“Kubanenergo” PJSC

Consolidated Financial Statements prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2019 (unaudited)

March 2020

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(in thousands of Russian rubles, if not otherwise mentioned)

	Note	For the year, ended on December 31, 2019	For the year, ended on December 31, 2018
Revenues	7	51,076,970	46,457,896
Operating expenses	10	(45,981,321)	(44,537,546)
Charge (recovery) of provision for expected credit losses		(73,161)	87,780
Net charge (net reversal) of impairment loss of fixed assets and right-of use assets	14	(12)	(386)
Other revenues	8	1,380,755	1,555,839
Other expenses	9	(346,684)	(34,587)
Earnings before interest and taxes		**6,056,547**	**3,528,996**
Financial revenues	12	76,495	90,777
Financial expenses	12	(1,932,547)	(1,955,310)
Total financial revenues and expenses		**(1,856,052)**	**(1,864,533)**
Profit before tax		**4,200,495**	**1,664,463**
Income tax expense	13	(1,179,807)	(864,592)
Profit for period		**3,020,688**	**799,871**
Other comprehensive income			
Captions which can't be reclassified subsequently to profit or loss			
Revaluation of obligations for the programmes with fixed payments	28	(286,068)	54,098
Profits tax	13	57,213	(10,819)
Total captions which can't be reclassified subsequently to profit or loss		**(228,855)**	**43,279**
Other comprehensive income /(expense) for period, except profits tax		**(228,855)**	**43,279**
Total comprehensive income for period		**2,791,833**	**843,150**
Profit which is payable to:			
Company owners		3,020,688	799,871
Total comprehensive income which is payable to:			
Company owners		2,791,833	843,150
Earnings per share			
Basic and diluted earnings per share (RUR)	25	9.68	2.63

The present Consolidated Financial Statements are approved by Company Management of March 13, 2020 and signed on behalf of Company management by the following persons:

General Director S.V. Sergeev

Chief Accountant I.V. Skiba

The appended notes constitute an integral part of the present consolidated financial statements.

(in thousands of Russian rubles, if not otherwise mentioned

	Notes	December 31, 2019	December 31, 2018
ASSETS			
Non-current assets			
Fixed assets	14	57,407,331	55,871,787
Intangible assets	15	325,877	248,821
Right-of-use assets	16	991,864	–
Trade and other accounts receivable	21	11,343	11,215
Assets associated with employee benefits obligations	28	318,362	291,221
Other non-current financial assets	17	1	1
Deferred tax assets	18	291,819	992,148
Advances issued and other non-current assets	22	5,121	6,038
Total non-current assets		**59,351,718**	**57,421,231**
Available-for-sale financial assets	19	61,358	39,045
Total non-current assets		**59,413,076**	**57,460,276**
Current assets			
Inventory	20	1,944,833	1,888,232
Prepayment of profit tax		226,256	258,888
Trade and other accounts receivable	21	7,066,945	6,709,252
Cash and cash equivalents	23	1,716,085	2,204,921
Advances issued and other current assets	22	47,971	102,207
Total current assets		**11,002,090**	**11,163,500**
Available-for-sale financial assets		–	20,931
Total current assets		**11,002,090**	**11,184,431**
Total assets		**70,415,166**	**68,644,707**
EQUITY AND LIABILITIES			
Equity			
Charter capital	24	30,379,335	30,379,335
Paid-in capital in excess of par		6,481,916	6,481,916
Reserve for capital stock issues		3,086,449	–
Other reserves		(422,429)	(193,574)
Retained earnings		(4,862,354)	(7,739,922)
Total equity, which is payable to the Company owners		**34,662,917**	**28,927,755**
Non-current liabilities			
Non-current borrowings	26	20,321,793	13,283,239
Non-current trade and other accounts payable	29	104,093	5,330
Non-current advances received	31	880,900	1,241,652
Liabilities for employee benefits	28	732,902	453,065
Government subsidies		12,287	24,809
Total non-current liabilities		**22,051,975**	**15,008,095**
Current liabilities			
Current borrowings and current portion of non-current borrowings	26	3,827,128	11,395,901
Trade and other accounts payable	29	6,749,582	7,665,869
Government subsidies		12,270	12,401
Taxes payable except profits tax	30	809,162	727,609
Advances received	31	1,575,441	4,118,711
Reserves	32	726,472	788,366
Current profit tax payable		219	–
Total current liabilities		**13,700,274**	**24,708,857**
Total liabilities		**35,752,249**	**39,716,952**
Total equity and liabilities		**70,415,166**	**68,644,707**

The appended notes constitute an integral part of the present consolidated financial statements.

(in thousands of Russian rubles, if not otherwise mentioned)

	Note	For the year, ended on December 31, 2019	For the year, ended on December 31, 2018
CASH FLOW FROM OPERATING ACTIVITIES			
Profit for period		**3,020,688**	**799,871**
Corrections			
Amortization of fixed assets, right-of-use assets and intangible assets	10	3,948,329	3,587,632
Net charge (net reversal) of impairment loss of fixed assets and right-of use assets		12	386
Financial expenses	12	1,932,547	1,955,310
Financial revenues	12	(76,495)	(90,777)
Loss from asset sale		341,140	33,198
Loss on disposal of intangible assets		–	1,173
Provision for impairment of inventory		147	1339
Charge (recovery) of provision for expected credit losses	8	73,161	(87,780)
Write-off of bad debts		10,799	(7,827)
Write-off of accounts payable		(43,918)	(17,775)
Charge/(reversal) of reserves		214,965	491,361
Change of government subsidies		(12,653)	(12,401)
Other non-cash transactions		(251,452)	(68,718)
Income tax expense		1,179,807	864,592
Total corrections impact		**10,337,077**	**7,449,584**
Change of assets associated with employee benefits obligations		(27,141)	27,689
Change of employee benefits obligations		(41,138)	(145,554)
Cash flow from operating activities before changes in working capital and reserves		**10,268,798**	**7,331,719**
Changes in operating assets and liabilities			
Changes in trade and other accounts receivable		(413,148)	57,646
Changes in advances issued and other assets		6,971	(72,358)
Change in inventories		87,174	(299,695)
Changes in trade and other accounts payable		(1,268,318)	(171,394)
Changes in advances received		(2,878,642)	2,237,862
Changes in reserves		(304,860)	(608,932)
Cash flow from operating activities before payment of profit tax and interests		**5,497,975**	**8,474,848**
Profits tax paid		(389,414)	(607,923)
Interests paid under the lease agreement		(94,567)	–
Interests paid		(2,234,812)	(2,279,789)
Net cash from operating activities		**2,779,182**	**5,587,136**

(in thousands of Russian rubles, if not otherwise mentioned)

	Note	For the year ended on December 31 2019	For the year ended on December 31 2018
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed assets and intangible assets acquisition		(4,599,648)	(6,789,634)
Interests received		68,088	82,702
Net cash used in investing activities		**(4,531,560)**	**(6,706,932)**
CASH FLOW FROM FINANCING ACTIVITIES			
Borrowed funds		22,139,643	39,099,179
Repayment of borrowings		(23,689,975)	(37,134,354)
Proceeds from issuing capital stocks		3,086,449	–
Dividends which is payable to Company owners		(143,586)	(321,151)
Liabilities for rent		(128,989)	–
Net cash from financing activities		**1,263,542**	**1,643,674**
Net (decrease)/increase in cash and cash equivalents		**(488,836)**	**523,878**
Cash and cash equivalents as of the beginning of the reporting period	22	2,204,921	1,681,043
Cash and cash equivalents at the end of the reporting period	22	**1,716,085**	**2,204,921**

	Equity which is payable to the Company owners					
	Charter capital	Paid-in capital in excess of par	Reserve for capital stock issues	Reserves	Retained earnings	Total equity
Ending on December 31, 2018	30,379,335	6,481,916	–	(193,574)	(7,739,922)	28,927,755
Ending on January 1, 2019	30,379,335	6,481,916	–	(193,574)	(7,739,922)	28,927,755
Profit/(loss) for period	–	–	–	–	3,020,688	3,020,688
Other comprehensive income						
Revaluation of obligations for pension plans (Note 28)	–	–	–	(286,068)	–	(286,068)
Profits tax in respect of other comprehensive income	–	–	–	57,213	–	57,213
Total comprehensive income for period	–	–	–	(228,855)	3,020,688	2,791,833
Operations with Company owners						
Contributions and cash outflows						
Equity issue (Note 24)	–	–	3,086,449	–	–	3,086,449
Dividends to shareholders (Note 24)	–	–	–	–	(143,120)	(143,120)
Total contributions and cash outflows	–	–	3,086,449	–	(143,120)	2,943,329
Total operations with Company owners	–	–	3,086,449	–	(143,120)	2,943,329
Ending on December 31, 2019	30,379,335	6,481,916	3,086,449	(422,429)	(4,862,354)	34,662,917

The appended notes constitute an integral part of the present consolidated financial statements.

	Equity which is payable to the Company owners						
	Charter capital	**Paid-in capital in excess of par**	**Treasury stock**	**Reserve for capital stock issues**	**Reserves**	**Retained earning**	**Total equity**
Ending on January 1, 2018	**28,286,813**	**6,481,916**	**–**	**2,092,522**	**(236,853)**	**(8,218,223)**	**28,406,175**
Profit/(loss) for period	–	–	–	–	–	799,871	**799,871**
Other comprehensive income							
Revaluation of obligations for pension plans (Note 28)	–	–	–	–	54,098	–	**54,098**
Profit tax in respect of other comprehensive income	–	–	–	–	(10,819)	–	**(10,819)**
Total comprehensive income for period	**–**	**–**	**–**	**–**	**43,279**	**799,871**	**843,150**
Operations with Company owners							
Contributions and cash outflows							
Equity issue	2,092,522	–	–	(2,092,522)	–	–	**–**
Dividends to shareholders	–	–	–	–	–	(321,570)	**(321,570)**
Total contributions and cash outflows	**2,092,522**	**–**	**–**	**(2,092,522)**	**–**	**(321,570)**	**(321,570)**
Ending on December 31, 2018	**30,379,335**	**6,481,916**	**–**	**–**	**(193,574)**	**(7,739,922)**	**28,927,755**

The appended notes constitute an integral part of the present consolidated financial statements.

1 General information

(a) The group and its activities

The core activities of PJSC Kubanenergo (hereinafter referred to as the "Company") and subsidiaries (hereinafter jointly referred to as the "Group" or "Kubanenergo group of companies") are providing services for distribution and transmission of energy that is transferred out of the electrical system and services for technological connection of consumers to electric networks.

PJSC Rosseti is an ultimate parent company.

In 1993 the Krasnodar Industrial Group of Power Industry and Electrification "Kubanenergo" was reorganized into Open Joint-Stock Company of Power Industry and Electrification of Kuban (hereinafter referred to as the OJSC "Kubanenergo" or "Company") on the basis of Decree of the President of Russia of August 14, 1992 No. 922 *"On Aspects of Reorganization of State Owned Enterprises, Associations, Organizations of Fuel and Energy Industry into Joint Stock Companies"*, the Decree of the President of Russia of August 15, 1992 No. 923 *"On Management Arrangements of Electric Power Complex of the Russian Federation in the context of privatization"*, the Decree of the President of Russia of November 5, 1992 No. 1334 *"On Implementation of Decree of the President of Russia for Electric Power Industry of August 14, 1992 No. 992 "On Aspects of Reorganization of State Owned Enterprises, Associations, Organizations of Fuel and Energy Industry into Joint Stock Companies"*.

The new corporate name as to type of legal entity was approved by the Annual General Meeting of Shareholders of June 22, 2015 due to introduction of amendments to the Civil Code of the Russian Federation. Full corporate name Open Joint Stock Company of power industry and electrification of Kuban (OJSC Kubanenergo) was changed to Public Joint Stock Company of power industry and electrification of Kuban (PJSC Kubanenergo). Legal address (registered office) of the Company: 350033, Russia, Krasnodar Region, Krasnodar, 2A Stavropolskaya Street.

The core activities of the Company are providing services for distribution and transmission of energy that is transferred out of the electrical system and services for technological connection of consumers to electric networks.

Joint Stock Companies of Kubanenergo PJSC own 100% of the shares in the statutory fund of the Companies as described in Note 5.

(b) The economic environment where the Group carries out its activities

The Group carries out its activities in the Russian Federation.

The economy of the Russian Federation shows some characteristics of emerging markets. The economy of the country is particularly sensitive to oil and gas prices. The legal, tax and normative systems are continuing to develop and are often subject to amendments and there is the possibility for various interpretations. The ongoing political tensions as well as international sanctions in regards to some Russian companies and citizens continue to affect the Russian economy negatively. Oil price stability, low unemployment and salary increase contributed to the moderate economic growth in 2019. The economic environment has a significant impact on the activities and financial condition of the Group.

The Group's Executive Board uses all reasonable efforts to ensure the stability of activities of the Group in current conditions. The Consolidated Financial Statements reflect the view of the Executive Board of how the business environment in the Russian Federation impacts on the activities and financial condition of the Group. Nevertheless, it is difficult to forecast the future prospects of the current economic situation and, as a consequence, the current assessments and expectation of the Group's Executive Board may be different from the actual results.

(c) Relations with the State

The Government of the Russian Federation represented by the Federal Agency for State Property Management is the ultimate controlling party of the Company. The Government policy of the Russian Federation in economic, social and other spheres has a significant impact on the activities of the Group.

As of December 31, 2019, the Russian Federation owned 88.04% of the shares in the statutory fund of the ultimate parent company Rosseti PJSC, including 88.89% of the ordinary voting shares, 7.01% of the preference shares, Rosseti PJSC is in turn owned 93.44% of outstanding ordinary shares of the Company (Note 24).

As of December 31, 2018, the Russian Federation owned 88.04% of the shares in the statutory fund of the ultimate parent company Rosseti PJSC, including 88.89% of the ordinary voting shares, 7.01% of the preference shares, Rosseti PJSC is in turn owned 92.78% of outstanding ordinary shares of the Company.

The State has an impact on the activities of the Group by the agency of representatives of the Board of Directors of the ultimate parent company Rosseti PJSC, rate regulation in the electric power industry, approval and supervision of investment program implementation. A substantial number of government-controlled enterprises are among the contractors of the Group (service consumers, suppliers, contractors and so on).

2 Rules for Consolidated Financial Statements

(a) Declaration of Conformity of IFRS

The present Consolidated Financial Statements were drawn up in accordance with the requirements of International Financial Reporting Standards (IFRS).

Every enterprise of the Group keeps individual records and prepares the official financial statements in accordance with Russian Accounting Standards (hereinafter referred as "RAS"). The present Consolidated Financial Statements were drawn up in accordance with the accounting records under RAS, which were adjusted and reclassified for purposes of faithful representation of the statements in accordance with IFRS.

(b) The Basis for Determination of Cost.

The present Consolidated Financial Statements were drawn up on the basis of original (historical) cost, with the exception of:

- Financial assets and liabilities measurable at fair value through profit and loss;
- Financial assets and liabilities measurable at fair value through other comprehensive income.

(c) Functional currency and reporting currency.

Russian Ruble is the national currency of the Russian Federation (hereinafter the "Ruble" or "RUR"), which is used by the Group as the functional currency and the currency for the present Consolidated Financial Statements. All numbers in Russian rubles were rounded to the nearest thousand.

(d) The usage of educated estimates and professional judgments.

Preparation of consolidated financial statements in accordance with IFRS requires the usage of professional judgements, assumptions and educated estimates by the Executive Board, which impact how the Regulations on Accounting Policy are used and what sums of assets, liabilities, revenues and expenses are shown. The actual results can vary from these estimates.

The Executive Board revises the estimates and assumptions on a regular basis, based on the experience and other factors that were taken as the basis of determination of book value of assets and liabilities. Changes in accounting estimates and assumptions are recognized in that period in which they were adopted in case the change affects only this period or recognized only in that period to which the change relates and beyond periods if the change affects both given and future periods.

The professional judgements that have a significant impact on indications that were recorded in the consolidated financial statements, accounting estimates and assumptions that may lead to the necessity of substantial amendments to the book value of assets and liabilities over the next year include the following:

Impairment of assets and right-of-use assets

As of each accounting date the Group's Executive Board determines the presence of signs of impairment of assets and right-of-use assets. The signs of impairment include the change of business plan, tariffs and other factors that lead to the adverse effects on the Group's activities. The Executive Board evaluates the expected cash flows from cash generating units and calculates an acceptable discount rate to calculate the discounted value of the present cash flows during the calculation of value in use. The detailed information is provided in the Note "Fixed assets" and "Right-of-use asset".

Impairment of accounts receivables

Provision for expected credit losses on accounts receivable is created on the basis of Executive Board's probability estimation of specific debt redemption of the specific borrowers. The Group takes into consideration all reasonable and verified information about past, current and predictable events for the purposes of estimation of credit losses. This information is available without unreasonable efforts and is relevant for evaluating of accounts receivable. The past experience is to be reviewed based on data available at the moment in order to reflect the current factors that have no impact on the previous periods and to exclude the impact of factors that happened in the past and no longer exist.

Obligations for pension payments

Expenses for Pension Program with fixed payments and the relevant expenses for Pension Program are calculated with the usage of actuarial expectations. Actuarial valuations require using economic and demographic assumptions in regards to demographic and financial data. There are material uncertainties in regards to such valuations because of the early program.

The acknowledgment of deferred tax assets

The Executive Board evaluates the deferred tax assets for each accounting date and determines the sum for reflection in such a way, where the usage of tax assets is possible. When determining future taxable income and amount of tax credits, the Executive Board uses the accounting estimates and assumptions on the basis of the value of taxable income for prior periods and expectations regarding the deferred income that is believed to be reasonable under the circumstances.

Provision for lawsuits and claims

Provision for lawsuits and claims is created on the basis of Executive Board's probability estimation of the adverse result of received lawsuits and claims. The Group takes into consideration all reasonable and verified information about past, current and predictable events for the purposes of estimation of the provision. This information is available without unreasonable efforts and is relevant for evaluating of the obligation. The past experience is to be reviewed based on data available at the moment in order to reflect the current factors that have no impact on the previous periods and to exclude the impact of factors that happened in the past and no longer exist.

(e) Change in Accounting Policy

The Group began to put IFRS 16 "Leases" into practice beginning on January 1, 2019, as is described below.

IFRS 16 "Lease"

The new standard IFRS 16 "Leases", issued in 2016 replaces the standard IAS 17 "Leases" and also the relevant interpretations of regulations of IFRS regarding the lease. The standard is the consolidated guidance on lease accounting from lease recipient by liquidating the classification of the lease into operating and financial lease.

The contract as a whole or its separate components is the contract of lease, if this contract provides for the right to control the usage of identifiable asset during the definite period in return for refunding.

The right-of-use assets have been initially measured at initial cost and amortized up to the earlier date from the following dates: the end date of useful life of a right-of-use asset or lease end date. The original cost of the right-of-use asset includes initial valuation amount of leasing obligation, lease payments made prior to the date of inception of the lease or at inception of the lease, and initial direct expenses. After recognition the right-of-use assets are recognized at historical cost less the amount of accumulated amortization and accumulated losses from impairment. The right-of-use assets are reported as separate items in the statement of financial position.

The leasing obligation is initially measured at the present value of lease payments that have not been made yet at inception of the lease and subsequently measured at depreciable cost with recognition of interest expenses as part of financial expenses of Consolidated Statement of Profit and Loss.

In relation to the particular lease contract, decision can be made regarding the status of a contract as the lease contract, where the acquisition cost for assets doesn't exceed a predefined amount. The lease payments should be recognized as expense on a straight line basis throughout the duration of the lease in accordance with the present contract.

The Group shall determine the lease period as the period, which is not subject to early termination and during which the Group has the right of use basic assets, including:

- periods, to relation of which a Lease Renewal Option is valid and if there is a sufficient confidence that the lease renewal option will be fulfilled by the Group.
- periods, to relation of which a Lease Termination Option is valid and if there is a sufficient confidence that the lease termination option will not be fulfilled by the Group.

(in thousands of Russian rubles, if not otherwise mentioned)

The following factors are considered by the Group in determining the lease period:

- whether the leasing facility is specialized;
- facility location;
- Group and landlord's ability to choose the contractor (choice of the alternative asset);
- Expenses related to termination of lease agreement and the conclusion of the new (representative) lease agreement;
- the presence of major improvements of leasing facilities;

The Group's major leasing facilities are electric grid facilities (transmission networks, electric power transmission equipment and so on) and sites of land. The Group also leases the non-residential property and transport facilities.

For land lease agreements under electric grid facilities for an indefinite period or within a period not exceeding 1 year under the agreement with the possibility of annual prorogation, the Group determines duration of the agreement, by using the useful life of fixed assets located on land plots that can be taken on lease as the basic criteria.

For lease agreements referred to electric grid facilities for an indefinite period or within a period not exceeding 1 year under the agreement with the possibility of annual prorogation, the Group determines duration of the agreement, by using the useful life of fixed assets with equivalent technical characteristics as the basic criteria.

The modified retrospective approach was taken by the Group, which implies the reflection of cumulative effect after the initial usage of the standard as of the initial usage – January 1, 2019. The average weighted rate of raising additional borrowings used in respect of leasing obligations that were included in the Statement of Financial Position as of the initial usage amounted to 8,77%.

The Group also used the simplified procedures and did not apply the new standard intended for the lease agreements that would expire within 12 months from the date of the changeover.

The right-of-use assets were not depreciated as at January 1, 2019.

The effect of initial using of IFRS 16 "Leases" had the following impact on assets and liabilities of the Group as at January 1, 2019:

	As at 1 January 2019
Assets	
Right-of-use assets	1,120,264
Advanced issued and other current assets	(11,398)
Liabilities	
Long-term lease liabilities (as a part of non-current borrowings)	976,830
Short-term lease liabilities (as a part of current borrowings)	182,107
Trade and other accounts payable	(50,071)

(in thousands of Russian rubles, if not otherwise mentioned)

The reconciliation regarding the operational lease contract liabilities that were disclosed in accordance with IFRS 17 as at December 31, 2018 and lease liabilities which were included in the Statement of Financial Position as at January 1, 2019 in accordance with IFRS 16 "Leases" is provided below.

	As at 1 January 2019
Operational lease liabilities as at December 31, 2018, which were included in the Statement of Financial Position of the Group	1,475,626
Lease Renewal Options/Lease Termination Options, if there is a sufficient confidence that these options will be fulfilled	682,094
Dispensation regarding the validity of the Short-Term Lease Agreement	(4,896)
Effect of discounting	(1,243,742)
Obligations that are not part of the lease in accordance with IFRS 16	(21,962)
Other factors	271,817
Acknowledged lease liabilities, as at January 1, 2019	**1,158,937**

(f) Changes in submission

Reclassification of comparison data

In the reporting period the Group has changed the submission of the specific figures with the purpose of providing enhanced information about these figures in the consolidated statement of financial position and consolidated statement of profit or loss and other aggregate income, consolidated statement of cash flows. The reclassification of figures for the previous reporting period was made to ensure the comparability.

- Charge (recovery) of provision for expected credit losses previously disclosed in the Note "Operating expenses" are highlighted in the separate item in the consolidated statement of profit and loss and other aggregate income in the amount of 87,780 rubles.

- Net charge (net reversal) of impairment loss of fixed assets previously disclosed in the Note "Operating expenses" are highlighted in the separate item in the consolidated statement of profit and loss and other aggregate income in the amount of 386 thousand rubles.

- The amount of income from benefits of actual expenses at displacement of electric grid facilities previously disclosed in the Note "Operating expenses" are carried forward to the line code "Other expenses" in the consolidated statement of profit and loss and other aggregate income in the amount of 587,185 thousand rubles.

- Other income and other expenses previously disclosed in the Note "Other net income" are highlighted in the separate items "Other income" and "Other expenses" in the consolidated statement of profit and loss and other aggregate income in the amount of 1,555,839 thousand rubles and 34,587 thousand rubles as relevant.

- Advances issued and other non-financial assets previously disclosed in the Note "Trade and other accounts receivable" are highlighted in the separate items "Advanced issued and other current assets", "Advanced issued and other non-current assets" in the consolidated statement of financial position in the amount of 102,207 thousand rubles and 6,038 thousand rubles as relevant.

- Long-term advances received and short-term advances received (contractual liability) previously disclosed in the Note "Trade and other accounts payable" are highlighted in the separate items "Long-term advances received" and "Advances received" in the consolidated statement of financial position in the amount of 1,241,652 thousand rubles and 4,118,711 thousand rubles.
- Taxes payable except profits tax previously disclosed in the Note "Trade and other accounts payable" are highlighted in the separate items "Taxes payable except profits tax" in the consolidated statement of financial position in the amount of 727,609 thousand rubles.

- Changes in advances issued and other assets previously disclosed in the line code "Changes in trade and other accounts receivable" of the consolidated statement cash flows are carried forward to the separate line code "Changes in advances issued and other assets" of the consolidated statement cash flows in the amount of 72,358 thousand rubles.

- Changes in advances from customers previously disclosed in the line code "Changes in trade and other accounts payable" of the consolidated statement cash flows are carried forward to the separate line code "Changes in advances received" of the consolidated statement cash flows in the amount of 2,237,862 thousand rubles.

(g) Application of new and revised standards and interpretations.

The Group applied the following amendments and interpretations that had entered into force on January 1, 2019, with the exception of the first application of the Standard, IFRS 16, specified in the Section (e). These amendments and interpretations had no impact on the present Consolidated Financial Statements:

- IFRIC 23 Interpretation *"Uncertainty over Income Tax Treatments";*
- Amendments to IFRS 9 *"Prepayment Features with Negative Compensation";*
- Amendments to IFRS 3 *"Definition of a Business";*
- Amendments to IFRS 11 *"Joint Arrangements"*;
- Amendments to IAS 12 *"Income Taxes"*, 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 Amendment, Curtailment or Settlement"*.

The IASB has issued Amendments to IFRS and therefore the following new standards and interpretations are effective for annual periods beginning on or after 1 January 2020 and these amendments were not previously applied by the Group:

- IFRS 17 *"Insurance Contracts"*;
- Amendments to IFRS 3 *"Business Combinations"*, *"Definition of a Business"*.

The new standards and interpretations were issued and are compulsory for annual periods beginning on or after 1 January 2020 and these interpretations were not previously applied by the Group:

Amendments to IAS 1 and IAS 8 "Definition of Material"

These amendments clarify the definition of 'material' and application of this interpretation with a help of inclusion of guidelines for definition that were previously contained in other International Finance Reporting Standards are to ensure the subsequence of definition of material in the full set of standards (IFRS). Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Conceptual Framework for Financial Reporting

Conceptual Framework for Financial Reporting as amended introduces new concepts on measurement, recommendations on disclosure of financial results, improved definitions and recommendations (in particular definition of obligations) and interpretation of separate issues such as a role of the management, deliberation and evaluation of uncertainties in preparation of financial statements.

Definition of a Business – Amendments to IFRS 3

These amendments to definition of a business should help the organizations to determine whether they have acquired a business or a group of assets.

Classification Liabilities as Current or Non-Current – Amendments to IAS 1

These amendments provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.

IFRS 17 "Insurance Contracts", Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform" – are not applicable to the Group

The Group is going to adopt the standards and interpretations after these interpretations had come into force. No significant impact is expected on the consolidated financial statement of the Group.

According to estimates of the Group, the above mentioned standards, amendments and interpretations would not have a significant impact on the consolidated financial statement of the Group.

3 Basic principles of accounting policy

The accounting policies as described below have been applied consequently throughout the all reporting periods presented in the present consolidated financial statement with the exception of changes in accounting policy disclosed in Note 2(e) and associated with the adoption of IFRS 16 "Lease" and also reclassification of comparison data disclosed in the explanatory notes 2 (f).

(a) Consolidation principles

i. Subsidiaries

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

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

ii. Transactions eliminated on consolidation

Intragroup balances and transactions, and unrealized gains and losses arising from intragroup transactions, are eliminated in the preparation of the consolidated financial statements. Unrealized gain from operations with objects of investment by using the equity method of accounting is eliminated owing to diminution in value of investment within the limits of the ownership interests of the Group in the concerned investment object. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Financial facilities

i. Financial assets

The Group classifies the financial assets in accordance with the following categories of evaluation: measured at amortized costs, measured at fair value through other comprehensive income and measured at fair value through profit and loss. The classification depends on business model of asset management stipulated by contractual cash flow characteristics.

Financial assets are classified as measured at amortized costs if the following conditions are fulfilled: the asset is confined in the business model framework that is intended to the deduction of assets for receiving the contractual cash flows. In accordance with the terms and conditions of the contract the cash flows are to be received on the specified date that are payments on account of principal amount plus interests on outstanding amount of principal amount.

The Group includes the following financial assets in the financial assets category measured at amortized cost:

- trade and other accounts receivable that satisfy the definition of financial assets, in case the Group has no intention to sell it immediately or in the near future;
- cash and cash equivalents.

Provision for expected credit losses is created for financial assets that are classified as measured at amortized cost.

Upon termination of financial assets measured at depreciable value and fair value, the changes of which are reported through profit or loss, the Group reports the financial results due to retirement of assets equal to the difference between reimbursement of fair value and carrying value of an asset in the statement of profit or loss and other comprehensive income (through profit or loss).

The Group includes the equity instruments of other companies into the category of financial assets measured at fair value through other comprehensive income that:

- are not classified as measurable at fair value, the changes of it are reported as part of profit or loss;
- do not provide the **controlling Group** with joint control over Investee Company.

Upon termination of the equity instruments of other companies are classified as measurable at fair value through other comprehensive income at the discretion of the Group, the previously recognized components of other comprehensive income are transferred from the reserve of fair value changing on the accumulated profit side.

ii. Impairment of financial assets

Impairment reserves are measured on the basis of 12-month expected credit losses being the result of probable non-fulfilment of obligation within twelve months after the reporting date or expected credit losses throughout the lifetime that being the result of all possible events of default during the expectancy period of financial instrument.

For trade accounts receivable or assets under the contract arising due to the operations within the scope of IFRS 15 *"Revenue form Contracts with Customers" (*including the significant component of financing) and accounts receivable on lease, the Group applies the simplified approach to reserve measurement for expected credit losses where it is measured at an amount equal to expected credit losses throughout the period.

Reserves for impairment of other financial assets are classified as measurable at amortized cost on the basis of 12-month expected credit losses if there was no significant increase in credit risk upon recognition. Loss allowance on financial instrument is measured as at reporting date at an amount equal to expected credit losses throughout the period if the credit risk of the given financial instrument has significantly increased upon initial recognition taking into account all reasonable and verified information, including the predictable information.

In the quality of indicators of significant increase in credit risk, the Group takes into consideration the actual or anticipating difficulties of the issuer or a borrower's asset, actual or anticipating breach of conditions of the contract, expectable reconsideration of contractual clauses because of borrower's financial difficulties on disadvantageous terms for the Group to which it would not have given its consent.

The Group clarifies the default as inability of the contractor (issuer) to deliver on commitments already made (including refund under the contract) due to significant deterioration of financial position by reference to the common practice of credit risk management.

The credit impairment loss on financial assets is reported by means of recognition of allowance for its impairment. In relation to financial asset recorded at amortized cost, the amount of impairment loss is calculated as difference between carrying value of the asset and discounted value of expected future cash flow discounting at effective interest rate.

If the credit risk of financial asset is decreased in the subsequent periods as a result of the event that followed after recognizing this loss, then the previously recognized impairment loss is subject to reversal by means of decrease of relevant valuation allowance. As a result of reversal the carrying value should not exceed its value in which it would have been recorded in the statement of financial position if this impairment loss had not been recognized.

iii. Financial liabilities

The group classifies the financial liabilities in accordance with the following categories of evaluation: financial liabilities measured at fair value, changes of which are recorded on the profit or loss side; financial liabilities measured at amortized value.

The Group includes the following financial liabilities in the category of financial liabilities measured at amortized value:

- Credit and loans (borrowings);
- Trade and other accounts payable.

Credit and loans (borrowings) are initially recognized at fair value taking into consideration the transaction costs directly relating to the attraction of the given resources. The fair value is defined relating to the dominant market interest rate according to the equivalent instruments in case of the main difference between fair value and the price of transaction. In subsequent periods the borrowings are recorded at amortized cost by using the effective interest method. The all difference between the fair value of funds received (less the transaction costs) and maturity value is recorded on the profit and loss side as interest expenses for the duration of liabilities for the redemption of borrowings.

Borrowing costs are recognized as expenses including that reporting period during which the borrowing costs were incurred if they are not related to the acquisition or construction of qualifying assets. Borrowing costs relating to the acquisition or construction of assets, when its preparation for use takes considerable time (qualifying assets) are capitalize as part of asset value. Capitalization is carried out when the Group:

- bears the costs of qualifying assets;
- bears the costs of borrowings;
- carries on business related to preparation of assets for usage or sale.

Capitalization of borrowing costs may last until the date of asset readiness for usage or sale. The Group capitalizes only those borrowing costs that could have been saved if the Group had not born the costs for qualifying assets. Borrowing costs are capitalized on the basis of the average price of financing of the Group (weighted-average interest expenses relating to the prior expenses for qualifying assets), with the exception of borrowings that were received immediately for the purpose of acquisition of the qualifying asset. The actual borrowing costs decreased by value of investment income from temporary investing of loans are capitalized.

Accounts payable is calculated upon the contractor fulfilled its liability under the contract. Accounts payable is recognized at fair value and then is recognized using the effective interest method.

(c) Share capital

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

(d) Fixed assets

i. Recognition and evaluation

Fixed assets are recorded at fixed price less the amount of accumulated amortization and accumulated losses from impairment. The cost of fixed assets as at January 1, 2011 (IFRS Transition Date) was established on the basis of its fair value (deemed cost) as at that date.

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

If the item of fixed assets is made up of the integral separate components with different useful lives, each of them is recognized as separate item (major component) of fixed assets.

Any amounts of profit or loss on disposal of asset are determined by comparing the proceeds from disposal with the carrying value of fixed assets and recognized in net according to the item "Gain/loss from asset retirement" within the line code "Other income" or "Other expenses" in the Consolidated Statement of Profit or Loss and Other Aggregate Income.

ii. Subsequent costs

The cost of replacing part (major component) of the item of fixed assets increases the carrying amount of the item if it is highly probable that the Group will gain future economic benefits related to this part and its cost can be measured reliably. The carrying amount of the replaced part is written off. Current repair and maintenance expenses to fixed assets are recognized in the Consolidated Statement of Profit or Loss and Other Aggregate Income as they are incurred.

iii. Amortization

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

The expected useful lives of fixed assets in the reporting and comparative periods were as follows:

- buildings 1-83 years;
- transmission networks 4-79 years;
- power transmission equipment 1-42 years;
- other assets 1-50 years.

Treatment of depreciation, useful lives and residual value of fixed assets are analyzed at each accounting date and adjusted if necessary.

(e) Intangible assets

i. Other intangible assets

Other intangible assets acquired by the Group that have finite useful lives are recorded at fixed price less the amount of accumulated amortization and accumulated losses from impairment.

ii. Subsequent costs

Subsequent costs are capitalized in the cost of asset, only if these costs increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in the statement of profit or loss and other aggregate income as incurred.

iii. Amortization

Amortization expenses of intangible assets are calculated since they are ready to be used and recognized in profit or loss on a straight-line basis over the useful lives of intangible assets, since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The useful life expectancies of intangible assets for the reporting and comparative periods are as follows:

- Licenses and certificates 1-10 years;
- Software 1-15 years.

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

(f) Impairment of nonfinancial assets.

The carrying amount of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is presented as the greater of its two values: value in use of the asset (this unit) and its fair value less cost to sell.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (cash-generating unit).

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

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

Impairment losses recognized in prior periods are assessed at each reporting date to detect any indications that the loss has decreased or no longer exists.

An impairment loss is reversed when there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortization) if no impairment loss had been recognized.

(g) Inventories

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

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

(h) Advances issued

Advances issued are classified as non-current assets if the advance related to the acquisition of an asset that will be classified as non-current after its initial inclusion in the balance sheet. Advances issued for acquisition of an asset are included in its carrying value upon receipt of control over the asset by the Group and if there is a high probability that the Group will derive economic benefits from its usage.

(i) Value Added Tax

Value Added Tax arising upon sale of goods is subject to transfer to public account upon occurrence of the earliest date: (a) since receipt of payments from the customers or (b) since the shipping date of goods or services to the buyer.

Input VAT is subject to refund by way of set-off against output VAT amount upon receiving of the invoice.

Amount of VAT payable to the budget is interpreted separately as a part of short-term liabilities.

During the creation of provision for expected credit losses on accounts receivable, the whole amount of doubtful debt is reserved, including VAT.

(j) Employee benefits

i. Defined contribution plans

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

ii. Defined benefit plan

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

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

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

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

iii. Other long-term employee benefits

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

iv. Short-term benefits

The discounting is not applicable in determining the value of liabilities related to short term employee benefits and the relevant expenses will be recognized if the employees carry out their employment duties.

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

(k) Reserves

The reserve is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is highly probable that an outflow of economic benefits will be required to settle the obligation. The amount of reserve is determined by discounting the expected cash flows at a pre-tax rate that reflects current market valuations of the impact of a change in time value of money and risks incidental to the specific obligation. The amounts reflecting the 'amortization of discount' are recognized as financial expenses.

(l) Revenue from contracts with customers

The Group recognizes the revenue from contracts with customers when (or as far as) the entity fulfills the obligation by means of transfer of promised goods or services (i.e. assets) to the customer. The assets are transferred at that time when (or as far as) the buyer gains control over such assets.

When (or as far as) the entity fulfills the obligation, the Group recognizes revenues in the amount which is expecting to receive in return for transferring of the promised assets to the buyer, except VAT.

Services for electric power transmission.

The Group cedes control over the service or a good during the period and thus discharge liabilities approved during the period (assessment month); the method (cost of uplink volumes of electrical energy, cost of cost of sold volumes of electric power and capacity) is used to assess the degree of obligation fulfilment.

Tariffs for services for electric power transmission (in relation to all constituent units of the Russian Federation) and selling of electric power and capacity at the controlled market (in relation to the constituent units of the Russian Federation that are not formed into pricing zones of wholesale electricity market) are approved by executive government body of the constituent entity of the Russian Federation relating to State regulation of tariffs (hereinafter referred to as the regional authorities) as part of limitative, minimal and (or) maximum levels approved by the Federal Antimonopoly Service).

Services for technological connection to electric networks.

Revenue from services for technological connection to electric networks represents non-refundable fee for connecting customers to electricity networks and is recognized when the customer is connected to the network. The Group cedes control over the service at a certain point (on actual basis of connection of a consumer to the electrical grid) and thus fulfills the obligation at a certain point.

Payment for technological connection based on individual project, standard tariffs, rates per unit of maximum capacity and formulas for payment for connection to the network are approved by the Regional Energy Commission (Tariffs and Prices Department of the correspondent region) and do not depend on revenue from electricity transmission services. Payment for connection to unified national (Russian) power network is approved by the Federal Antimonopoly Service.

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

Other services

The revenue from services for mounting, care and maintenance of construction services and also the revenue from other sales is recognized at that time when (or as far as) the buyer gains control over such assets.

Trade receivables

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

Contractual obligations

Contractual obligation is an obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs its obligations under the contract. The Group reflects contractual obligations with the buyers within the line code "Advances received" inclusive of VAT.

Advances received from the buyers and customers are analyzed by the Group for financial component. If any length of time more than one year between the receipt of advances from the buyers and customers and transfer of promised goods and services other than by reason of provision of financing to the contractor (under the contacts on technological connection to electric networks), the interest expense for advances received is not recognized. Such advances are recorded at fair value of assets that were received by the Group from the buyers and customers by way of preliminary payment.

(m) Government subsidies

Government subsidies are recognized if there is reasonable assurance that the subsidies will be received and all the terms associated with these subsidies will be fulfilled. When the subsidy is issued for financing certain expenses, it is recognized as income on a regular basis within the same periods in which cost incurred are expensed. This subsidy has to compensate these costs. When the subsidy is issued to finance an asset, it is recognized as income, less the related expenses, in equal amounts over the expected useful life of the related asset.

Government subsidies that compensate the Group for electricity tariffs (lost income) are recognized in the consolidated statement of profit or loss and other aggregate income (as a part of other revenues) in the same periods in which the respective revenue is earned.

(n) Social payments

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

(o) Financial income and costs

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

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

(p) Income tax expense

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

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

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

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

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

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

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

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

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

(q) Earnings per share

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

4 Fair value measurement

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

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

The time when the transference at the defined levels and the transference from the defined levels are recognized is considered to be the occurrence date or change of circumstances contributed to the transference.

5 Material subsidiaries

Kubanenergo group of companies consists of PJSC Kubanenergo and its subsidiaries, as follows:

Subsidiaries	Country of incorporation	Core business	Ownership share /voting shares, % 30 September 2019	31 December 2018
JSC Energetik Holiday Facility	Russian Federation	Recreation services	100	100
JSC Kuban Energoservis	Russian Federation	Repair services	100	100

6 Segment information

The Management Board of Kubanenergo is the supreme body that makes decisions regarding the operating activities.

The core activities of the Group are providing services for distribution and transmission of energy that is transferred out of the electrical system and services for technological connection of consumers to electric networks in a number of regions of the Russian Federation (Krasnodar Region and the Republic of Adygeya).

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

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

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

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

(in thousands of Russian rubles, if not otherwise mentioned)

(a) Information on reportable segments

As at and for the year ended on December 31, 2019:

	Kubanenergo	Other segments	Total sum
Revenue from external buyers	51,001,303	87,361	**51,088,664**
Sales revenue between segments	2,396	72,160	**74,556**
Segments revenue	**51,003,699**	**159,521**	**51,163,220**
Including			
Electric power transmission	*46,515,696*	–	***46,515,696***
Technological connection to electric networks	*4,206,155*	–	***4,206,155***
Revenue from lease agreement	*14,905*	*9,701*	***24,606***
Other revenue	*266,943*	*149,820*	***416,763***
Financial revenues	68,025	237	**68,262**
Financial expenses	(1,971,069)	(35)	**(1,971,104)**
Amortization	(4,256,562)	(2,160)	**(4,258,722)**
Profit/(loss) of segment before tax	3,524,763	2,487	**3,527,250**
EBITDA	**9,752,394**	**4,682**	**9,757,076**
Assets of segments	**76,231,919**	**83,120**	**76,315,039**
including fixed assets and construction in progress	63,343,130	32,213	**63,375,343**
Capital investment	5,451,095	4,756	**5,455,851**
Liabilities of segments	**35,622,033**	**33,273**	**35,655,306**

(in thousands of Russian rubles, if not otherwise mentioned)

As at and for the year ended on December 31, 2018:

	Kubanenergo	**Other segments**	**Total sum**
Revenue from external buyers	46,398,767	60,138	**46,458,905**
Sales revenue between segments	2,312	44,046	**46,358**
Segments revenue	**46,401,079**	**104,184**	**46,505,263**
Including			
Electric power transmission	*45,583,484*	–	***45,583,484***
Services for technological connection to electric networks	*602,467*	–	***602,467***
Revenue from lease agreement	*17,029*	*9,318*	***26,347***
Other revenue	*198,099*	*94,866*	***292,965***
Financial revenues	90,596	194	**90,790**
Financial expenses	(1,911,383)	(17)	**(1,911,400)**
Amortization	(3,978,240)	(1,720)	**(3,979,960)**
Profit/(loss) of segment before tax	1,279,818	1,913	**1,281,731**
EBITDA	**7,169,441**	**3,650**	**7,173,091**
Assets of segments	**75,908,815**	**79,547**	**75,988,362**
Including fixed assets and construction in progress	62,534,635	29,617	**62,564,252**
Capital investment	6,950,196	2,606	**6,952,802**
Liabilities of segments	**40,670,269**	**30,717**	**40,700,986**

(in thousands of Russian rubles, if not otherwise mentioned)

(b) Reconciliation of key figures of Group's segments with the figures in this Consolidated Financial Statements

Reconciliation of segments revenue:

	For the year ended on December 31	
	2019	2018
Segments revenue	**51,163,220**	**46,505,263**
Discarding of sales revenue between segments	(74,556)	(46,358)
Sales revenue adjustment (external)	(11,694)	(1,009)
Revenue in Consolidated Statement of Profit or Loss and Other Aggregate Income	**51,076,970**	**46,457,896**

Reconciliation EBITDA of reportable segments:

	For the year ended December 31	
	2019	2018
EBITDA of reportable segments	**9,757,076**	**7,173,091**
Discounting of accounts receivable	4,940	5,038
Discounting of accounts payable	3,928	4,017
Adjustment of financial assets impairment	(1,594)	(1,552)
Adjustment of provision for expected credit losses	(63,136)	1,382
Adjustment of lease	232,504	–
Adjustment of valuation provisions	27,525	(27,525)
Acknowledgment of pension and other non-current liabilities to employees	68,279	117,863
Adjustment of assets, associated with employee benefits obligations	(9,061)	(14,056)
Adjustment of accounts payable	27,685	9,024
Adjustment of fixed assets value	(15,398)	(16,148)
Adjustment of intangible assets value	67,648	58,125
Adjustment of taxes	(8,010)	(88,016)
Adjustment of revenue from electric power transmission	(11,694)	(11,915)
Other adjustments	679	(8,397)
EBITDA	**10,081,371**	**7,200,931**
Amortization of fixed assets, right-of-use assets and non-current assets	(3,948,329)	(3,581,158)
Interest expenses for financial liabilities measured at amortized cost	(1,837,865)	(1,955,310)
Interest expenses for lease liabilities	(94,682)	–
Income tax expense	(1,179,807)	(864,592)
Consolidated profit /loss for period in Consolidated Statement of Profit or Loss and Other Aggregate Income	**3,020,688**	**799,871**

(in thousands of Russian rubles, if not otherwise mentioned)

Reconciliation of the total sum of assets of reportable segments:

	For the year ended December 31	
	2019	**2018**
Total sum of assets of segments	**76,315,039**	**75,988,362**
Settlement of accounts between segments	(26,243)	(6,031)
Intragroup financial assets	(45,687)	(45,687)
Adjustment of fixed assets value	(5,906,065)	(6,632,489)
Write-off of accounts receivable	(24,522)	(12,920)
Acknowledgement of right-of-use assets	991,864	–
Reclassification of accounts receivable on lease to lease obligations	(8,777)	–
Acknowledgment of assets, associated with employee benefits obligations	318,362	226,580
Adjustment of provision for expected credit losses	(61,280)	1,856
Adjustment of intangible assets	(89,063)	(77,745)
Adjustment of deferred tax assets	(501,586)	291,221
Discounting of account receivable	(10,381)	(7,451)
Decrease in VAT recoverable amount for VAT amount from advances received	(517,157)	(1,048,328)
Adjustment of financial investment	6,638	8,132
Other adjustments	(20,375)	(20,138)
Decrease in accounts receivables of advances for VAT amount from advances issued	(5,601)	(20,655)
Total sum of assets in Consolidated Statement of Financial Position	**70,415,166**	**68,644,707**

Reconciliation of the total sum of liabilities of reportable segments:

	For the year ended December 31	
	2019	**2018**
Total sum of liabilities of segments	**35,655,306**	**40,700,986**
Settlement of accounts between segments	(26,243)	(6,031)
Adjustment of deferred tax liabilities	(1,134,136)	(438,986)
Acknowledgment of pension and other non-current liabilities to employees	732,902	453,065
Acknowledgment of lease liabilities	1,017,174	–
Other reserves and charges	–	27,525
Discounting of accounts payable	(2,080)	–
Adjustment of accrued provisions for unused vacation days and bonuses	145,516	136,455
Decrease in accounts payable of advances for VAT amount from advances received	(517,157)	(1,048,328)
Write-off of deferred income	(113,716)	(86,031)
Other adjustments	284	(1,048)
Decrease in other accounts payable for VAT amount from advances received	(5,601)	(20,655)
Total sum of liabilities in Consolidated Statement of Financial Position	**35,752,249**	**39,716,952**

(c) The significant buyer

The Group operates its activities in the territory of the Russian Federation. The Group does not receive proceeds from foreign consumers and does not hold non-current assets abroad.

For the year ended on December 31, 2019 and December 31, 2018, the Group had two contractors, who owned more than 10 percent of the consolidated revenues of the Group. The revenues from the above-mentioned contractors are recorded in the financial statement of the Group.

(in thousands of Russian rubles, if not otherwise mentioned)

The revenue total from the first contractor for 2019 amounts to 21,975,765 thousand rubles or 47.25% of total revenue of the Group (The revenue total from the first contractor for 2018 amounts to 21,148,161 thousand rubles or 45,58% of total revenue of the Group).

The revenue total from the second contractor for 2019 amounts to16,061,606 thousand rubles or 34.53% of total revenue of the Group (The revenue total from the second contractor for 2018 amounts to 16,404,971 thousand rubles or 35,36% of total revenue of the Group).

7 Revenue

	For the year ended on December 31	
	2019	2018
Electric power transmission	46,502,139	45,568,738
Technological connection to electric networks	4,206,155	602,467
Other revenue	344,580	260,784
	51,052,874	**46,431,989**
Revenue from lease agreements	24,096	25,907
	51,076,970	**46,457,896**

Revenue from providing services for electric power consumption constraint, mounting and dismounting of electricity supply meters, services for electric power metering and other services constitutes other revenue.

8 Other revenues

	For the year ended on December 31	
	2019	2018
Revenues from determination of freelance electric power consumption	90,998	98,171
Revenues in the form of fines and penalties in economic contracts	433,750	767,286
Revenues from benefits of actual expenses at displacement of electric grid facilities	687,790	587,185
Insurance payout	64,351	51,558
Write-off of accounts payable	43,918	17,775
Other revenues	59,948	33,864
	1,380,755	**1,555,839**

9 Other expenses

	For the year ended on December 31	
	2019	2018
Loss on sale of assets	341,140	33,414
Other expenses	5,544	1,173
	346,684	**34,587**

(in thousands of Russian rubles, if not otherwise mentioned)

10 Operating expenses

	For the year ended on December 31	
	2019	**2018**
Expenses for employee benefits	6,532,396	6,318,613
Amortization of fixed assets, right-of-use assets and intangible assets	3,948,329	3,581,158
Material expenses, including		
Electric energy for compensation of process losses	7,861,591	7,704,477
Purchasing electrical energy and heat for own requirements	115,069	110,684
Other material expenses	1,886,312	1,297,413
Works and services of production nature, including		
Services for *electric power transmission*	20,019,048	19,713,280
Repair services and technical maintenance	1,541,744	468,217
Other works and services of production nature	73,498	57,356
Taxes and dues except income tax	667,156	974,689
Short lease	9,827	240,428
Insurance	76,103	77,243
Other outsourced services, including:		
Communication services	76,569	68,092
Security	206,895	230,866
Consulting, legal and auditing services	43,525	75,549
Expenses for software and maintenance	103,601	92,735
Transport services	6,106	2,144
Implementation of energy service agreement	1,372,278	1,072,229
Other services	53,873	41,301
Reserves*	224,688	493,137
Business expenses	187,947	244,548
Expenses associated with upkeep of property	96,758	72,873
Expenses for services for implementation, operation and development of UES	118,322	118,322
Fines, penalties and forfeitures from economic contracts	35,937	63,790
Profit and loss for past years	316,307	891,119
Other expenses	407,442	527,283
	45,981,321	**44,537,546**

* *Reserves are the accrued liabilities for lawsuits that were brought to the Group regarding the core activities.*

11 Expenses for employee benefits

	For the year ended on December 31	
	2019	**2018**
Salary	4,756,593	4,688,541
Social security contribution	1,455,934	1,417,154
Expenses related to Authorized Payment Programs	10,693	(89,097)
Other	309,176	302,015
	6,532,396	**6,318,613**

(in thousands of Russian rubles, if not otherwise mentioned)

For the year ended December 31, 2019, an amount of assessment according to the programme with assessed contributions amounted to 51,831 thousand rubles (for the year ended December 31, 2018 amounted to 56,455 thousand rubles).

The amounts of key management personnel benefits are disclosed in the Note "Associates and affiliates".

12 Financial income and costs

	For the year ended on December 31	
	2019	**2018**
Financial income		
Interest yield on loans issued, bank deposits and bills and bank account balance	67,627	81,722
The effect from initial discounting of financial liabilities	3,928	4,017
Amortization of discount of financial assets	4,940	5,038
	76,495	**90,777**

	For the year ended on December 31	
	2019	**2018**
Financial costs		
Interest expenses for financial liabilities measured at amortized cost	(1,770,319)	(1,787,665)
Interest expenses for lease liabilities	(94,682)	–
Interest expenses for long-term liabilities for employee benefits	(34,907)	(41,600)
The effect from initial discounting of financial assets	(7,870)	(3,887)
Amortization of discount of liabilities	(3,949)	(4,065)
Other financial costs*	(20,820)	(118,093)
	(1,932,547)	**(1,955,310)**

* *Other financial costs are interests accrued under the contracts of accounts payable reorganization.*

13 Profit tax

	For the year ended on December 31	
	2019	**2018**
Current income tax		
Accrued of current tax	(727,758)	(615,644)
Tax adjustment for the prior periods	305,493	(48,472)
Total	**(422,265)**	**(664,116)**
Deferred income tax		
Accrual and reversal of temporary differences	(757,542)	(200,476)
Total	(757,542)	(200,476)
Total expenditure of profit tax	**(1,179,807)**	**(864,592)**

(in thousands of Russian rubles, if not otherwise mentioned)

Profit tax, included in the structure of other comprehensive income:

	For the year ended 31 December 2019			For the year ended 31 December 2018		
	Before tax	**Profit tax**	**After tax**	**Before tax**	**Profit tax**	**After tax**
Revaluation of liabilities for the programmes with fixed payments	(286,068)	57,213	(228,855)	54,098	(10,819)	43,279
	(286,068)	**57,213**	**(228,855)**	**54,098**	**(10,819)**	**43,279**

As at December 31, 2019 and December 31, 2018, deferred assets and profit tax liabilities are calculated at 20% rate that hypothetically will be applied upon sale of the relevant assets and liabilities.

Profit (loss) before tax associated with profit tax expense, as follows:

	For the year ended 31 December 2019	**%**	**For the year ended 31 December 2018**	**%**
Profit/(loss),before,tax	**4,200,495**	**(100)**	**1,664,463**	**(100)**
Theoretic cost amount of profit tax at 20% rate	**(840,099)**	**(20)**	**(332,893)**	**(20)**
Tax effects from sections, untaxed and non -deductible for tax purposes	(645,201)	(15)	(641,128)	(39)
Adjustments for previous years	305,493	7	109,429	7
	(1,179,807)	**(28)**	**(864,592)**	**(52)**

(in thousands of Russian rubles, if not otherwise mentioned)

14 Fixed assets

	Real estate and buildings	Transmission networks	Electric power transmission equipment	Other	Construction in progress	Total
Historic / deemed cost						
As at January 1, 2018	**7,843,727**	**38,083,459**	**16,002,370**	**7,682,998**	**8,367,283**	**77,979,837**
Reclassification between groups	(6,178)	(446)	6,624	–	–	–
Receipts	175	15,360	63,364	103,837	6,740,500	**6,923,236**
Entry into operation	242,401	1,328,948	1,938,708	187,974	(3,698,031)	–
Retirement	(1,062)	(51,925)	(11,759)	(24,377)	(33,280)	**(122,403)**
Reclassification into assets available for sale	(760)	–	–	10,755	(64,281)	**(54,286)**
As at December 31, 2018	**8,078,303**	**39,375,396**	**17,999,307**	**7,961,187**	**11,312,191**	**84,726,384**
Accumulated amortization and impairment						
As at January 1, 2018	**(2,609,739)**	**(10,717,364)**	**(6,962,311)**	**(5,009,642)**	**(92,327)**	**(25,391,383)**
Reclassification between groups	3,303	625	(3,553)	(375)	–	–
Introduction into fixed asset structure (loss carryforward due to impairment)	(1,026)	(587)	(6,540)	(163)	8,316	–
Accumulated amortization	(283,491)	(1,640,231)	(977,051)	(606,939)	–	**(3,507,712)**
Retirement	633	16,081	7,116	17,192	5,897	**46,919**
Reclassification into assets available for sale	228	–	–	(2,263)	–	**(2,035)**
Impairment/ reversal of impairment	–	(198)	–	–	(188)	**(386)**
As at December 31, 2018	**(2,890,092)**	**(12,341,674)**	**(7,942,339)**	**(5,602,190)**	**(78,302)**	**(28,854,597)**
Residual value						
As at January 1, 2018	**5,233,988**	**27,366,095**	**9,040,059**	**2,673,356**	**8,274,956**	**52,588,454**
As at December 31, 2018	**5,188,211**	**27,033,722**	**10,056,968**	**2,358,997**	**11,233,889**	**55,871,787**
Historic / deemed costs						
As at January 1, 2019	**8,078,303**	**39,375,396**	**17,999,307**	**7,961,187**	**11,312,191**	**84,726,384**
Reclassification between groups	(2,211)	(1,679)	2,970	920	–	–
Receipts	816	28,523	141,565	365,589	5,099,970	**5,636,463**
Transfer into right-of-use assets	–	–	–	–	(589)	**(589)**
Entry into operation	1,785,181	6,349,074	3,359,207	846,819	(12,340,281)	–
Retirement	(3,512)	(19,727)	(2,102)	(231,234)	(368,476)	**(625,051)**
Transfer into non-current assets available for sale	(1,449)	–	–	(751)	–	**(2,200)**
As at December 31, 2019	**9,857,128**	**45,731,587**	**21,500,947**	**8,942,530**	**3,702,815**	**89,735,007**
Accumulated amortization and impairement						
As at January 1, 2019	**(2,890,092)**	**(12,341,674)**	**(7,942,339)**	**(5,602,190)**	**(78,302)**	**(28,854,597)**
Reclassification between groups	1,149	476	(1,312)	(313)	–	–
Introduction into fixed asset structure (loss carryforward due to impairment)	–	(1,527)	(3,610)	–	5,137	–
Accumulated amortization	(320,363)	(1,765,989)	(1,040,563)	(557,952)	–	**(3,684,867)**
Transfer into non-current assets available for sale	192	–	–	97	–	**289**
Impairment/ reversal of impairment	(12)	–	–	–	–	**(12)**
Retirement	2,024	9,722	1,812	196,070	1,883	**211,511**
As at December 31, 2019	**(3,207,102)**	**(14,098,992)**	**(8,986,012)**	**(5,964,288)**	**(71,282)**	**(32,327,676)**
Residual value						
As at January 1, 2019	**5,188,211**	**27,033,722**	**10,056,968**	**2,358,997**	**11,233,889**	**55,871,787**
As at December 31, 2019	**6,650,026**	**31,632,595**	**12,514,935**	**2,978,242**	**3,631,533**	**57,407,331**

As at December 31, 2019 construction in progress includes advances for acquisition of fixed assets amounting to 73,195 thousand rubles (as at December 31, 2018 amounting to 399,165 thousand rubles) and also building materials for fixed assets amounting to 574,560 thousand rubles (as at December 31, 2018 amounting to 891,031 thousand rubles).

For the year ended on December 31, 2019 capitalized interests amounted to 400,368 thousand rubles (for the year ended December 31, 2018 amounted to 378,864 thousand rubles, capitalization rate amounted to 7.96% (for the year ended December 31, 2018 amounted to 7.48%).

For the year ended December 31, 2019, amortization was capitalized into the value of the facilities of investment building amounting to 5,358 thousand rubles (for the year ended December 31, 2018 amounted to 6,117 thousand rubles).

As at December 31, 2019 and December 31, 2019 there are no fixed assets are pledged as security for a loan.

Impairment of fixed assets

As the indicators of impairment of non-current assets were revealed, the Group performed an impairment test as at December 31, 2019. For this reason, the Group analyzed cash flows and compared the estimated recoverable amount with the carrying amounts of non-current assets.

The majority of the Group's fixed assets are specialized objects that are rarely sold on the open market other than as part of a continuing business. The market for similar fixed assets are not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value of the fixed assets.

Therefore, the value in use for fixed assets as at December 31, 2019 was determined using projected cash flows method. This method considers the future net cash flows that will generate fixes assets in the process of operating activities and upon disposal, to determine the recoverable amount of the assets.

The core activities of the Group are providing services for distribution and transmission of energy that is transferred out of the electrical system and services for technological connection of consumers to electric networks in a number of regions of the Russian Federation (Krasnodar Region and the Republic of Adygeya). In determining of cash-generating unit the structure of the assets, its territorial placing, electric energy forwarding mechanism, tariff setting method, electrical system isolation, and also the possibility of separate reporting and planning of financial figures for the group of assets are considered. The main criterion for determining of cash-generating unit is inseparability of tariff and impossibility of further detailed treatment of accounting and planning. PJSC Kubanenergo group of assets generally is determined as cash-generating unit (without emphasizing the groups of assets of branch offices).

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

The forecast cash flows have been determined for 2020-2024 on the basis of the best estimate of the Group's management in respect of the electricity transmission volumes, operating expenses and capital expenditures and tariffs approved by regulatory authorities for 2020 in accordance with the provisions of the Practice Advisories regarding the assessment of electricity supply and network assets concerning the impairment (approved by the Order of PJSC Rosseti No. 13p of January 18, 2019).

Tariffs for electricity transmission services for the forecasted period were estimated using business plan indicators, which were based on the tariff models formed taking into account average annual growth of tariffs for electricity transmission in accordance with the forecast of the social and economic development of the Russian Federation for the period up to 2024, published on the website of Ministry of Economic Development of the Russian Federation as at September 30, 2019. According to the forecast by Ministry of Economic Development of the Russian Federation the growth rates of tariffs in 2019-2023 are limited by inflation rate of 4%.

(in thousands of Russian rubles, if not otherwise mentioned)

Forecasted electricity transmission volumes for Kubanenergo PJSC were determined in accordance with the business plan for 2020-2024.

Projected cash flows were discounted to their present value using the nominal weighted average cost of capital (WACC) of 9.03%.

Terminal growth rate of the net cash flows in the post-forecast period amounted to 4.0%.

The impairment loss was not identified in accordance with the results of testing as at December 31, 2019.

The sensitivity of the recoverable amount of fixed assets to changes in the principal assumptions in the calculation is as follows in a table 1:

Table 1. The sensitivity of value in use of fixed assets of Kubanenergo:

Line item	Increase, %	Decrease, %
Shift in rate of discounting by 1%	-15.70	23.39
Change in NGP to the fiducial value in every period by 3%	21.48	-21.48
Change in growth rate of net cash flow in post-forecast period by 1%	19.64	-13.12
Change of level of operating costs by 5%	-31.25	31.25
Change of level of investment (capital investment) by 10%	-1.73	1.73
Change in net supply in every period by 0,5%	3.58	-3.58

Sensitivity analysis on essential assumptions on the basis of which the impairment model for PJSC Kubanenergo was developed as at December 31, 2019, a follows:

- Increase rate of discounting up to 10.03%:
  - does not lead PJSC Kubanenergo to impairment loss, value in use amounted to 70,691,211 thousand rubles;
- reduction of the required gross revenue to the base value in each period by 3%:
  - does not lead PJSC Kubanenergo to impairment loss, value in use amounted to 65,842,285 thousand rubles;
- increase in the level of operating expenses to the base value in each period by 5%:
  - leads PJSC Kubanenergo to impairment loss amounting to 674,444 thousand rubles.;
- increase in the level of capital investments in the forecast and post-forecast period by 10%:
  - does not lead PJSC Kubanenergo to impairment loss, value in use amounted to 82,402,063 thousand rubles;
- decrease in growth rate of net cash flow in the post-forecast period by 1%:
  - does not lead PJSC Kubanenergo to impairment loss, value in use amounted to 72,847,926 thousand rubles;
- reduction of productive supply in each period by 0,5%:
  - does not lead PJSC Kubanenergo to impairment loss, value in use amounted to 80,850,470 thousand rubles;

(in thousands of Russian rubles, if not otherwise mentioned)

15 Intangible assets

	Software	Certificates, licenses and patents	R&D	Other	Total
Initial cost					
As at January 1, 2018	**377,627**	**5,295**	**15,162**	**23,049**	**421,133**
Reclassification between groups	–	–	(5188)	5,188	–
Receipts	139,414	–	32,133	7,932	179,479
Retirement	(11,852)	–	(1,173)	–	(13,025)
As at December 31, 2018	**505,189**	**5,295**	**40,934**	**36,169**	**587,587**
Accumulated amortization and impairment					
As at January 1, 2018	**(255,631)**	**(5,295)**	–	**(9,772)**	**(270,698)**
Reclassification between groups	–	–	–	–	–
Accumulated amortization	(74,590)	–	–	(5,330)	(79,920)
Retirement	11,852	–	–	–	11,852
Impairment/ reversal of impairment	–	–	–	–	–
As at December 31, 2018	**(318,369)**	**(5,295)**	–	**(15,102)**	**(338,766)**
Residual value					
As at January 1, 2018	**121,996**	–	**15,162**	**13,277**	**150,435**
As at December 31, 2018	**186,820**	–	**40,934**	**21,067**	**248,821**

	Software	Certificates, licenses and patents	R&D	Other	Total
Initial cost					
As at January 1, 2019	**505,189**	**5,295**	**40,934**	**36,169**	**587,587**
Reclassification between groups	–	–	7,500	(7,500)	–
Receipts	147,612	1,876	29,433	57,877	236,798
Retirement	–	–	(63,367)	(8,351)	(71,718)
As at December 31, 2019	**652,801**	**7,171**	**14,500**	**78,195**	**752,667**
Accumulated amortization and impairment					
As at January 1, 2019	**(318,369)**	**(5,295)**	–	**(15,102)**	**(338,766)**
Reclassification between groups	–	–	–	–	–
Accumulated amortization	(85,207)	(600)	–	(10,515)	(96,322)
Retirement	–	–	–	8,298	8,298
Impairment/ reversal of impairment	–	–	–	–	–
As at December 31, 2019	**(403,576)**	**(5,895)**	–	**(17,319)**	**(426,790)**
Residual value					
As at January 1, 2019	**186,820**	–	**40,934**	**21,067**	**248,821**
As at December 31, 2019	**249,225**	**1,276**	**14,500**	**60,876**	**325,877**

The sum of amortization of intangible assets included in operating expenses in the consolidated statements of profit and loss and other aggregate income, amounting to 96,218 thousand rubles (for the year ended December 31, 2018 amounting to 79,742 thousand rubles).

The sum of capitalized amortization of intangible assets, amounting to 104,000 thousand rubles (for the year ended December 31, 2018 amounting to 178,000 thousand rubles).

Intangible assets are amortized using the straight-line method.

Expenses on R&D recognized in operating expenses for 2019 amounting to 13,316 thousand rubles (as at 2018 amounting to 13,959 thousand rubles).

(in thousands of Russian rubles, if not otherwise mentioned)

16 Right-of-use asset

	Land and buildings	Transmission networks	Electric power transmission equipment	Other	Total
Initial cost					
As at January 1, 2019	**529,699**	**18,906**	**562,801**	**8,858**	**1,120,264**
Reclassification between groups	–	(3,297)	(4,746)	8,043	–
receipts	47,065	–	1,246	–	**48,311**
Change of condition under lease contracts	9,254	(568)	(548)	548	**8,686**
Retirement or termination of lease contracts	(4,049)	(337)	–	(9,660)	**(14,046)**
As at December 31, 2019	**581,969**	**14,704**	**558,753**	**7,789**	**1,163,215**
Accumulated amortization and impairment					
As at January 1, 2019	–	–	–	–	–
Reclassification between groups	–	–	–	–	–
Accumulated amortization	(34,120)	(3,832)	(133,505)	(2,754)	**(174,211)**
Change of condition under lease contracts	1,534	–	–	–	**1,534**
Impairment/ reversal of impairment	–	–	–	–	–
Retirement,or,termination,of,lease ,contracts	131	28	–	1,167	**1,326**
As at December 31, 2019	**(32,455)**	**(3,804)**	**(133,505)**	**(1,587)**	**(171,351)**
Residual value					
As at January 1, 2019	**529,699**	**18,906**	**562,801**	**8,858**	**1,120,264**
As at December 31, 2019	**549,514**	**10,900**	**425,248**	**6,202**	**991,864**

For the purpose of impairment test, specialized right-of-use assets (including leasable plots of land under own and leasable specialized facilities) classified as cash-generating unit similarly to own non-current assets (particularly disclosed in section 'Impairment of fixed assets' Note 14). Value in use of such right-of-use assets as at December 31, 2019 was determined by using discounted cash flow method.

Information on conducted impairment test is disclosed in Note 14 'Fixed assets'.

17 Other financial assets

	December 31 2019	December 31 2018
Non-current		
Financial assets, measured at fair value, changes in which are recorded through other comprehensive income:	1	1
Investment in unquoted equity instruments	1	1
	1	**1**

18 Deferred tax assets and liabilities

The differences between IFRS and Russian tax legislation result in temporary differences between the book value of certain assets and liabilities for financial reporting purposes and for profit tax purposes.

(in thousands of Russian rubles, if not otherwise mentioned)

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are applicable to the following sections:

	Assets		Liabilities		Net	
	December 31 2019	**December 31 2018**	**December 31 2019**	**December 31 2018**	**December 31 2019**	**December 31 2018**
Fixed assets	–	309,624	(392,773)	–	(392,773)	309,624
Intangible assets	–	11,708	(9,507)	–	(9,507)	11,708
Right-of-use assets	–	–	(198,373)	–	(198,373)	–
Financial assets, measured at fair value, changes of which are recorded through other comprehensive income	–	–	(9,138)	(1,626)	(9,138)	(1,626)
Trade and и other accounts receivable	362,465	350,200	–	–	362,465	350,200
Advances issued and other assets	895	–	–	–	895	–
Lease liabilities	212,684	–	–	–	212,684	–
Reserves	145,294	157,673	–	–	145,294	157,673
Employee benefits liabilities	41,367	12,356	–	–	41,367	12,356
Trade and other accounts payable	147,032	151,987	–	–	147,032	151,987
Tax losses, subject to transferring for the future	188	412	–	–	188	412
Other	3,957	–	(12,272)	(186)	(8,315)	(186)
Tax assets/(liabilities)	**913,882**	**993,960**	**(622,063)**	**(1,812)**	**291,819**	**992,148**
Tax credit	(622,063)	(1,812)	622,063	1,812	–	–
Net tax assets/(iabilities)	**291,819**	**992,148**	–	–	**291,819**	**992,148**

(in thousands of Russian rubles, if not otherwise mentioned)

Change of temporary difference for a year

	January 1 2019	Acknowledged as part of profit or loss	Acknowledged as part of combined profit	December 31 2019
Fixed assets	309,624	(702,397)	–	(392,773)
Intangible assets	11,708	(21,215)	–	(9,507)
Right-of-use assets	–	(198,373)	–	(198,373)
Financial assets, measured at fair value, changes of which are recorded through other comprehensive income	(1,626)	(7,512)	–	(9,138)
Trade and other accounts receivable	350,200	12,265	–	362,465
Advances issued and other assets	–	895	–	895
Lease liabilities	–	212,684	–	212,684
Reserves	157,673	(12,379)	–	145,294
Employee benefits liabilities	12,356	(28,202)	57,213	41,367
Trade and other accounts payable	151,987	(4,955)	–	147,032
Tax losses	412	(224)	–	188
Активы, subject for sale		(12,272)	–	(12,272)
Other	(186)	4,143	–	3,957
	992,148	**(757,542)**	**57,213**	**291,819**

(in thousands of Russian rubles, if not otherwise mentioned)

	January 1 2018	**Acknowledged as part of profit or loss**	**Acknowledged as part of other combined loss**	**December 31 2018**
Fixed assets	535,043	(225,419)	–	309,624
Intangible assets	10,948	760	–	11,708
Financial assets, measured at fair value, changes of which are recorded through other comprehensive income	(1,937)	311	–	(1,626)
Trade and other accounts receivable and advances	408,262	(58,062)	–	350,200
Reserves	(1,398)	159,071	–	157,673
Employee benefits liabilities	29,420	(6,245)	(10,819)	12,356
Trade and other accounts payable	132,400	19,587	–	151,987
Tax losses	84,428	(84,016)	–	412
Other	6,277	(6,463)	–	(186)
	1,203,443	**(200,476)**	**(10,819)**	**992,148**

(in thousands of Russian rubles, if not otherwise mentioned)

19 Assets are qualified as available for sale

As at December 31, 2019 and 2018, the non-core assets were indicated on the balance sheet of the Company, as outlined below:

	For the year ended on December 31	
	2019	**2018**
As part of non-current assets		
Assets are qualified as available for sale - long term	61,358	39,045
As part of current assets		
Assets are qualified as available for sale - short term	–	20,931
	61,358	**59,976**

It is expected that selling of non-core asset that is classified as available for sale will take more than one year.

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

20 Inventory

	December 31 2019	December 31 2018
Raw materials	905,244	926,948
Reserve for impairment of raw materials	(4,599)	(5,858)
Other inventories	1,048,070	969,618
Reserve for impairment of other inventory	(3,882)	(2,476)
	1,944,833	**1,888,232**

The Group does not hold inventory offered as collateral according to the loan agreement or other agreement as at December 31, 2019 and December 31, 2018.

For a year ended on December 31, 2019 the amount equal to 1,886,312 thousand rubles was recognized as expenses (for a year ended on December 31, 2018 amounted to 1,297,413 thousand rubles) as part of operating expenses in the section 'Other material expenses'.

21 Trade and other accounts receivables

	December 31 2019	December 31 2018
Trade and other accounts receivable - long term		
Trade accounts receivable	285	744
Provision for expected credit losses on trade accounts receivable	–	–
Other accounts receivable	11,058	10,471
Provision for expected credit losses on trade accounts receivable	–	–
	11,343	**11,215**
Trade and other accounts receivable short-term		
Trade accounts receivable	7,655,769	7,299,355
Provision for expected credit losses on trade accounts receivable	(1,057,167)	(1,103,966)
Other accounts receivable	1,185,766	1,132,882
Provision for expected credit losses on trade accounts receivable	(717,423)	(619,019)
	7,066,945	**6,709,252**

(in thousands of Russian rubles, if not otherwise mentioned)

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 33.

Balances with related parties are disclosed in Note 36.

22 Advances issued and other assets

	December 31 2019	December 31 2018
Non-current		
Advances issued	4,436	4,891
Provision for impairment of advance issued	–	–
VAT for advances issued	685	1,147
	5,121	**6,038**
Current		
Advances issued	45,760	53,421
Provision for impairment of advance issued	(13,313)	(17,507)
VAT recoverable	8,030	5,186
VAT for advances received, and Vat for advances, issued for fixed asset acquisition	431	41,246
Prepaid taxes, except profit tax	7,063	19,861
	47,971	**102,207**

Balances with related parties are disclosed in Note 36.

23 Cash and cash equivalents

	December 31 2019	December 31 2018
Cash at bank and in hand	1,716,085	2,200,921
Cash equivalents	–	4,000
	1,716,085	**2,204,921**

	Rating	Rating agency	December 31 2019	December 31 2018
Federal Treasury Department in Krasnodar Region	–	–	579,268	1,012,089
Bank Rossiya (AB Rossiya)	ruAA	Эксперт РА	9,009	696,897
Russian Regional Development Bank			670	450,001
Mosoblbank PJSC			6	22,130
Sberbank*	ba1	Moody's	44,154	13,376
Gazprombank*	b1	Moody's	1,082,059	6,387
VTB bank			900	19
Cash in hand	–	–	19	22
			1,716,085	**2,200,921**

* *Government-related banks.*

(in thousands of Russian rubles, if not otherwise mentioned)

Cash equivalents include current investments to the bank money:

	Interest rate	Rating	Rating agency	31 December 2019	31 December 2018
Sberbank*	5.95%-5.84%	ba1	Moody's	–	4,000
				–	**4,000**

* *Government related.*

As at December 31, 2019 and December 31, 2018 all cash balance and cash equivalents are in rubles.

24 Charter capital

(a) Charter capital

	Ordinary shares	
	31 December 2019	31 December 2018
Per share		
Nominal value per share	100 RUR.	100 RUR.
In circulation as at January 1	303,793,350	282,868,130
In circulation at the end of year and fully paid	334,657,837	303,793,350

(b) Ordinary shares

In accordance with the Charter as at December 31, 2019 the Charter capital of the Company amounted to 30,379,335,000 rubles (thirty billion three hundred seventy-nine million three hundred thirty-five thousand rubles) and it is divided in 303,793,350 units (three hundred and three million seven hundred and ninety-three thousand three hundred and fifty units) of ordinary registered uncertified shares at nominal value of 100 (one hundred) rubles per share.

On June 18, 2019 the Bank of Russia carried out the official registration of secondary equity offering in the quantity of 37,477,392 units (thirty seven million four hundred and seventy-seven thousand three hundred and ninety-two units), 30,864,487 units (thirty million eight hundred and sixty-four thousand four hundred and eighty-seven units) of which were floated.

On November 28, 2019 the relevant extract of the Bank of Russia from the register of securities was received. According to the present extract, 334,657,837 units (three hundred and thirty-four million six hundred and fifty-seven thousand eight hundred and thirty-seven units) of the ordinary shares of PJSC Kubanenergo at nominal value of 100 (one hundred) rubles per share are in circulation at the moment. The total make at nominal value amounted to 33,465,783,700 rubles (thirty three billion four hundred and sixty-five million seven hundred and eighty-three thousand seven hundred rubles).

As at December 31, 2019 the official registration of amendments to the Charter of PJSC Kubanenergo related to the above-mentioned increase of share capital was not carried out.

(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 Russian Accounting Standards and preparation of reporting in the Russian Federation.

The Annual General Meeting of Shareholders was held on June 20, 2019 and the decision was made to pay dividends on outstanding shares of the Company following the results of financial and operational activities of PJSC Kubanenergo for 2018 amounted to 143,638 rubles (one hundred and forty-three thousand six hundred and thirty-eight rubles) (Minutes of the Annual General Meeting of Shareholders of June 20, 2019 No. 42). The amount of dividends amounted to 0,472815 rubles per one ordinary share of the Company.

For the year ended on December 31, 2019, the dividends for 2018 paid to the owners amounted to 143,638 thousand rubles, (For the year ended on December 31, 2018, dividend for 2017 paid to the owners amounted to 321,151 thousand rubles as relevant).

Dividends were not announced following the results of financial and operational activities for 2019.

(d) Additional issue of securities.

On April 17, 2019 the Annual Extraordinary General Meeting of Shareholders of PJSC Kubanenergo (Minutes of April 19, 2019 No. 41) passed a resolution concerning the increasing of charter capital of the Company by the way of outstanding supplement shares by public subscription in the quantity of 37,477,392 units (thirty seven million four hundred and seventy-seven thousand three hundred and ninety two units). The offering price per one ordinary registered uncertified share (for people on the list holding the preemptive right to purchase outstanding supplement shares) amounted to 100 rubles (one hundred rubles).

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

On June 18, 2019 the Bank of Russia carried out the official registration of additional issue and securities prospectus of the Company (State Registration Number 1-02-00063-A of July 18, 2019).

The payment for supplement shares was made in cash.

The shareholders contributed 3 086 449 thousand rubles to the charter capital of the Company and these monetary resources were considered to be a reserve for capital stock issues as a part of the capital.

The stock floatation of the additional issue was completed by the Group on October 23, 2019. The quantity of shares actually floated amounted to 30 864 487 units (thirty million eight hundred and sixty-four thousand four hundred and eighty-seven units).

Information concerning the issuance of supplement shares is published on the website of PJSC Kubanenergo: http://kubanenergo.ru/.

25 Earnings per share

Calculation of earnings per share for the year ended on December 31, 2019 and December 31, 2018 is based on earnings that are payable to the ordinary shareowners and weighted average number of common shares outstanding.

The Company doesn't have the dilutive finance facilities.

In thousands of shares	2019	2018
Ordinary shares as at January 1	**303,793**	**282,868**
The effect of stock floatation	8,162	20,925
Weighted average number of shares for the period ended on December 31	**311,955**	**303,793**

	For the year ended on December 31 2019	For the year ended on December 31 2018
Weighted average number of shares outstanding for the period ended on December 31 (in thousands of units)	311,955	303,793
Profit/(loss) for period which is payable to Company owners	3,020,688	799,871
Earnings/(loss) per share – basic and diluted (in Russian rubles)	**9.68**	**2.63**

(in thousands of Russian rubles, if not otherwise mentioned)

26 Borrowings

	December 31 2019	December 31 2018
Long-term liabilities		
Unsecured loans and borrowings	19,432,911	17,582,621
Unsecured bonds	3,600,000	7,000,000
Lease liabilities	1,063,418	–
By deducting: current portion of long-term lease liabilities	(174,536)	–
By deducting: current portion of long-term loans and borrowings liabilities	–	(7,899,382)
By deducting: current portion of long-term unsecured bonds	(3,600,000)	(3,400,000)
	20,321,793	**13,283,239**
Short-term liabilities		
Unsecured loans and borrowings	52,592	96,519
Current portion of long-term lease liabilities	174,536	–
Current portion of long-term loans and borrowings liabilities	–	7,899,382
Current portion of long-term unsecured bonds	3,600,000	3,400,000
	3,827,128	**11,395,901**
Including:		
Interest on loans and borrowings payable	19,652	15,719
Interest on unsecured bonds payable	32,940	80,178
	52,592	**95,897**

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

(in thousands of Russian rubles, if not otherwise mentioned)

	Repayment period	Effective interest rate		Book value	
		December 31 2019	**December 31 2018**	**December 31 2019**	**December 31 2018**
Unsecured loans and borrowings					
Unsecured loans and borrowings *	2021-2022	7.70%-7.75%	7.85%-9.25%	19,432,911	17,582,621
Other unsecured loans and borrowings *	2019-2019	Interest-free	Interest-free	–	622
				19,432,911	**17,583,243**
Unsecured bonds					
Unsecured bonds	2012-2020	10.44%-12.65%	10.44%-12.63%	3,600,000	7,000,000
				3,600,000	**7,000,000**
Lease liabilities	2020-2068	7.37%-9.2%	0%-0%	1,063,418	–
Total liabilities				**24,096,329**	**24,583,243**

* *Loans, from state-controlled entities.*

The Group does not use hedging strategies that will enable to reduce or limit the interest rate risk. Information about the Group's exposure to interest rate risk is disclosed in Note 33.

(in thousands of Russian rubles, if not otherwise mentioned)

27 Change in liabilities arising from financial activities.

	Borrowings		Interest payable except interest on lease agreements	Lease liabilities	Dividends payable
	Long-term	Short-term			
As at January 1, 2019	**13,283,239**	**11,300,004**	**95,897**	**1,159,897**	**919**
Changes due to cash flow from financing activities					
Debt financing	19,916,920	2,222,723	–	–	–
Redemption of borrowings	(6,484,009)	(17,205,966)	(2,234,812)	–	–
Lease payments	–	–	–	(128,989)	–
Interest expenses (operating activities, for reference)	–	–	–	(94,567)	–
Dividends payable	–	–	–	–	(143,586)
Total	**13,432,911**	**(14,983,243)**	**(2,234,812)**	**(223,556)**	**(143,586)**
Non-cash changes					
Reclassification	(7,283,239)	7,283,239	–	–	–
Capitalized interests	–	–	400,368	–	–
Interest expenses	–	–	1,791,139	94,567	–
Receipts under lease contracts	–	–	–	48,311	–
Dividends payable	–	–	–	–	143,120
Other changes, net	–	–	–	(15,801)	–
Total	**(7,283,239)**	**7,283,239**	**2,191,507**	**127,077**	**143,120**
As at December 31, 2019	**19,432,911**	**3,600,000**	**52,592**	**1,063,418**	**453**

(in thousands of Russian rubles, if not otherwise mentioned)

	Lease		Interest payable except interest on lease agreements	Lease liabilities	Dividends payable
	Long-term	Short-term			
As at January 1, 2018	**22 617 796**	**622**	**91 064**	–	**500**
Changes due to cash flow from financing activities					
Debt financing	39,098,179	1,000	–	–	–
Redemption of borrowings	(37,133,354)	(1,000)	–	–	–
Interest expenses (operating activities, for reference)	–	–	(2,279,789)	–	–
Dividends payable	–	–	–	–	(321,151)
Total	**1,964,825**	–	**(2,279,789)**	–	**(321,151)**
Non-cash changes					
Reclassification	(11,299,382)	11,299,382	–	–	–
Capitalized interests	–	–	378,864	–	–
Interest expenses	–	–	1,905,758	–	–
Dividends payable	–	–	–	–	321,570
Total	**(11,299,382)**	**11,299,382**	**2,284,622**	–	**321,570**
As at December 31 2018	**13,283,239**	**11,300,004**	**95,897**	–	**919**

(in thousands of Russian rubles, if not otherwise mentioned)

28 Employee benefits

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

Value of liabilities according to defined-benefits programs included in Consolidated Statement of Financial Position is outlined below:

	December 31 2019	December 31 2018
Net cost of liabilities for benefits programs after termination of labor activity	732,902	453,065
Net cost of liabilities for other long-term employee benefits program	–	–
Total net cost of liabilities	**732,902**	**453,065**

Change in value of assets associated with liabilities for employee benefits:

	For the year ended December 31	
	2019	2018
Value of assets as at January 1	**291,221**	**318,910**
Employer's contribution	67,599	19,363
Other account history	2,181	1,330
Benefits pay	(42,639)	(48,382)
Value of assets as at December 31	**318,362**	**291,221**

Assets related to pension plan with fixed payments are managed by the Non-State Pension Fund JSC "NPF Otkrytie". These assets are not the assets of the pension plan with fixed payments because under the terms of agreements between the Group and the funds the Group has the right to use the contributions paid according to the pension plan with fixed payments in order to finance its own pension plan with assessed contribution or to make a transfer to the other fund on the Group's own initiative.

Change in the current value of liabilities according to programs with fixed payments:

	For the year ended December 31, 2019		For the year ended December 31, 2019	
	Benefits after termination of labor activity	Other long-term benefits	Benefits after termination of labor activity	Other long-term benefits
Liabilities according to the programs with fixed payments as at January 1	**453,065**	–	**611,115**	–
Current service cost	10,693	–	19,416	
Past service cost and budget sequestration	–	–	(108,513)	–
Interest expense on liabilities	34,907	–	41,600	–
Effect of revaluation:				
– profit/(loss) from changes in demographical actuarial assumptions	23,098	–	(391)	–
– profit/(loss) from changes in financial actuarial assumption	97,951	–	(72,825)	–
– profit/(loss) from experience adjustment	165,019	–	19,118	–
Contributions to the program	(51,831)	–	(56,455)	–
Liabilities according to the programs with fixed payments as at December 31	**732 902**	–	**453 065**	–

(in thousands of Russian rubles, if not otherwise mentioned)

Expenses included as part of profit and loss for the period:

	For the year ended December 31 2019	December 31 2018
Employee service cost	10,693	(89,097)
Interest expenses	34,907	41,600
Total expenses included as part of profit and loss	**45,600**	**(47,497)**

(Profit)/loss included as part of other comprehensive income for the period:

	For the year ended December 31 2019	December 31 2018
Loss/(profit) from changes in demographical actuarial assumptions	23,098	(391)
(Profit)/loss from changes in financial actuarial assumption	97,951	(72,825)
(Profit)/loss from experience adjustment	165,019	19,118
Total (profit)/loss included as part of other comprehensive income	**286,068**	**(54,098)**

Changes in reserve for revaluation of liabilities as part of other comprehensive income for reporting period:

	For the year ended on December 31 2019	2018
Revaluation as at January 1	**241,965**	**296,063**
Changes in revaluation	286,068	(54,098)
Revaluation as at December 31	**528,033**	**241,965**

The main actuarial assumptions:

	December 31 2019	December 31 2018
Financial assumptions		
Discounting rate	6.3%	8.7%
Salary increase in the future	4.5%	4.6%
Inflation rate	4.0%	4.1%
Demographical assumptions		
Predictable retirement age		
– Men	65	61
– Women	60	56
Moderate level of employee turnover	9.5%-3.3%	11.5%

Sensibility of aggregate value for pension liabilities to the changes in the main actuarial assumptions, as outlined below:

	Change in assumptions	Impact on obligations
Discounting rate	Increase/decrease by 0.5%	Change by -3.3%
Salary increase in the future	Increase/decrease by 0.5%	Change by 2.5%
Benefits (inflation) increase in the future	Increase/decrease by 0.5%	Change by 1.2%
Level of employee turnover	Increase/decrease by 10%	Change by -2,5%
Death rate	Increase/decrease by 10%	Change by -1,1%

(in thousands of Russian rubles, if not otherwise mentioned)

Amounts of expectable benefits according to the long-term employee benefits programs for 2020, amounting to 253,362 thousand rubles, including:

- according to the programs with fixed payments, including non-state pension provision of employees amounting to 253,362 thousand rubles;
- according to the long-term employee benefits programs amounting 0 thousand rubles.

29 Trade and other account payable

	December 31 2019	December 31 2018
Long-term debt		
Trade accounts payable	103,725	4,643
Other accounts payable	368	687
	104,093	**5,330**
Short-term debt		
Trade accounts payable	5,120,393	5,257,325
Other accounts payable and accrued costs	592,588	1,368,805
Payables to employees	1,036,148	1,038,820
Dividends payable	453	919
	6,749,582	**7,665,869**

The Group's exposure to liquidity risk related to payables is disclosed in Note 33.

30 Taxes payable except profit tax

	December 31 2019	December 31 2018
VAT	418 872	327 679
Property tax	173 921	214 646
Social security contribution	157 424	120 865
Other taxes payable	58 945	64 419
	809 162	**727 609**

31 Advances received

	December 31 2019	December 31 2018
Long-term		
Advances for services of technological connection to electric networks	880,900	1,241,652
Other advances received	–	–
	880,900	**1,241,652**
Short-term		
Advances for services of technological connection to electric networks	1,537,903	4,118,621
Other advances received	37,538	90
	1,575,441	**4,118,711**

Short-term advances received from the buyers under the technological connection contracts as at December 31, 2018 were included as a part of revenue under the contracts with the buyers for the year ended on December 31, 2019.

(in thousands of Russian rubles, if not otherwise mentioned)

The Management of the Group expects that the entire amount of short-term advances received under technological connection contracts as at 31 December 2019 will be recognized as part of the revenue from contracts with customers within the next reporting period.

Decrease in short-term advances received as at December 31, 2019 was as a result of settlement of liabilities arisen from advances received from Federal State Institution "Rostransmodernizatsiya" under the technological connection contracts previously in the amount of 3,293,261 thousand rubles.

Decrease in long-term advances received as at December 31, 2019 was as a result of reclassification of long-term advances received under the technological connection contracts to the short-term advances, including advances from proposers: Federal State Institution "1st Centre of owner-developer of National Guard troops of the Russian Federation" amounting to 93,449 thousand rubles and "Gazprom Dobycha Krasnodar" OOO amounting to 85,650 thousand rubles, "Patriot-Development Yug" OOO amounting to 67,854 thousand rubles, "Agrofirma named in honor of N.I. Tkatchev" AO amounting to 20,886 thousand rubles, "Mebelshchik" OOO amounting to 23,642 thousand rubles, "StroiGarant" OOO amounting to 19,250 thousand rubles, "Monolit" OOO amounting to 18,553 thousand rubles. It is expected that these advances will be accounted as a part of revenue under the contracts with the buyers for 2020.

32 Reserves

	For the year ended December 31	
	2019	**2018**
Balance as at January 1	**788,366**	**905,937**
Increase for the period	319,635	839,257
Decrease due to provision recovery	(104,670)	(347,896)
Release of provisions	(304,860)	(640,011)
Capitalized	28,001	31,079
Balance as at December 31	**726,472**	**788,366**

Reserves are mainly relates to legal lawsuits and claims that are made against the Group regarding the core activities.

33 Financial risk and capital management

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

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

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

(a) Credit risk

Credit risk is the possibility of Group's financial losses resulting from buyers or contractors' failure to meet contractual obligations regarding the financial facilities. Traditionally it refers to the risks including Group's accounts receivable, bank deposits, cash and cash equivalents.

(in thousands of Russian rubles, if not otherwise mentioned)

Deposits with original repayment period more than three month, cash and cash equivalents are floated in financial institutions that have minimum default risk are considered to be risk-free contractors with stable financial position in the financial markets of the Russian Federation.

In terms of the structures of the Group's borrowers, the exposure of the Group to credit risk is mainly depend on personal characteristic of each of the contractors. The Group creates the reserve for expected credit losses on trade and other accounts receivable, the calculated value of which is defined on the basis of expected credit loss model (ECL model) weighted by degree of probability of default and can be adjusted both upward and downward. For these reasons the Group analyzes creditability of the contractors, debt redemption dynamics and also takes into consideration the modification of terms for making payments, presence of third-party guarantee, bank guarantees and current economy-wide factors.

The carrying value of accounts receivable less the provision for expected credit losses is the maximum amount subject to credit risk. Although economic and other factors effect on payment of receivables, the Group considers that the significant risk of loss that exceeds the created reserve is absent.

The Group preferably uses the prospective payment system to engage with contractors. As general, advance for technological connection of consumers to the networks is stipulated in the contract. The Group does not demand accounts receivable to be used as collateral.

With the purpose of effective management of accounts receivables, the Group monitors the volume change of accounts receivable and its structure by setting off the current and overdue receivables. The Group carries out activities aimed to contractors' timely fulfilment of contractual liabilities, decrease of overdue receivables in order to minimize the credit risk. Such activities include: negotiations with service consumers, improvement of the effectiveness of forming of the scope of services for electric power transmission, enforcement of meter reading schedules agreed upon with reliable suppliers and technological examination of accounting devices, limiting the electric energy consumption (realizable in accordance with statutory regulations of the Russian Federation), claim work, making of demands concerning the financial security in the form of independent (bank) guarantees, banker's guarantees and other forms of fulfilment of obligations.

i. Credit risk level

Carrying value of financial assets reflects the maximum value of credit risk of the Group. As at reporting date the maximum value of credit risk amounted to:

	Carrying value	
	December 31 2019	**December 31 2018**
Trade and other accounts receivable (less the provision for expected credit losses)	7,078,288	6,720,467
Cash and cash equivalents	1,716,085	2,204,921
	8,794,373	**8,925,388**

(in thousands of Russian rubles, if not otherwise mentioned)

As at reporting date the maximum value of credit risk amounted to as part of trade accounts receivable for the groups of buyers amounted to:

	December 31, 2019		December 31, 2018	
	Total nominal value	**Reserve for expected credit loss**	**Total nominal value**	**Reserve for expected credit loss**
Buyers of services for electric power transmission	7,352,026	(1,014,606)	7,152,819	(1,072,410)
Buyers of services for technological connection to electric networks	66,105	(38,185)	59,475	(29,716)
Other Buyers	237,923	(4,376)	87,805	(1,840)
	7,656,054	**(1,057,167)**	**7,300,099**	**(1,103,966)**

The carrying value of trade accounts receivable accrued to the ten largest borrowers of the Group amounted to 7,129, 660 thousand rubles as at December 31, 2019 (as at December 31, 2018 amounted to 6,847,855 thousand rubles).

Reserves for expected credit loss on trade and other accounts receivable.

Classification of trade and other accounts receivable according to the terms of limitation is outlined below:

	December 31, 2019		December 31, 2019	
	Total nominal value	**Reserve for expected credit loss**	**Total nominal value**	**Reserve for expected credit loss**
Undue debts	5,715,353	(151,662)	6,176,203	(219,489)
Overdue by less than 3 months	885,831	(4,104)	381,927	(1,912)
Overdue by more than 3 months and less than 6 months	254,785	(67,973)	105,710	(47,907)
Overdue by more than 6 months and less than a year	565,275	(128,105)	224,449	(87,930)
Overdue for a certain period more than a year	1,431,634	(1,422,746)	1,555,163	(1,365,747)
	8,852,878	**(1,774,590)**	**8,443,452**	**(1,722,985)**

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

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

(in thousands of Russian rubles, if not otherwise mentioned)

The dynamics of reserves for expected credit losses of trade and other accounts receivable are outlined below:

	2019	2018
Ending on January 1	**1,722,985**	**2,008,905**
Increase in reserve for a period	352,822	233,685
Amounts of trade and other accounts receivable written-off out of the previous accrued reserve	(24,143)	(199,219)
Reversal of the amounts of reserve for a period	(277,074)	(320,386)
Ending on December 31	**1,774,590**	**1,722,985**

The Group has no contractual basis for netting off of financial assets and financial liabilities and management of the Group does not expect future netting based on additional agreements as at December 31, 2019 and December 31, 2018.

(b) Liquidity risk

Liquidity risk is a risk when the Group is unable to fulfil its financial liabilities at maturity date of liabilities redemption.

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 image. This approach is used to analyse payment dates associated with financial assets, and also to forecast cash flows from operating activities.

As at December 31, 2019 the sum of available line of open but untapped credits of the Group amounting to 20,850,089 thousand rubles (19,220,378 thousand rubles as at December 31, 2018).

The Group has an opportunity to involve the additional financing within the relevant credit lines in order to carry out short-term obligations.

(in thousands of Russian rubles, if not otherwise mentioned)

Information concerning the contract periods of repayments of financial liabilities taking into account the expectable interest payments and without taking into account the effect of set-offs is outlined below. By reference to the cash flows included in the time analysis of payment, it is not to be expected that they may arise well in advance in time or in significantly different amounts:

December 31, 2019	Carrying value	Cash flows under the contract	Prior to 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years
Non-derivative financial liabilities								
Credit and loans	19,452,563	23,038,199	1,492,123	9,444,657	12,101,419	–	–	–
Bond issue	3,632,940	3,664,872	3,664,872	–	–	–	–	–
Lease liabilities	1,063,418	2,349,838	238,737	236,708	231,066	91,049	55,021	1,497,257
Trade and other account payable	6,853,222	6,855,302	6,750,302	9,255	3,806	3,575	3,718	84,646
	31,002,143	**35,908,211**	**12,146,034**	**9,690,620**	**12,336,291**	**94,624**	**58,739**	**1,581,903**

December 31, 2018	Carrying value	Cash flows under the contract	Prior to 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years
Non-derivative financial liabilities								
Credit and loans	17,598,962	19,354,713	8,919,767	4,196,326	6,238,620	–	–	–
Bond issue	7,080,178	10,009,998	4,155,858	376,884	375,876	375,876	375,840	4,349,664
Lease liabilities	7,670,280	7,672,381	7,665,358	6,655	368	–	–	–
	32,349,420	**37,037,092**	**20,740,983**	**4,579,865**	**6,614,864**	**375,876**	**375,840**	**4,349,664**

(c) Market risk

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

i. Currency risk

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

ii. Interest risk

Changes in interest rates impact primarily loans and borrowings as they change either their fair value (fixed rate debt) or their future cash flows (floating rate debt). The management of the Group does not have a formal policy for determining how much of the Group's exposure should be to fixed or floating rates. However, making a decision about new loans and borrowings, the Group management gives priority to loans and borrowings with fixed interest rates and as a result, the Group is exposed to interest rate risk to a limited extent. As a rule, loan agreements entered into by the Group do not contain any charges for the early repayment of loans on the borrower's initiative which facilitates additional flexibility for the Group in relation to optimizing interest rates in the current economic environment.

Fair value sensitivity analysis for fixed rate instruments

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

(d) Fair and carrying value

Carrying value of the Group's financial instruments coincides with their fair value, therefore, their additional disclosure is not applicable.

Interest rate used to discount the expected future cash flows for long-term and short-term loans for the purpose of determining the disclosed fair value amounting to 7.70%-7,75% as at December 31, 2019 (на 31 декабря 2018 года: 7,60%-9,25%).

Interest rate that is used for discounting of expectable future cash flows on long-term accounts receivable for the purpose of determination of disclosed fair value as at December 31, 2019 amounted to 9,17-9,98% (as at December 31, 2018 amounted to 8,45%-9,16%).

Interest rate that is used for discounting of expectable future cash flows on long-term accounts payable for the purpose of determination of disclosed fair value as at December 31, 2019 amounted to 9,17%-9,98% (as at December 31, 2018 amounted to 8,45%-9,16%).

Within the year ended December 31, 2019, there were no transfers between fair value hierarchy levels.

(in thousands of Russian rubles, if not otherwise mentioned)

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

	Financial assets measured at fair value through other comprehensive income
As at January 1, 2019	1
Acquisition	–
Sale	–
Changes in fair value recognized as part of other comprehensive income	–
Changes in fair value recognized as part of profit or loss	–
As at December 31, 2019	1

(e) Capital management

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

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

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

As at December 31, 2019 and December 31, 2018, these requirements were fulfilled.

34 Capital contractual obligations

As at 31 December 2019, the Group has outstanding commitments under contracts for purchase and construction of property, plant and equipment items for 2,099,864 thousand rubles, including VAT (as at 31 December 2018: 2,614,233 thousand rubles, including VAT).

35 Contingent liabilities

(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) Contingent tax liabilities

Russian tax and customs legislation is subject to varying interpretation when being applied to the transactions and activities of the Group. Consequently, the management's interpretation of tax legislation and the formal documentation may be successfully challenged by the relevant regional or federal authorities. Russian tax administration gradually strengthens. In particular, there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Tax inspections may cover three calendar years prior 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 January 1, 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

The Group does not disclose the numerical information concerning the possible contingent liabilities because of incomplete tax inspection for 2016-2018.

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. The Group's Executive Board does not eliminate the risk of resource outflow, however, the impact of the events cannot be estimated with sufficient measure of reliability.

According to Executive Board opinion, the applicable legislative provisions as at December 31, 2019 were correctly interpreted and the position "Group" may be well-reasoned and secured with regard to tax compliance.

(c) Legal proceedings

The Group is party to a number of legal proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business.

In the opinion of the Executive Board, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the consolidated financial statements.

(d) Environmental commitments

The Group has been operating in the power industry in the Russian Federation for many years. The environmental legislation of the Russian Federation continues to evolve and responsibilities of the authorized state bodies supervising its observance are being reconsidered. Potential environmental commitments arising as a result of a change in interpretation of the existing regulations, civil litigation or changes in legislation cannot be assessed. The management believes, that under the existing control system and legislation, there are no probable liabilities, which may have a material adverse effect on the Group's financial position, results of operations or cash flows.

(in thousands of Russian rubles, if not otherwise mentioned)

36 Related-party transactions

(a) Control relationship

Related parties include shareholders, affiliates and entities under common ownership and control with the Group, members of the Board of Directors and the key management personnel of the Company. Rosseti PJSC was an ultimate parent company as at December 31, 2019 and December 31, 2018. The Government represented by the Federal Agency for Property Management holding the majority shares of Rosseti PJSC is the ultimate controlling party.

(b) Transactions with the ultimate parent, its affiliated and associated companies

Transactions with the ultimate parent, its affiliated and associated companies include transactions with Rosseti PJSC and its affiliates:

	Transaction amount for the year ended December 31		Carrying value	
	2019	2018	December 31 2019	December 31 2018
Revenue, other revenues, financial income				
Ultimate parent				
Other revenue	1,185	1,185	–	–
The enterprises are under common control of the ultimate parent				
Lease	43	194	4	1,224
Other revenue	52,440	7,255	86,818	225,911
Revenues from termination of lease agreement	55	–	–	–
Reserve for impairment of other accounts receivable	167,449	960	–	(167,449)
	221,172	**9,594**	**86,822**	**59,686**

(in thousands of Russian rubles, if not otherwise mentioned)

	Transaction amount for the year ended December 31		Carrying value	
	2019	2018	December 31 2019	December 31 2018
Operating expenses, financial expenses				
Ultimate parent				
Other work and services of production nature	15,272	15,272	1,409	1,385
Other expenses	124,704	124,763	23,208	22,821
Interest expense on lease	56	–	–	–
Interest expenses for financial liabilities measured at amortized cost	755,858	805,330	32,940	80,178
The enterprises are under common control of the ultimate parent				
Services for electric power transmission	8,452,613	8,166,676	854,915	1,219,658
Services for technological connection to electric network	1,822	1,277	5,645	–
Repair services and technical maintenance	949	–	–	–
Short-term lease/lease	61	9,175	12	1,214
Expenses for software and maintenance	–	2,218	–	15,723
Other expenses	188,943	357,532	81,238	343,087
Interest expense on lease	59	–	–	–
Interest expenses for financial liabilities measured at amortized cost	20,820	118,093	–	54
	9,561,157	**9,600,336**	**999,367**	**1,684,120**
Construction and installation jobs capitalized	188,190	251,923	131,557	93,873
	9,749,347	**9,852,259**	**1,130,924**	**1,777,993**

	Carrying value	
	December 31 2019	December 31 2018
Ultimate parent		
Credit and loans	3,600,000	7,000,000
Lease liabilities	1,947	–
The enterprises are under common control of the ultimate parent		
Advances issued	4,436	72,326
Advances received	76	90
Lease liabilities	800	–
	3,607,259	**7,072,416**

As at December 31, 2019 the liability owed to ultimate parent in paying dividends is absent (as at December 31, 2018 is absent).

(in thousands of Russian rubles, if not otherwise mentioned)

(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 amounts of the key management personnel remuneration disclosed in the table are recognized as expenses of the current reporting period related to the key management personnel and included in personnel costs.

	For the year ended December 31	
	2019	**2018**
Short-term employee benefits	162,039	190,525
Post-employment benefits and other long-term benefits (including Pension Plans)	–	123
Severance pay	–	–
Share-based payment	–	–
	162,039	**190,648**

As at December 31, 2019 the current value of liabilities according to the programs with fixed payments and assessed contributions, other post-employment benefits that is reported in the Consolidated Statement of Financial Position, includes the liabilities in relation to key managerial personnel amounting to 0 thousand rubes (as at December 31, 2018 amounting to 1,819 thousand rubles).

(d) Transactions with the 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 amounting to 1,03% of total revenue of the Group for the year ended December 31, 2019 (for the year ended December 31, 2018 amounting to 2,14%), including 0,97% revenue of electric power transmission (for the year ended December 31, 2018 amounting to1,78%).

Expenses for electric power transmission to the government-related entities (including offset against technological losses) amounting to 4,6% of total expenses for electric power transmission for the year ended December 31, 2019 (for the year ended December 31, 2018 amounting to 2,77%).

Interests accrued on credit and loans from government-related banks for the year ended December 31, 2019 amounting to 89,13% (for the year ended December 31, 2018 amounting to 97,88%).

As at December 31, 2019 the cash balance and cash equivalents placed on government-related banks accounts amounting to 1,127,113 thousand rubles (as at December 31, 2018 amounting to 1,035,852 thousand rubles).

As at December 31, 2019 the bank deposit balance placed on government-related banks accounts with initial offering period over three months amounting to 0 thousand rubles (as at December 31, 2018 amounting to 0 thousand rubles).

Information on credit and loans received from government-related banks is disclosed in Note 25.

As at December 31, 2019 the lease liabilities of government-related entities amounting to 267,000 rubles (two hundred and sixty seven thousand rubles).

37 Events after the reporting period

As of January 1, 2020 until the date of signature of the present financial reporting, Kubanenergo PJSC had carried out the refinancing the bond issue amounting to 3,600,000 thousand rubles out of raising long-term credit funds. The indicated refunding did not impact the changes in debt value.

Besides, during the specified period after the reporting date, decrease in loan book of 1,650,446 thousand rubles was carried out of using the temporarily disposable own monetary resources in order to decrease the interest paid.

In 2019 the lease agreement of energy network assets was concluded by the Group. The lease period with monthly lease payment amounting to 110,719 thousand rubles excluding VAT was fixed for the period from January 1, 2020 to December 31, 2024 in accordance with the present agreement. Within the period after the reporting date the Group introduced the requirements of IFRS 16 "Leases" and previously evaluated the right-of-use asset and liability for long-term lease according to discounted value of lease payments that have not been made yet at inception of the lease, i.e. January 1, 2020 amounting to 5,501,499 thousand rubles.