
Tax Adjustment for Previous Periods	(36)	–	(36)	–
<b>Total Current Corporate Income Tax</b>	<b>(324,192)</b>	<b>(309,964)</b>	<b>(324,192)</b>	<b>(564,122)</b>
<b>Deferred Corporate Income Tax</b>	<b>(246,001)</b>	<b>(24,038)</b>	<b>(476,598)</b>	<b>(179,830)</b>
<b>Total Corporate Income Tax Expense</b>	<b>(570,193)</b>	<b>(334,002)</b>	<b>(800,790)</b>	<b>(743,952)</b>

The official Corporate Income Tax rate fixed by the Russian law in 2019 and 2018 made 20%.

Corporate Income Tax expenses reflected subject to the best management estimation of the average weighted expected corporate income tax rate for the complete financial year as for the reporting date.

Profit (loss) before taxation shall relate to corporate income tax expenses as follows:

	For three months, ended on September 30		For nine months, ended on September 30	
	2019	2018	2019	2018
<b>Profit/ (loss) before tax</b>	<b>1,913,694</b>	<b>1,458,849</b>	<b>1,914,538</b>	<b>1,964,889</b>
<b>Corporate Income Tax Estimated Subject to the Applied Tax Rate</b>	<b>(382,739)</b>	<b>(291,770)</b>	<b>(382,908)</b>	<b>(392,978)</b>
Tax effect from non-taxable items or those not deductible for tax purposes	(187,418)	(42,232)	(417,846)	(350,974)
Adjustment for Previous Years	(36)	–	(36)	–
	<b>(570,193)</b>	<b>(334,002)</b>	<b>(800,790)</b>	<b>(743,952)</b>

Corporate Income Tax Recognized as the Other Comprehensive Income:

	For three months, ended on September 30, 2019			For nine months, ended on September 30, 2019		
	Before Tax	Corporate Income Tax	After Tax	Before Tax	Corporate Income Tax	After Tax
Retirement Schemes Liabilities Revaluation with Fixed Payments	(24,715)	4,943	(19,772)	(85,775)	17,155	(68,620)
	<b>(24,715)</b>	<b>4,943</b>	<b>(19,772)</b>	<b>(85,775)</b>	<b>17,155</b>	<b>(68,620)</b>

	For three months, ended on September 30, 2018			For nine months, ended on September 30, 2018		
	Before Tax	Corporate Income Tax	After Tax	Before Tax	Corporate Income Tax	After Tax
Retirement Schemes Liabilities Revaluation with Fixed Payments	51,638	(10,328)	41,310	64,630	(12,926)	51,704
	<b>51,638</b>	<b>(10,328)</b>	<b>41,310</b>	<b>64,630</b>	<b>(12,926)</b>	<b>51,704</b>

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**13 Fixed Assets**

	Land Plots and Buildings	Transmission Networks	Equipment for Electric Transmission	Other	Construction in Progress	Total
<b>Initial/ Deemed Cost</b>						
As for January 1, 2018	7,843,727	38,083,459	16,002,370	7,682,998	8,367,283	77,979,837
Reclassification Among Groups	313	—	(313)	—	—	—
Receipts	6	9,911	25,325	34,079	4,924,605	4,993,926
Putting into Operation	108,714	752,521	942,418	135,008	(1,938,661)	—
Disposal	(862)	(47,714)	(5,329)	(9,611)	(12,146)	(75,662)
Conversion into Non-Current Assets Available for Sales	(643)	—	—	10,755	(20,403)	(10,291)
As for September 30, 2018	7,951,255	38,798,177	16,964,471	7,853,229	11,320,678	82,887,810
<b>Accrued Depreciation and Impairment</b>						
As for January 1, 2018	(2,609,739)	(10,717,364)	(6,962,311)	(5,009,642)	(92,327)	(25,391,383)
Reclassification Among Groups	(345)	408	313	(376)	—	—
Using as Fixed Assets (Losses from Impairment Carry Forward)	—	(520)	(717)	—	1237	—
Accrued Depreciation	(211,610)	(1,223,291)	(734,729)	(458,555)	—	(2,628,185)
Disposal	530	12,944	3,918	2,589	40	20,021
Conversion into Non-Current Assets Available for Sales	192	—	—	(2,263)	—	(2,071)
Impairment/ Impairment Reversal	—	(33)	—	—	—	(33)
As for September 30, 2018	(2,820,972)	(11,927,856)	(7,693,526)	(5,468,247)	(91,050)	(28,001,651)
<b>Remaining Value</b>						
As for January 1, 2018	5,233,988	27,366,095	9,040,059	2,673,356	8,274,956	52,588,454
As for September 30, 2018	5,130,283	26,870,321	9,270,945	2,384,982	11,229,628	54,886,159

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	Land Plots and Buildings	Transmission Networks	Equipment for Electric Transmission	Other	Construction in Progress	Total
<b>Initial/ Deemed Cost</b>						
As for January 1, 2019	8,078,303	39,375,396	17,999,307	7,961,187	11,312,191	84,726,384
Reclassification Among Groups	(2,211)	(1,506)	2,797	920	—	—
Receipts	575	5,531	67,483	115,501	3,654,626	3,843,716
Putting into Operation	1,633,704	4,093,435	2,416,689	545,854	(8,689,682)	—
Disposal	(3,149)	(6,639)	(1,590)	(16,722)	(660,298)	(688,398)
Conversion into Non-Current Assets Available for Sales	—	—	—	—	—	—
As for September 30, 2019	9,707,222	43,466,217	20,484,686	8,606,740	5,616,837	87,881,702
<b>Accrued Depreciation and Impairment</b>						
As for January 1, 2019	(2,890,092)	(12,341,674)	(7,942,339)	(5,602,190)	(78,302)	(28,854,597)
Reclassification Among Groups	(1,149)	391	(1,226)	(314)	—	—
Using as Fixed Assets (Losses from Impairment Carry Forward)	—	(1,046)	(307)	—	(1,353)	—
Accrued Depreciation	(234,511)	(1,308,327)	(760,389)	(407,651)	—	(2,710,878)
Disposal	1,873	4,046	1,337	11,875	—	19,131
Conversion into Non-Current Assets Available for Sales	—	—	—	—	—	—
Impairment/ Impairment Reversal	—	—	—	—	—	—
As for September 30, 2019	(3,121,581)	(13,646,610)	(8,702,924)	(5,998,280)	(76,949)	(31,546,344)
<b>Remaining Value</b>						
As for January 1, 2019	5,188,211	27,033,722	10,056,968	2,358,997	11,233,889	55,871,787
As for September 30, 2019	6,585,641	29,819,607	11,781,762	2,608,460	5,539,888	56,335,358

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For nine months ended on September 30, 2019, capitalized interests amounted to 357,402 thousand rubles (for nine months ended on September 30, 2018: 242,212 thousand rubles), capitalization rate made 7.99% (for six months ended on September 30, 2018 - 7.33%).

For nine months ended on September 30, 2019, depreciation charges were capitalized into the cost of capital construction facilities amounting to 4,099 thousand rubles (for nine months ended on September 30, 2018, amounting to 148 thousand rubles).

As for September 30, 2019, and as for December 31, 2018, there are no fixed assets used as a security for credits and loans.

**14 Intangible assets**

	Software	Certificates, Licences and Patents	Research, Development and Engineering	Other	Total
<b>Initial Cost</b>					
As for January 1, 2018	377,626	5,295	9,654	28,558	421,133
Receipts	41,186	-	30,967	923	73,076
Disposal	(11,852)	-	-	-	(11,852)
As for September 30, 2018	<u>406,960</u>	<u>5,295</u>	<u>40,621</u>	<u>29,481</u>	<u>482,357</u>
<b>Accrued Depreciation and Impairment</b>					
As for January 1, 2018	(255,631)	(5,295)	-	(9,772)	(270,698)
Accrued Depreciation	(54,759)	-	-	(3,700)	(58,459)
Disposal	11,852	-	-	-	11,852
As for September 30, 2018	<u>(298,538)</u>	<u>(5,295)</u>	<u>-</u>	<u>(13,472)</u>	<u>(317,305)</u>
<b>Remaining Value</b>					
As for January 1, 2018	<u>121,995</u>	<u>-</u>	<u>9,654</u>	<u>18,786</u>	<u>150,435</u>
As for September 30, 2018	<u>108,422</u>	<u>-</u>	<u>40,621</u>	<u>16,009</u>	<u>165,052</u>
<b>Initial Cost</b>					
As for January 1, 2019	505,189	5,295	40,934	36,169	587,587
Reclassification Among Groups	-	-	7,500	(7,500)	-
Receipts	30,618	1876	28,500	48,531	109,525
Disposal	-	-	(48,478)	(8,351)	(56,829)
As for September 30, 2019	<u>535,807</u>	<u>5,295</u>	<u>28,456</u>	<u>68,849</u>	<u>640,283</u>
<b>Accrued Depreciation and Impairment</b>					
As for January 1, 2019	(318,369)	(5,295)	-	(15,102)	(338,766)
Reclassification Among Groups	-	-	-	-	-
Accrued Depreciation	(64,339)	(128)	-	(4,770)	(69,237)
Disposal	-	-	-	8,298	8,298
As for September 30, 2019	<u>(382,708)</u>	<u>(5,423)</u>	<u>-</u>	<u>(11,574)</u>	<u>(399,705)</u>
<b>Remaining Value</b>					
As for January 1, 2019	<u>186,820</u>	<u>-</u>	<u>40,934</u>	<u>21,067</u>	<u>248,821</u>
As for September 30, 2019	<u>153,099</u>	<u>-</u>	<u>28,456</u>	<u>57,275</u>	<u>240,578</u>

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For nine months ended on September 30, 2019, intangible assets depreciation amounting to 69,237 thousand rubles was referred to operating expenses and amounting to 79 thousand rubles was capitalized into the cost of capital construction facilities (for nine months ended on September 30, 2018 intangible assets depreciation amounting to 58,459 thousand rubles was referred to operating expenses and amounting to 148 thousand rubles was capitalized into the cost of capital construction facilities).

Other intangible assets include electric circuits and computing models used to make settlements of electric power modes and short circuit currents including graphic schemes and models amounting to 57,275 thousand rubles as for September 30, 2018 (amounting to 21,067 thousand rubles as for December 31, 2018).

**15 Right-of-Use Assets**

	<u>Land and Buildings</u>	<u>Transmission Networks</u>	<u>for Electric Power Transmission</u>	<u>Other</u>	<u>Total</u>
<b>Initial Cost</b>					
As for January 1, 2019	529,699	18,906	562,801	8,858	1,120,264
Receipts	69,596	–	2,253	8,485	80,334
Changing Conditions under Lease Agreements	4,922	1,313	(13,644)	125	(7,284)
Disposal and Lease Agreements Cancelling	(15,108)	(7,341)	(344)	(2,362)	(25,155)
<b>As for September 30, 2019</b>	<b>589,109</b>	<b>12,878</b>	<b>551,066</b>	<b>15,106</b>	<b>1,168,159</b>
<b>Accrued Depreciation and Impairment</b>					
As for January 1, 2019	–	–	–	–	–
Reclassification Among Groups	–	–	–	–	–
Accrued Depreciation	(23,285)	(3,343)	(99,815)	(2,380)	(128,823)
Changing Conditions under Lease Agreements	795	91	283	6	1,175
Impairment/ Impairment Reversal	–	–	–	–	–
Disposal and Lease Agreements Cancelling	464	602	45	324	1,435
<b>As for September 30, 2019</b>	<b>(22,026)</b>	<b>(2,650)</b>	<b>(99,487)</b>	<b>(2,050)</b>	<b>(126,213)</b>
<b>Remaining Value</b>					
As for January 1, 2019	529,699	18,906	562,801	8,858	1,120,264
<b>As for September 30, 2019</b>	<b>567,083</b>	<b>10,228</b>	<b>451,579</b>	<b>13,056</b>	<b>1,041,946</b>

The Group applied IAS 36 “*Assets Impairment*” regarding right-of-use assets as for the date of initial applying IAS 16 “*Leasing*”. As for January 01, 2019 there was no right-of-use assets impairment.

**16 Financial Investments**

Financial assets estimated at fair value whose changes are reflected via other comprehensive income consist of securities having no quoted marked prices booked at fair value (Level 3 in the fair value hierarchy).

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**17 Trade and Other Accounts Receivable**

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
<b>Trade and Other Long-Term Accounts Receivable</b>		
Trade Accounts Receivable	428	744
Other Accounts Receivable	11,670	10,471
	<u>12,098</u>	<u>11,215</u>
<b>Trade and Other Short-Term Accounts Receivable</b>		
Trade Accounts Receivable	8,389,098	7,299,355
Reserve for Expected Credit Losses for Trade Accounts Receivable	(1,056,833)	(1,103,966)
Other Accounts Receivable	1,191,627	1,132,882
Reserve for Expected Credit Losses for Other Accounts Receivable	(627,733)	(619,019)
	<u>7,896,159</u>	<u>6,709,252</u>

Information about Balances with Related Parties Is Disclosed in Note 28.

**18 Paid Advances and Other Assets**

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
<b>Non-Current</b>		
Paid Advances	3,986	4,891
VAT for Customer and Consumer Advance Payments	1,146	1,147
	<u>5,132</u>	<u>6,038</u>
<b>Tangible</b>		
Paid Advances	42,846	53,421
Reserve for Paid Advances Impairment	(13,276)	(17,507)
VAT for Reimbursement	5,097	5,186
VAT for Customers and Consumers Advances and VAT for Advances Issued to Acquire Fixed Assets	3,103	41,246
Advance Payment for Taxes Except for Corporate Income Tax	4,595	19,861
	<u>42,365</u>	<u>102,207</u>

Information about Balances with Related Parties Is Disclosed in Note 28.

**19 Cash and Cash Equivalents**

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Cash at Bank Accounts and at the Cash Desk	1,138,172	2,200,921
Cash Equivalents	719,000	4,000
	<u>1,857,172</u>	<u>2,204,921</u>

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	<u>Rating</u>	<u>Rating Agency</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Federal Treasury Department (FTD) in the Krasnodar Area	–	–	620,363	1,012,089
Bank of Russia (JSB Rossiya)	ruAA	Expert RA	1,235	696,897
Russian Regional Development Bank (RRDB)	Ba3	Moody's	246,192	450,001
Mosoblbank, PJSC	–	–	19,515	22,130
Sberbank*	Baa3	Moody's	54,302	13,376
Gazprombank*	Ba1	Moody's	141,778	6,387
VTB Bank*	Baa3	Moody's	54,655	19
Cash at the Cash Desk	–	–	132	22
			<u>1,138,172</u>	<u>2,200,921</u>

\* State-Concerned.

Cash equivalents include short-term investments into bank deposits:

	<u>Interest Rate</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
VTB Bank*	6.40%-6.60%	Baa3	Moody's	719,000	4,000
				<u>719,000</u>	<u>4,000</u>

\* State-Concerned.

As for September 30, 2019, and as for December 31, 2018, all cash and cash equivalents balances are nominated in rubles.

## 20 Authorized Capital

### (a) Authorized Capital

	<u>Ordinary Shares</u>	
	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Nominal value of each share:	100 rubles	100 rubles
Outstanding Shares as for January 01	303,793,350	282,868,130
Outstanding as for the End of the Year and Fully Paid	303,793,350	303,793,350

### (6) Ordinary Shares

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

Kubanenergo, PJSC, has allotted ordinary registered uncertified shares of similar nominal value of 100 rubles each, totally 303,793,350 (three hundred and three million seven hundred ninety-three thousand three hundred and fifty) shares, for the total amount at nominal cost of 30,379,335 thousand rubles.

### (B) Dividends

The base for the Company's profit distribution among its shareholders subject to the Russian law is the net profit according to the data in the accounting statements prepared subject to the standards for accounting and statements making in the Russian Federation.

At the Annual General Meeting of Shareholders held on June 20, 2019, a decision was made to pay the dividends for the Company's allotted shares following the results of Kubanenergo, PJSC, financial and economic operations for 2018 amounting to 143,638 thousand rubles (Minutes # 42 of the Annual General Meeting of Shareholders held on June 20, 2019). The dividends amounted to 0.472815 rubles per one Company's ordinary share.

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As for September 30, 2018, the dividends following the results of the Company's financial and economic operations for the year ended on December 31, 2018, were paid to the owners in the amount of 143,119 thousand rubles.

**(r) Securities Additional Issue**

On April 17, 2019, the Extraordinary General Meeting of Kubanenergo, PJSC, Shareholders (Minutes # 41 dd. April 19, 2019) made a decision to increase the Company's authorized capital by allotting 37,477,392 (thirty-seven millions four hundred seventy seven thousand three hundred and ninety two) additionally issued shares by public subscription. The price for one ordinary registered uncertified share allotment (including to persons included to the list of those having preemptive right to acquire additionally allotted shares) is 100 rubles.

On June 14, 2019, Kubanenergo, PJSC, Board of Directors approved a decision about additional issue and a booklet of the Company's securities (Minutes # 347/2019 dd. June 17, 2019).

On July 18, 2019 the Bank of Russia officially registered the Company's securities additional issue and the booklet thereof (State Registration Number 1-02-00063-A dd. July 18, 2019).

The payment for such additional shares was made by cash.

As for September 30, 2019, the Shareholders contributed monetary funds to the Company's authorized capital amounting to 3,008,052 thousand rubles declared the reserve for shares issuing directly as capital components.

On October 03, 2019, the Shareholders contributed monetary funds amounting to 78,396 thousand rubles. On October 23, 2019, the Company finished allotting the shares of such additional issue. The number of actually allotted securities makes: 30,864,487 shares.

The information about additional shares current issuing is posted by Kubanenergo, PJSC, at its official website: <http://kubanenergo.ru/>.

**21 Profit per a Share**

Estimation of the base profit per a share for three and nine months ended on September 30, 2019, and on September 30, 2018, relies upon the profit payable to ordinary shares holders and average weighted amount of ordinary shares in circulation.

The Company has no watering financial instruments.

<i>In Thousand Shares</i>	<b>For three months, ended on September 30</b>		<b>For nine months, ended on June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Ordinary Shares as for January 01</b>	303,793	303,793	303,793	303,793
<b>Effect of Shares Allotment</b>	30,081	—	30,081	—
<b>Average Weighted Number of Shares for the Period Ended on September 30</b>	<b>303,874</b>	<b>303,793</b>	<b>333,874</b>	<b>303,793</b>

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	For three months, ended on September 30		For nine months, ended on September 30	
	2019	2018	2019	2018
Average weighted number of ordinary shares in circulation for the reporting period ended on September 30 (in thousand shares)	333,874	303,793	333,874	303,793
Profit for the period payable to ordinary shares holders	1,343,501	1,124,847	1,113,748	1,220,937
<b>Profit per an Ordinary Share, Basic and Diluted (in Rubles)</b>	<b>4.02</b>	<b>3.70</b>	<b>3.34</b>	<b>4.02</b>

**22 Credits and Loans**

	September 30, 2019	December 31, 2018
<b>Long-Term Liabilities</b>		
Unsecured Credits and Loans	15,372,912	17,582,621
Unsecured Bonded Loans	7,000,000	7,000,000
Leasing Liabilities	1,075,672	—
Less: Current Portion of Long-Term Leasing Liabilities	(160,504)	—
Less: Current Portion of Long-Term Liabilities as to Credits and Loans	(4,110,644)	(7,899,382)
Less: Current Portion of Long-Term Bonded Loans	(3,400,000)	(3,400,000)
	<b>15,777,436</b>	<b>13,283,239</b>
<b>Short-Term Liabilities</b>		
Unsecured Credits and Loans	292,297	96,519
Leasing Liabilities:	—	—
Current Portion of Long-Term Leasing Liabilities	160,504	—
Current Portion of Long-Term Liabilities as to Credits and Loans	4,110,644	7,899,382
Current Portion of Long-Term Bonded Loans	3,400,000	3,400,000
	<b>7,963,445</b>	<b>11,395,901</b>
<b>Including:</b>		
Interests payable debt for credits and loans	10,723	15,719
Interests payable debt for bonded loans	280,952	80,178
	<b>291,675</b>	<b>95,897</b>

As for September 30, 2019, and December 31, 2018, all credits and loans balances are nominated in rubles.

For nine months ended on September 30, 2019, the Group issued bonded loans and raised the following bank credits:

	Effective Interest Rates	Terms for Repayment	Nominal Value
Unsecured Bank Credits*	8.10%-9.30%	2019-2022	7,614,637
Unsecured Bank Credits	8.25%-9.35%	2019-2021	947,631
Other Unsecured Credits and Loans	15.00%-15.00%	2019-2019	1,000
			<b>8,563,268</b>

\* Credits and loans received from state-concerned companies.

**Kubanenergo, PJSC**

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For nine months ended on September 30, 2019, the Group repaid the following bonded loans and bank credits:

	<u>Nominal Value</u>
Credits and Loans Received from State-Concerned Companies.	9,052,617
Other Credits and Loans	1,720,360
	<u>10,772,977</u>

**23 Trade and Other Accounts Payable**

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
<b>Long-Term Debt</b>		
Trade Accounts Payable	123,215	4,643
Other Accounts Payable	348	687
<b>Total Financial Liabilities</b>	<u>123,563</u>	<u>5,330</u>
<b>Short-Term Debt</b>		
Trade Accounts Payable	4,532,280	5,257,325
Other Accounts Payable and Accrued Expenses	785,265	1,368,805
Payables to Employees	832,400	1,038,820
Payable Dividends	396	919
<b>Total Financial Liabilities</b>	<u>6,150,341</u>	<u>7,665,869</u>
<b>Payable Taxes</b>		
VAT	789,834	327,679
Property Tax	153,581	214,646
Contributions to Social Security Services	112,690	120,865
Other Payable Taxes	48,019	64,419
	<u>1,104,124</u>	<u>727,609</u>
	<u>7,254,465</u>	<u>8,393,478</u>

**24 Customer Advance Payments**

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Advances as to Services in Connection with Technological Connection to Power Supply Networks	1,095,022	1,241,652
<b>Total Long-Term Customer Advance Payments</b>	<u>1,095,022</u>	<u>1,241,652</u>
Advances as to Services in Connection with Technological Connection to Power Supply Networks	4,129,150	4,118,711
Other Customer Advance Payments	36,108	-
<b>Total Long-Term Customer Advance Payments</b>	<u>4,165,258</u>	<u>4,118,711</u>

**25 Financial Risks and Capital Management**

The Group's goals and policies as to financial risks and capital management and the procedure for fair value estimation correspond to those disclosed in the consolidated financial statements for the year ended on December 31, 2018.

The balance cost of the Group's financial instruments is approximately equal to their fair value, this is why no additional disclosure is provided for them (or is not required).

The interest rate used to discount assumed prospective cash flow for long-term and short-term borrowed funds to estimate the disclosed fair value as for September 30, 2019, made 8.1%-15.0% (as for December 31, 2018: 7.60%-9.25%).

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For nine months ended on September 30, 2019, no shifts of financial instruments were made between the Fair Value Hierarchy Levels, and no changes were made in the estimation methods.

### **Liquidity Risks**

A Liquidity Risk is a risk that the Group will not be able to perform its financial liabilities when they fall due.

Liquidity risks management implies keeping available sufficient monetary funds and available financial resources by means of credit facilities attracting. The Group keeps to a balanced mode of the working capital financing using both short-term and long-term sources. Temporarily redundant cash are allotted as short-term financial instruments, mainly as bank deposits.

The Group's approach as to liquidity management aims to ensure the Group's constant availability of liquid funds sufficient to repay its liabilities not allowing any inadmissible losses and not putting at risk the Group's reputation. Such approach is used to analyze the payment terms referred to financial assets and forecasting monetary flows from business operations.

As for September 30, 2019, the free limit amount subject to open but not used Group's credit facilities amounted to 17,710,088 thousand rubles. (19,220,378 thousand rubles as for December 31, 2018). The Group may raise additional finances within the relevant limits including to ensure its short-term liabilities performing.

### **26 Capital-Related Liabilities**

The amount of the Group's capital-related liabilities subject to agreements for fixed assets facilities acquiring and construction makes 1,698,071 thousand rubles taking into consideration VAT as for September 30, 2019 (as for December 31, 2018: 2,614,233 thousand rubles together with VAT).

### **27 Contingent Liabilities**

#### **(a) Insurance**

The Group has adopted general requirements as to the insurance coverage scope, insurance companies reliability and procedure for insurance protection arrangement. The Group insures assets, civil liability and other insurable risks. The Group's principal business assets have the insurance coverage, including the coverage in case of its fixed assets damage or loss. However, there are risks of adversely effecting the Group's operations and financial standing in case of causing any damage to third parties and due to assets loss or damage having no insurance coverage or whose insurance coverage is not effected in full.

#### **(6) Contingent Tax Liabilities**

The Russian tax law allows various definitions as to the Group's operations and actions. This is why, the Executive Board's interpretation of the tax law and its formal documents may be successfully disputed by relevant regional or federal government authorities. Tax administration in Russia is gradually strengthening. For instance, the risk of inspecting the tax side of any transactions having no discernable economic substance or made with contractors violating the tax law. Tax inspections may cover three calendar years before the decision making about such tax inspection performing. In certain circumstances such inspection may refer to more distant periods.

As from January 01, 2012, new law about transfer pricing came into effect that substantially changed the transfer pricing rules, putting them closer to the principles of organizing the economic cooperation and development (OECD) but causing additional uncertainty for putting into practice such tax law in certain cases.

There is no practice of new transfer pricing rules applying by tax authorities and courts since tax inspections as to compliance with such new transfer pricing rules have started only recently. However, we hope that transactions governed by such transfer pricing rules will become the item for detailed inspection that may make potential influence on such consolidated financial statements.

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In the course of further advance of the practice for applying taxation rules as to the property tax, tax authorities and courts may dispute the criteria to refer the property to movable or immovable facilities applied by the Group.

Relying upon the best estimation of available information the risk of claims arising to be made by tax authorities and probable unfavorable resolution of any tax disputes (where applicable) is assessed by the Company as “probable”. The Company’s Executive Board assesses the probable tax risks within 625 million rubles that does not exceed 1% of the Group’s assets value.

As for September 30, 2019, the Executive Board considers that relevant legal provisions were interpreted by it correctly, and the Group’s position in relation to complying with tax, currency and customs law may be grounded and protected.

**(b) Court Proceedings**

The Group is a participant of some court proceedings (both as a plaintiff, and as a defendant) arising in the ordinary course of business.

According to the Executive Board, at present there are no outstanding claims or other suits that could sufficiently influence the Group’s operating results and financial standing and that are neither claimed nor disclosed in the Consolidated Interim Condensed Financial Statements.

**(r) Environmental Liabilities**

The Group has been performing its operations in the sphere of electric power in the Russian Federation for many years. The environmental law in the Russian Federation is developing, duties of authorized public authorities supervising compliance with such law are reviewed. Probable liabilities as to environment protection arising due to changing the applicable law interpretation, any court suits or amendments to be made to the law may not be estimated. According to the Executive Board, in the context of existing control system and current law there are no probable liabilities that may substantially adversely affect the Group’s financial standing, operating results or cash flow.

**28 Transactions with Related Parties****(a) Control Relations**

The related parties are shareholders, affiliated persons and companies being under the Group’s joint ownership and control, directors in the Board of Directors and the Company’s key management personnel. As for September 30, 2019, and December 31, 2018, the Company has been controlled by Rosseti, PJSC. Its ultimate controlling party is the state represented by the Federal Agency for Property Management holding the controlling stock of Rosseti, PJSC, shares.



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	Balance Cost	
	September 30, 2019	December 31, 2018
<b>Parent Company</b>		
Credits and Loans	7,000,000	7,000,000
<b>Companies under Common Control by the Parent Company</b>		
Paid Advances	(13,720)	(124,370)
Advance Payments Received	100	90
	<u>6,986,380</u>	<u>6,875,720</u>

As for September 30, 2019, the Company has no debt to the parent company in connection with dividends payment for the Company's ordinary shares following the results of 2018. (as for December 31, 2018, there is no debt to the parent company in connection with dividends payment).

**(b) Transactions with Key Management Personnel**

For the purpose of preparing these consolidated financial statements the key management personnel includes the General Director and top managers of the Group, members in the Board of Directors and Management Board.

The Group neither makes any transactions nor has any outstanding balances due to key management employees or their close relatives except for paying them the remuneration in the form of a salary and bonuses.

Remuneration amounts to be paid to the key management personnel disclosed in the table below are the current period costs for such key management personnel reflected as expenses for remuneration to employees.

	For three months, ended on September 30		For nine months, ended on September 30	
	2019	2018	2019	2018
Short-Term Remunerations to Employees	43,916	75,398	85,818	126,072
Remunerations Payable Upon Employment Ending and Other Long-Term Remunerations	134	31	164	91
	<u>44,050</u>	<u>75,429</u>	<u>85,982</u>	<u>126,163</u>

As for September 30, 2019, the liabilities current cost subject to the programs with fixed payments reflected in the consolidated statement of financial standing includes the liabilities to the key management personnel amounting to 2,379 thousand rubles (as for December 31, 2018: 1,819 thousand rubles).

**(r) Transactions with State-Concerned Companies**

In the course of its operations performing the Group makes a great deal of transactions with state-concerned companies. Such transactions are performed upon regulated tariffs or subject to market prices.

The proceeds from state-concerned companies make 1.80% and 1.86% of the Group's total proceeds for three and nine months ended on September 30, 2019 (for three and nine months ended on September 30, 2018: 2.42% and 2.04%), including 0.47% and 0.92% of the proceeds from electric power transmission (for three and nine months ended on September 30, 2018: 2.10% and 1.85%).

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The costs for electric power transmission (including technological losses reimbursement) to state-concerned companies make 4.54% and 10.8% of the overall costs in connection with electric power transmission for three and nine months ended on September 30, 2019 (for three and nine months ended on September 30, 2018: 2.84% and 2.90%).

Interests accrued for credits and loans from state-concerned banks for three and nine months ended on September 30, 2019, made 80.76% and 78.52% of the total amount of accrued interests (for three and nine months ended on September 30, 2018: 99.06% and 92.65%).

As for September 30, 2019, cash and cash flow balance invested with state-concerned banks amounted to 871,098 thousand rubles (as for December 31, 2018, amounted to 1,035,852 thousand rubles).

The information about credits and loans received from state-concerned banks is disclosed in Note 22.

**29 Events after the Reporting Date**

According to the Management Board, there are no other business operations facts that have influenced or may influence its financial standing, cash flow or the Group's operating results and that happened within the period from the reporting date and the date of signing the consolidated financial statements for six months ended on September 30, 2019, and as for September 30, 2019.

On October 23, 2019, the Company finished allotting the shares of such additional issue. The number of actually allotted securities makes: 30,864,487 shares.

The information about the state of additional shares current issuing is posted by Kubanenergo, PJSC, at its official web-site: <http://kubanenergo.ru/>.