**Consolidated Interim Condensed**

 **Financial Statements of
Public Joint Stock Company Kubanenergo**

**and its subsidiaries prepared in accordance with**

**IAS 34 “Interim Financial Reporting”
for the three months ended March 31, 2020**

**and as of this date**

**(unaudited)**

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**Consolidated Statement of Profit and Loss and Other Comprehensive Income**

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

|  | **Note** |  | **Three Months Ended March 31,****2020** |  | **Three Months Ended March 31,** **2019** |
| --- | --- | --- | --- | --- | --- |
| Revenues | 7 |  | 12 725 989 |  | 11 814 718 |
| Operating expenses | 10 |  | (12 358 703) |  | (11 161 616) |
| Charge of provision for expected credit losses |  |  | 201 914 |  | (160 911) |
| Other revenues | 8 |  | 84 479 |  | 152 734 |
| Other expenses | 9 |  | (481) |  | (2 088) |
| **Operating revenue** |  |  | **653 198** |  | **642 837** |
| Financial revenues | 11 |  | 32 747 |  | 18 155 |
| Financial expenses | 11 |  | (545 118) |  | (457 400) |
| **Total financial revenues/( expenses)** |  |  | **(512 371)** |  | **(439 245)** |
| **Profit before tax** |  |  | **140 827** |  | **203 592** |
|  **Income tax expense** | 12 |  | (181 761) |  | (141 015) |
| **Loss/ Profit for the reporting period** |  |  | **(40 934)** |  | **62 577** |
| **Other comprehensive income** |  |  |  |  |  |
| *Items that cannot be reclassified subsequently* *to profit or loss* |  |  |  |  |
|  |  |  |  |  |  |
| Revaluation of defined benefit pension plans | 12 |  | 24 650 |  | (20 294) |
| Profits tax related to captions that cannot be reclassified subsequently to profit or loss |  |  | (4 930) |  | 4 059 |
| **Total items that cannot be reclassified subsequently** **to profit or loss** |  |  | **19 720** |  | **(16 235)** |
| **Other comprehensive income/(expense) for period, except profits tax**  |  |  | **19 720** |  | **(16 235)** |
| **Total comprehensive income/expense for period** |  |  | **(21 214)** |  | **46 342** |
|  |  |  |  |  |  |
| **Loss /profit which is payable to:** |  |  |  |  |  |
| Company owners |  |  | (40 934) |  | 62 577 |
| **Total comprehensive income/ (loss) which is payable to:** |  |  |  |  |  |
| Company owners |  |  | (21 214) |  | 46 342 |
| **Loss/Earnings per share** |  |  |  |  |  |
| Basic and diluted earnings per share (RUB)  | 20 |  | (0,12) |  | 0,21 |

The present Consolidated Financial Statements are approved by Company Management on « » May 2020 and signed on behalf of Company Management by the following persons:

Deputy General Director

for Economics and Finance

(per procuration of December 23, 2019

in register No. 23/256-н/23-2019-11-654)

 О.V. Ocheredko

Chief Accountant – Head of

Accounting and Tax Accounting Department I.V. Skiba

**Consolidated Statement of Financial Position
(in thousands of Russian rubles, if not otherwise mentioned)**

|  | **Note** |  | **March 31,** **2020**  |  | **December 31,** **2019**  |
| --- | --- | --- | --- | --- | --- |
| **ASSETS** |  |  |  |  |  |
| **Non-current assets** |  |  |  |  |  |
| Fixed assets | 13 |  | 57 011 314 |  | 57 407 331 |
| Intangible assets | 14 |  | 300 292 |  | 325 877 |
| Right-of-use assets | 15 |  | 6 559 448 |  | 991 864 |
| Trade and other accounts receivable | 16 |  | 14 880 |  | 11 343 |
| Assets associated with employee benefits obligations |  |  | 335 068 |  | 318 362 |
| Other non-current financial assets |  |  | 1 |  | 1 |
| Deferred tax assets |  |  | 115 036 |  | 291 819 |
| Advances issued and other non-current assets  | 17 |  | 4 290 |  | 5 121 |
| Assets classified as held for sale – non-current assets |  |  | 61 358 |  | 61 358 |
| **Total non-current assets**  |  |  | **64 401 687** |  | **59 413 076** |
| **Current assets** |  |  |  |  |  |
| Inventory |  |  | 2 125 474 |  | 1 944 833 |
| Prepayment of profit tax |  |  | 432 541 |  | 226 256 |
| Trade and other accounts receivable | 16 |  | 8 666 778 |  | 7 066 945 |
| Cash and cash equivalents | 18 |  | 705 788 |  | 1 716 085 |
| Advances issued and other current assets | 17 |  | 47 608 |  | 47 971 |
| **Total current assets** |  |  | **11 978 189** |  | **11 002 090** |
| **Total assets** |  |  | **76 379 876** |  | **70 415 166** |
|  |  |  |  |  |  |
| **EQUITY AND LIABILITIES**  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |
| Charter capital | 19 |  | 30 379 335 |  | 30 379 335 |
| Capital surplus |  |  | 6 481 916 |  | 6 481 916 |
| Reserve for capital stock issues |  |  | 3 086 449 |  | 3 086 449 |
| Other reserves |  |  | (402 709) |  | (422 429) |
| Retained earnings |  |  | (4 903 287) |  | (4 862 354) |
| **Total equity which is payable to Company owners** |  |  | **34 641 704** |  |  **34 662 917** |
| **Non-current liabilities** |  |  |  |  |  |
| Non-current borrowings | 21 |  | 27 173 527 |  | 20 321 793 |
| Non-current trade and other accounts payable | 22 |  | 103 141 |  | 104 093 |
| Non-current advances received | 24 |  | 1 055 835 |  | 880 900 |
| Liabilities for employee benefits  |  |  | 717 725 |  | 732 902 |
| Government subsidies |  |  | 9 218 |  | 12 287 |
| Deferred tax liabilities |  |  | 294 |  | - |
| **Total non-current liabilities** |  |  | **29 059 740** |  | **22 051 975** |
| **Current liabilities** |  |  |  |  |  |
| Current borrowings and current portion of non-current borrowings | 21 |  | 1 209 266 |  | 3 827 128 |
| Trade and other accounts payable (short-term) | 22 |  | 7 856 181 |  | 6 749 582 |
| Government subsidies |  |  | 12 271 |  | 12 270 |
| Advances received (short-term) | 24 |  | 1 598 367 |  | 1 575 441 |
| Taxes payable except profits tax | 23 |  | 1 256 549 |  | 809 162 |
| Reserves |  |  | 744 720 |  | 726 472 |
| Current profit tax payable  |  |  | 1 078 |  | 219 |
| **Total current liabilities** |  |  | **12 678 432** |  | **13 700 274** |
| **Total liabilities** |  |  | **41 738 172** |  | **35 752 249** |
| **Total equity and liabilities** |  |  | **76 379 876** |  | **70 415 166** |

**Consolidated Statement of Cash Flow
(in thousands of Russian rubles, if not otherwise mentioned)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Note** |  | **Three Months****Ended March 31,** **2020** |  | **Three Months Ended March 31,** **2019** |
| **CASH FLOW FROM****OPERATING ACTIVITIES** |  |  |  |  |  |
| Profit for period |  |  | **(40 934)** |  | **62 577** |
| *Corrections:* |  |  |  |  |  |
| Amortization of fixed assets, right-of-use assets and intangible assets | 10 |  | 1 450 115 |  | 960 301 |
| Financial expenses | 11 |  | 545 118 |  | 457 400 |
| Financial revenues | 11 |  | (32 747) |  | (18 155) |
| Loss from asset sale |  |  | 99 |  | 1 863 |
| Charge (recovery) of provision for expected credit losses |  |  | (201 914) |  | 160 911 |
| Charge (recovery) of provision |  |  | 42 160 |  | 53 470 |
| Change of government subsidies |  |  | (3 068) |  | (3 101) |
| Write-off of bad debts |  |  | 272 |  | (2 342) |
| Write-off of accounts payable |  |  | (1 983) |  | (1 042) |
| Other non-cash transactions |  |  | (170 576) |  | (23 117) |
| Income tax expense | 12 |  | 181 761 |  | 141 015 |
| **Total corrections impact** |  |  | **1 768 303** |  | **1 789 780** |
| Change of assets associated with employee benefits obligations |  |  | (16 706) |  | 7 182 |
| Change of employee benefits obligations |  |  | (1 919) |  | (7 370) |
| **Cash flow from operating activities before changes in working capital and reserves**  |  |  | **1 749 678** |  | **1 789 592** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *Changes in operating assets and liabilities:* |  |  |  |  |  |
| Change in trade and other accounts receivable  |  |  | (1 385 805) |  | (1 834 695) |
| Change in advances issued and other assets |  |  | 1 200 |  | – |
| Change in inventories (less the reserve for impairment of inventory) |  |  | (172 530) |  | 69 978 |
| Change in trade and other accounts payable |  |  | 1 852 953 |  | – |
| Change in advances received |  |  | 199 604 |  | 682 686 |
| Change in reserves |  |  | (28 285) |  | – |
| **Cash flow from operating activities before payment of** **profit tax and interests** |  |  | **2 216 815** |  | **707 561** |
| Profits tax paid |  |  | (215 040) |  | (309 683) |
| Interest paid under the lease agreements  |  |  | (79 311) |  | (22 847) |
| Interest paid |  |  | (453 118) |  | (355 611) |
| **Net cash from operating activities** |  |  | **1 469 346** |  | **19 420**  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| **Consolidated Statement of Cash Flow(in thousands of Russian rubles, if not otherwise mentioned)**  |  |  |  |  |  |
|  | **Note** |  | **Three Months Ended March 31,****2020** |  | **Three Months Ended March 31,** **2019** |
| **CASH FLOW FROM** **INVESTING ACTIVITIES**  |  |  |  |  |  |
| Fixed assets and intangible assets acquisition |  |  | (797 979) |  | (864 412) |
| Interests received |  |  | 7 355 |  | 13 987 |
| **Net cash used in investing activities** |  |  | **(790 624)** |  | **(850 425)** |
| **CASH FLOW FROM** **FINANCING ACTIVITIES** |  |  |  |  |  |
| Borrowed funds |  |  | 17 695 112 |  | 230 173 |
| Repayment of borrowings |  |  | (19 344 357) |  | (30 488) |
| Dividends which are payable to Company owners |  |  | \_ |  | (4) |
| Liabilities for rent |  |  | (39 774) |  | (49 719) |
| **Net cash from financing activities** |  |  | **(1 689 019)** |  | **149 962** |
| **Net decrease in cash and cash equivalents** |  |  | **(1 010 297)** |  | **(681 043)** |
| **Cash and cash equivalents as of the beginning of the reporting period** | 18 |  | **1 716 085** |  | **2 204 921** |
| **Cash and cash equivalents at the end of the reporting period** | 18 |  | **705 788** |  | **1 523 878** |

**Consolidated Statement of Changes in Equity
(in thousands of Russian rubles, if not otherwise mentioned)**

|  |  | Equity which is payable to the Company owners |
| --- | --- | --- |
|  | **Charter capital** |  | **Capital surplus** |  |  | **Reserve for capital stock issues** |  |  | **Reserves** |  | **Retained** **earnings** |  | **Total** |  |
| **Ending on December 31, 2019**  | **30 379 335** |  | **6 481 916** |  |  | **3 086 449** |  |  | **(422 429)** |  | **(4 862 354)** |  | **34 662 917** |  |
| Impact of changes in accounting policies | – |  | – |  |  | – |  |  | – |  | – |  | – |  |
| **Ending on January 1, 2020 (restated)** | **30 379 335** |  | **6 481 916** |  |  | **3 086 449** |  |  | **(422 429)** |  | **(4 862 354)** |  | **34 662 917** |  |
| Loss for period | – |  | – |  |  | – |  |  | – |  | (40 934) |  | (40 934) |  |
| *Other comprehensive income:* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Revaluation of net obligations (assets) pension liabilities  | – |  | – |  |  | – |  |  | 24 650 |  | – |  | **24 650** |  |
| Profits tax in respect of other comprehensive income (Note12) | – |  | – |  |  | – |  |  | (4 930) |  | – |  | **(4 930)** |  |
| **Total comprehensive income for period** | **–** |  | **–** |  |  | **–** |  |  | **19 720** |  | **–** |  | **19 720** |  |
| *Operations with Company owners recorded directly in* *equity* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Dividends to shareholders  | – |  | – |  |  | – |  | – | – |  | – |  | – |  |
| **Ending on March 31, 2020**  | **30 379 335** |  | **6 481 916** |  |  | **3 086 449** |  |  | **(402 709)** |  | **(4 903 287)** |  | **34 641 704** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**Consolidated Statement of Changes in Equity
(in thousands of Russian rubles, if not otherwise mentioned)**

|  | Equity which is payable to the Company owners |
| --- | --- |
|  | **Charter** **capital** |  | **Capital** **surplus** |  |  | **Reserves** |  | **Retained** **earnings** |  | **Total** |  |
| **Ending on December 31, 2018**  | **30 379 335** |  | **6 481 916** |  |  | **(193 574)** |  | **(7 739 922)** |  | **28 927 755** |  |
| Impact of changes in accounting policies | – |  | – |  |  | – |  | – |  | – |  |
| **Ending on January 1, 2019 (restated)** | **30 379 335** |  | **6 481 916** |  |  | **(193 574)** |  | **(7 739 922)** |  | **28 927 755** |  |
| Profit for period | – |  | – |  |  | – |  | 62 577 |  | 62 577 |  |
| *Other aggregate expenditure* |  |  |  |  |  |  |  |  |  |  |  |
| Revaluation of net obligations (assets) pension liabilities | – |  | – |  |  | (20 294) |  | – |  | (20 294) |  |
| Profits tax in respect of other comprehensive income (Note 12) | – |  | – |  |  | 4 059 |  | – |  | 4 059 |  |
| **Total aggregate expenditure for period**  | – |  | – |  |  | (16 235) |  | – |  | **(16 235)** |  |
| **Ending on March 31, 2019**  | **30 379 335** |  | **6 481 916** |  |  | **(209 809)** |  | **(7 677 345)** |  | **28 974 097**  |  |

1. **General information**
	1. **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 a parent company.

In 1993 the Krasnodar Industrial Group of Power Industry and Electrification “Krasnodarenergo” 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 (abbreviated company name - 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.

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

1. **The economic environment** **where the Group carries out its activities**

The Group carries out its activities mainly in the Russian Federation and thus is exposed to the risks arising from the economic situation and state of financial markets of 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.

The spread of COVID-19 has caused financial and economic tensions on the global markets in 2020. Since March 2020, there has been a substantial volatility in the stock market, currency market and raw materials market including the fall in oil prices and decline in the Russian Ruble to the US Dollar and the Euro. Quarantine measures were enforced in many countries including the Russian Federation that had a significant impact on the level and volume of business of market participants. Both the pandemic itself and the measures to minimize its consequences have an impact on the corporate operations in different industries. The scope and duration of these events remain uncertain and now it is impossible to evaluate with reasonable certainty the volume effects.

The Group’s Executive Board is liaising with government authorities at federal and regional levels in order to prevent the spread of the virus. The Group’s Executive Board analyses the potential impact of changeable micro and macroeconomic conditions on financial situation and operating results of the Group. Taking into account the systemically important nature of the industry, state regulation of tariffs for main operating activity, absence of dependence on external suppliers of equipment and services and exchange risk (the major part of revenues and expenses of the Group and also monetary assets and liabilities are denominated in Russian Rubles), the impact of above mentioned events on the Group’s activities are limited. The Group’s Executive Board uses all reasonable efforts to ensure the safety, protecting life and health of its employees and contractors, concurrently with the implementation of actions on maintaining the reliability of electric power supply, performance of the high interest investment projects and business solvency of the Group.

**(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 March 31, 2020, the Russian Federation owned 88.04% of the shares in the statutory fund of the 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.

As of December 31, 2019, the Russian Federation owned 88.04% of the shares in the statutory fund of the 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 Group.

The State has an impact on the activities of the Group by regulation of tariffs. In accordance with the legislation of the Russian Federation, the Group’s tariffs are governed by executive government body of the constituent entity of the Russian Federation relating to State regulation of tariffs. A substantial number of government-controlled enterprises are among the consumers of services of the Group.

1. **Basis for Preparation of Consolidated Financial Statements.**
	1. ***Declaration of Conformity of IAS***

The present Consolidated Interim Condensed Financial Statements for the three months ended March 31, 2020 were drawn up in accordance with the requirements of International Accounting Standards (IAS) 34-Interim Financial Reporting. The separated selected explanatory notes required are designed to provide an explanation of events and transactions that are significant to an understanding of the changes in financial position of the Group and performance of the entity since the last annual reporting date. The present Consolidated Interim Condensed Financial Statements should be considered in conjunction with the Consolidated Financial Statements for the year ended December 31, 2019, which were drawn up in accordance with the International Financial Reporting Standards (hereinafter referred to as the IFRS).

1. ***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 “RUB”), 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 Interim Condensed 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 basic estimates and professional judgments used by the Group in the preparation of the present Consolidated Interim Condensed Financial Statements are consistent with those disclosed in the audited consolidated financial statements for the year ended December 31, 2019.

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.

***(e)* *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 comprehensive 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 comprehensive income in the amount of (160,911) thousand rubles.
* The amount of revenues 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 revenues” in the consolidated statement of profit and loss and other comprehensive income in the amount of 77,147 thousand rubles.
* Other revenues and other expenses previously disclosed in the Note “Other net income” are highlighted in the separate items “Other revenues” and “Other expenses” in the consolidated statement of profit and loss and other comprehensive income in the amount of 152,734 thousand rubles and 2,088 thousand rubles as relevant.
1. **Significant accounting policies**

The essential elements of accounting policies and calculation methods used by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended December 31, 2019, except for the following brief description of the standards and interpretations that are effective for annual periods beginning on January 1, 2020 and applicable to the Group’s activities.

Amendments to IFRS 3 - Business Combinations.

These amendments change the definition of a business in order to simplify its use in practice. Besides, the IASB has introduced an optional “asset concentration test”. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. It is not a business if substantially all of the fair value of the assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets.

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.

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 Financial 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.

Application of these standards and interpretations did not have a significant impact on this Consolidated Interim Condensed Financial Statements of the Group.

1. **Fair value measurement**

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

When measuring fair value of an asset or liability, the Group uses observable market data as much as possible. Fair value measurement is categorised into different levels of the ‘fair value hierarchy’ depending on the inputs used in valuation technique into three levels:

* Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
* Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. such as prices) or indirectly (i.e. derived from prices).
* Level 3 inputs are unobservable inputs for the assets and liabilities.

If the inputs used to measure fair value of an asset or a liability are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement.

The Group discloses the transfers between levels of the fair value hierarchy in the reporting period during which the change has occurred.

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

1. **Principal subsidiaries**

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Ownership share / voting shares, %** |
| **Subsidiaries** |  |  | **Country of incorporation** |  | **Core business** |  | **March 31,2020**  |  | **December 31,2019**  |
|  |  |  |  |  |  |  |  |  |  |
| JSC Energetik Holiday Facility |  |  | The Russian Federation |  | Recreation organization |  | 100 |  | 100 |
| JSC Kuban Energoservis |  |  | The Russian Federation |  | Repair services |  | 100 |  | 100 |

1. **Segment information**

The Management 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).

Revenue indicators, EBITDA are used to reflect the performance of each reportable segment because they are recorded in the internal management reporting that is prepared on the basis of RAS data and are analyzed and measured on a regular basis by the Management. EBIDTA is calculated as revenue or expense before interest expenses, tax, depreciation and amortization. Management believes that these indicators are most relevant to analyse financial performance of certain segments against other segments and companies that operate in these industries.

In accordance with the requirements of IFRS 8 on the basis of data on segment revenue, EBITDA and total amount of assets submitted to the Management, the Group has identified one reportable segment, as described below, which is the Strategic Business Unit (SBU) of the Group. Strategic Business Unit provides electric power transmission services, including services for technological connection in geographic regions of the Russian Federation (Krasnodar Region and the Republic of Adygeya) and is managed as a whole. The segment “Other” combines some operating segments, the core activities of which are providing repair services, lease services and recreation services.

Indicators of segments are based on business information that is prepared on the basis of RAS data and may differ from the similar ones presented in the financial statements which have been drawn up in accordance with IFRS. Reconciliation of the indicators in assessment, submitted to the Management with similar indicators in these Consolidated Financial Statements includes those reclassifications and adjustments that are necessary for presentation of reporting in accordance with IFRS.

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

* 1. ***Information on reportable segments***

Three Months Ended March 31, 2020:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Kubanenergo** |  | **Other segments** |  | **Total** |
|  |
| Revenue from external buyers |  12 703 089  |  |  23 951  |  |  **12 727 040**  |
| Sales revenue between segments  |  749  |   |  63 180  |  |  **63 929**  |
| **Segment revenue** |  **12 703 838**  |  |  **87 131**  |  |  **12 790 969**  |
| Including |  |  |  |  |  |
| *Electric power transmission* |  12 490 216  |  |  -  |  |  **12 490 216**  |
| *Services for technological connection to electric networks* |  69 528  |  |  -  |  |  **69 528**  |
| *Other revenue* |  144 094  |  |  87 131  |  |  **231 225**  |
| Financial revenues |  7 285  |  |  148  |  |  **7 433**  |
| Financial expenses |  (411 161) |  |  -  |  |  **(411 161)** |
| Amortization |  (1 172 684) |   |  (176) |  |  **(1 172 860)** |
| Income/(loss) before taxes |  100 311  |   |  (1 148) |   |  **99 163**  |
| **EBITDA** |  **1 684 156**  |  |  **(972)** |  |  **1 683 184**  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| **Assets of segments** |  **76 750 166**  |  |  **156 631**  |  |  **76 906 797**  |
| Including fixed assets and construction in progress |  62 853 948  |  |  35 492  |  |  **62 889 440**  |
| Capital investment |  670 593  |   |  3 455  |   |  **674 048**  |
| **Liabilities of segments** |  **36 840 063**  |  |  **107 879**  |  |  **36 947 942**  |
|  |  |  |  |  |  |

Three Months Ended March 31, 2019:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Kubanenergo** |  | **Other segments** |  | **Total** |
|  |
| Revenue from external buyers |  11 811 206  |  |  6 432  |  |  **11 817 638**  |
| Sales revenue between segments |  384  |   |  5 491  |  |  **5 875**  |
| **Segment revenue** |  **11 811 590**  |  |  **11 923**  |  |  **11 823 513**  |
| Including |  |  |  |  |  |
| *Electric power transmission* |  11 721 393  |  |  -  |  |  **11 721 393**  |
| *Services for technological connection to electric networks* |  47 404  |  |  -  |  |  **47 404**  |
| *Other revenue* |  42 793  |  |  11 923  |  |  **54 716**  |
| Financial revenues |  13 957  |  |  30  |  |  **13 987**  |
| Financial expenses |  (474 097) |  |  -  |  |  **(474 097)** |
| Amortization |  (1 037 150) |   |  (181) |  |  **(1 037 331)** |
| Income/(loss) before taxes |  45 756  |  |  (7 812) |  |  **37 944**  |
| **EBITDA** |  **1 557 003**  |  |  **(7 631)** |  |  **1 549 372**  |
|  |  |  |   |  |  |
|  |  |  |  |  |  |
| **Assets of segments** |  **76 943 664**  |  |  **73 792**  |  |  **77 017 456**  |
| Including fixed assets and construction in progress |  62 296 281  |  |  29 576  |  |  **62 325 857**  |
| Capital investment |  806 450  |   |  140  |   |  **806 590**  |
| **Liabilities of segments** |  **41 789 102**  |  |  **31 225**  |  |  **41 820 327**  |

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

|  |  |  |  |
| --- | --- | --- | --- |
| Reconciliation of segments revenue: |  |  |  |
|  | **Three Months Ended March 31,**  |
|
|  | **2020**  |  | **2019**  |
| **Segments revenue** |  **12 790 969**  |  |  **11 823 513**  |
| Exclusion of sales revenue between segments |  (63 929) |  |  (5 875) |
| Adjustment of revenue from electric power transmission |  (1 051) |  |  (2 920) |
| **Revenue in Consolidated Statement of Profit or Loss and Other Comprehensive Income** |  **12 725 989**  |  |  **11 814 718**  |
|  |  |  |  |
|  | **Three Months Ended March 31,**  |
|  |  **2020**  |  |  **2019**  |
| **EBITDA of reportable segments** |  **1 683 184**  |  |  **1 549 372**  |
| Adjustment of lease (reversal of lease expenses within the scope of IFRS 16) |  399 305  |  |  56 926  |
| Adjustment of intangible assets value  |  20 235  |  |  15 416  |
| Additional accrual of estimated liabilities |  -  |  |  10 842  |
| Discounting of accounts payable |  776  |  |  2 995  |
| Adjustment of fixed assets value |  (1 211) |  |  2 983  |
| Discounting of accounts receivable  |  1 448  |  |  1 173  |
| Adjustment of accounts payable  |  4 231  |  |  448  |
| Acknowledgment of pension and other non-current liabilities to employees |  18 625  |  |  188  |
| Adjustment of disputed accounts receivable |  29 744  |  |  (605) |
| Adjustment of taxes |  (8) |  |  (948) |
| Adjustment of revenue from electric power transmission  |  (1 051) |  |  (2 920) |
| Adjustment of accrued provisions for unused vacation days and bonuses |  (19 732) |  |  (15 932) |
| Other adjustments |  514  |  |  1 355  |
| **EBITDA**  |  **2 136 060**  |  |  **1 621 293**  |
| Amortization |  (1 450 115) |  |  (960 301) |
| Interest expenses for financial liabilities |  (545 118) |  |  (457 400) |
| Income tax expense | (181 761) |  |  (141 015) |
| **Consolidated profit/loss for the year in Consolidated Statement of Profit or Loss and Other Comprehensive Income** | **(40 934)** |  |  **62 577**  |

|  |  |
| --- | --- |
| **Reconciliation of the total sum of assets of reportable segments:** |  **Three Months Ended March 31,**  |
|  |  **2020**  |  |  **2019**  |
| **Total sum of assets of segments** |  **76 906 797**  |  |  **77 017 456**  |
| Recognition of right-of-use assets on lease within the scope of IFRS 16 |  6 559 951  |  |  1 079 365  |
| Recognition of assets, associated with employee benefits obligations |  335 068  |  |  284 039  |
| Adjustment of deferred tax | (746 104) |  |  95 178  |
| Adjustment of financial investment |  6 638  |  |  8 132  |
| Adjustment of provision for doubtful debts |  (31 536) |  |  1 251  |
| Decrease in accounts receivables of advances for VAT amount from advances issued |  (10 278) |  |  (4 574) |
| Settlement of accounts between segments |  (68 332) |  |  (6 020) |
| Discounting of accounts receivable |  (8 998) |  |  (6 344) |
| Reclassification of accounts receivable on lease to lease obligations |  (7 951) |  |  (6 770) |
| Write-off of accounts receivable |  (25 619) |  |  (15 840) |
| Intragroup financial assets  |  (45 687) |  |  (45 687) |
| Adjustment of intangible assets value |  (86 297) |  |  (82 439) |
| Decrease in VAT recoverable amount for VAT amount from advances received |  (560 713) |  |  (1 101 942) |
| Adjustment of fixed assets value |  (5 817 271) |  |  (6 439 665) |
| Other adjustments |  (19 792) |  |  **(20 002)** |
| **Total sum of assets in Consolidated Statement of Financial Position** | **76 379 876**  |   |  **70 756 138**  |
|  |  |  |  |
|  |  |  |  |
| **Reconciliation of the total sum of liabilities of reportable segments:** |  **Three Months Ended March 31,**  |
|  |  **2020**  |  |  **2019**  |
| **Total sum of liabilities of segments** |  **36 947 942**  |  |  **41 820 327**  |
| Acknowledgment of lease liabilities within the scope of IFRS 16 |  6 659 037  |  |  1 081 577  |
| Acknowledgment of pension and other non-current liabilities to employees  |  717 725  |  |  475 625  |
| Adjustment of accrued provisions for unused vacation days and bonuses |  165 248  |  |  152 387  |
| Additional adjustment of provision for litigations |  -  |  |  16 683  |
| Decrease in other accounts payable for VAT amount from advances received |  (10 278) |  |  (4 574) |
| Settlement of accounts between segments |  (68 332) |  |  (6 020) |
| Write-off of deferred income |  (117 947) |  |  (86 479) |
| Adjustment of deferred tax |  (1 991 996) |  |  (560 675) |
| Decrease in other accounts payable for advances received for VAT amount from advances received |  (560 713) |  |  (1 101 942) |
| Other adjustments |  (2 514) |  |  (4 868) |
| **Total sum of liabilities in Consolidated Statement of Financial Position** |  **41 738 172**  |  |  **41 782 041**  |
|  |  |  |  |

**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 three months ended on March 31, 2020 and March 31, 2019, 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.

The revenue total from the first contractor for the three months ended March 31, 2020 amounts to 6,209,164 thousand rubles or 48.79% of total revenue of the Group (for the three months ended March 31, 2019 amounts to 5,631,533 thousand rubles or 45.58%).

The revenue total from the second contractor for the three months ended March 31, 2020 amounts to 4,112, 277 thousand rubles or 32.31% of total revenue of the Group (for the three months ended March 31, 2019 amounts to 4,151,433 thousand rubles or 35.13%).

1. **Revenue**

|  |  |
| --- | --- |
|  | **Three Months Ended** **March 31,**  |
|  | **2020**  | **2019**  |
| Electric power transmission | 12 488 937 |  | 11 718 199  |
| Technological connection to electric networks | 69 528 |  |  47 404  |
| Other revenue | 141 639 |  | 45 660  |
|  | **12 700 104** |  | **11 811 263** |
| Revenue from lease agreements | 25 885 |  | 3 455 |
|  | **12 725 989** |  | **11 814 718** |

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.

1. **Other revenues**

|  |  |
| --- | --- |
|  | **Three Months Ended** **March 31,**  |
|  | **2020**  |  | **2019**  |
| Revenues from determination of freelance electric power consumption | 10 105 |  | 19 896 |
| Revenues in the form of penalties, fines and forfeits in economic contracts | 44 697 |  | 38 213 |
| Revenues from compensation for losses because of retirement/liquidation of electric grid property | 480  |  | 77 147 |
| Insurance payout | 16 259 |  | 9 671 |
| Write-off of accounts payable | 1 983 |  | 1 042 |
| Other revenues  | 10 955 |  | 6 765 |
|  | **84 479** |  | **152 734** |

Revenues derived from disposal of an asset for the three months ended March 31, 2020 in the amount of 10,675 thousand rubles (for the three months ended March 31, 2019 – 6,540 thousand rubles) constitute other revenues.

1. **Other expenses**

|  |  |
| --- | --- |
|  | **Three Months Ended** **March 31,** |
|  | **2020**  |  | **2019**  |
| Loss from asset sale | 181 |  | 2 088 |
| Other expenses | 300 |  | - |
|  | **481** |  | **2 088** |
|  |  |  |  |

1. **Operating expenses**

|  | **Three Months Ended,****March 31** |
| --- | --- |
|  | **2020** |  | **2019** |
| Expenses for employee benefits | 1 761 892 |  | 1 566 005 |
| Amortization of fixed assets, right-of-use assets and intangible assets | 1 450 115 |  | 960 301 |
| *Material expenses, including* |  |  |  |
| Electric energy for compensation of process losses | 2 536 550 |  | 2 316 366 |
| Electric energy for sale |  |  | - |
| Purchasing electrical energy and heat for own requirements | 50 595 |  | 48 283 |
| Other material expenses | 288 951 |  | 312 969 |
| *Works and services of production nature, including* |  |  |  |
| Services for electric power transmission | 5 072 901 |  | 4 901 869 |
| Repair services and technical maintenance | 136 828 |  | 110 065 |
| Other works and services of production nature | 63 903 |  | 12 585 |
| Taxes and dues except income tax | 177 191 |  | 156 974 |
| Short lease | 1 834 |  | 3 458 |
| Insurance | 22 163 |  | 19 331 |
| *Other outsourced services, including:* |  |  |  |
| Communication services | 16 854 |  | 17 261 |
| Security | 58 759 |  | 50 623 |
| Consulting, legal and auditing services | 6 361 |  | 9 229 |
| Expenses for software and maintenance | 15 595 |  | 24 922 |
| Transport services | 1 544 |  | 965 |
| Implementation of energy service agreement | 281 571 |  | 236 579 |
| Other services | 58 177 |  | 53 478 |
| Reserves\*  | 42 160 |  | 68 536 |
| Business expenses | 17 097 |  | 34 972 |
| Expenses associated with upkeep of property | 11 729 |  | 7 259 |
| Expenses for services for implementation, operation and development of UES | 27 264 |  | 27 268 |
| Penalties, fines, and forfeits from economic contracts | 11 637 |  | 2 003 |
| Profit and loss for past years | 231 125 |  | 47 043 |
| Other expenses | 15 907 |  | 173 272 |
| **TOTAL** | **12 358 703** |  | **11 161 616** |
|  |  |  |  |
|  |  |  |  |
| Reserves are the accrued liabilities for lawsuits that were brought to the Group regarding the core activities. |

1. **Financial revenues and expenses**

|  | **Three Months Ended** **March 31,** |
| --- | --- |
|  | **2020** |  | **2019**  |
| **Financial revenues** |  |  |  |
| Interest yield on loans issued, bank deposits and bills and bank account balance | 7 433 |  | 13 987 |
| Interest yield on assets associated with liabilities for employee benefits | 22 820 |  | – |
| The effect from initial discounting of financial liabilities | 776 |  | 2 995 |
| Amortization of discount of financial assets | 1 448 |  | 1 173 |
| Other financial revenues | 270 |  | – |
|  | **32 747** |  | **18 155** |
|  |  |  |  |
|  |  |  |  |
|  | **Three Months Ended** **March 31,** |
|  | **2020**  |  | **2019**  |
| **Financial expenses** |  |  |  |
| Interest expenses for financial liabilities measured at amortized cost | 399 879 |  | 411 469 |
| Interest expenses for lease liabilities | 133 437 |  | 22 740 |
| Interest expenses for long-term liabilities for employee benefits | 11 392 |  | 9 636 |
| The effect from initial discounting of financial assets |  65 |  | 66 |
| Amortization of discount of financial liabilities | 345 |  | 228 |
| Other financial expenses\* | – |  | 13 261 |
|  | **545 118** |  | **457 400** |
|  |  |  |  |
| \* Other financial costs are interests accrued under the contracts of accounts payable reorganization |

1. **Profits tax**

|  | **Three Months Ended** **March 31,**  |
| --- | --- |
|  | **2020**  |  | **2019**  |
| **Current income tax** |  |  |  |
| Accrued of current tax | (9 778) |  | (62 580) |
| Tax adjustment for the prior periods | 164 |  | – |
| **Total current income tax** | **(9 614)** |  | **(62 580)** |
|  Deferred income tax | (172 147) |  | (78 435) |
|  **Total expenditure of profit tax** | **(181 761)** |  | **(141 015)** |
|  |  |  |  |

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

|  | **Three Months Ended March 31, 2020**  |  | **Three Months Ended** **March 31, 2019** |
| --- | --- | --- | --- |
|  | **Before tax** |  | **Profits tax** |  | **After tax** |  | **Before tax** |  | **Profits tax** |  | **After tax** |
|  Revaluation of liabilities for the programmes with fixed payments | 24 650 |  |  (4 930) |  | 19 720 |  | (20 294) |  | 4 059 |  | (16 235) |
|  | **24 650** |  |  **(4 930)** |  | **19 720** |  | **(20 294)** |  | **4 059** |  | **(16 235)** |

As at March 31, 2020 and March 31, 2019, 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 before tax associated with profit tax expense, as follows:

|  | **Three Months Ended** **March 31,** |  |
| --- | --- | --- |
|  | **2020**  |  |  | **2019**  |  |
| **Profit before tax** | **140 827** |  |  |  **203 592** |  |
| **Theoretic cost amount of profit tax at 20% rate** | **(28 165)** |  |  | **(40 718)** |  |
|  Tax effects from sections, untaxed and non -deductible for tax purposes | (153 760) |  |  | (100 297) |  |
| Adjustments for previous years  | 164 |  |  | – |  |
|  | **(181 761)** |  |  | **(141 015)** |  |

1. **Fixed assets**

|  |  | **Real estate and buildings** |  | **Transmission networks** |  | **Electric power transmission equipment** |  | **Other** |  | **Construction in progress** |  | **Total** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |
| *Historical /deemed cost* |  |  |  |  |  |  |  |  |  |  |  |  |
| **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 |  | (23) |  | (267) |  | 290 |  | – |  | – |  | – |
| Receipts |  | 64 |  | 2 095 |  | 708 |  | 2 896 |  | 849 905 |  | 855 668  |
| Entry into operation |  | 2 317 |  | 208 034 |  | 56 505 |  | 93 604 |  | (360 460) |  | – |
| Retirement |  | (2 167) |  | (4 023) |  | (18) |  | (7 113) |  | (2 374) |  | (15 695) |
| **As at March 31, 2019**  |  | **8 078 494** |  | **39 581 235** |  | **18 056 792** |  | **8 050 574** |  | **11 799 262** |  | **85 566 357** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| *Accumulated amortizationand impairment* |  |  |  |  |  |  |  |  |  |  |  |  |
| **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 |  | 13 |  | 22 |  | (35) |  | – |  | – |  | – |
| Introduction into fixed asset structure (loss carryforward due to impairment) |  | – |  | (507) |  | (203) |  | – |  | 710 |  | – |
| Accumulated amortization |  | (75 625) |  | (432 560) |  | (253 441) |  | (135 172) |  | – |  | (896 798) |
| Retirement |  | 1 279 |  | 2 902 |  | 17  |  | 7 113 |  | – |  | 11 311 |
| **As at March 31, 2019**  |  | **(2 964 425)** |  | **(12 771 817)** |  | **(8 196 001)** |  | **(5 730 249)** |  | **(77 592)** |  | **(29 740 084)** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| *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 March 31, 2019**  |  | **5 114 069** |  | **26 809 418** |  | **9 860 791** |  | **2 320 325** |  | **11 721 670** |  | **55 826 273** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| *Historical /deemed cost* |
| **As at January 1, 2020**  |  | **9 857 128** |  | **45 731 587** |  | **21 500 947** |  | **8 942 530** |  | **3 702 815** |  | **89 735 007** |
| Reclassification between groups |  | – |  | 838 |  | – |  | (838) |  | – |  | – |
| Receipts |  | 45 |  | 5 407 |  | 2 278 |  | 3 351 |  | 684 638 |  | 695 719 |
| Acquisition of a subsidiary |  |  |  |  |  |  |  |  |  |  |  |  |
| Entry into operation |  | 124 268 |  | 266 499 |  | 96 546 |  | 80 585 |  | (567 898) |  | – |
| Reclassification into assets available for sale |  |  |  |  |  |  |  |  |  |  |  |  |
| Retirement |  | (60) |  | (1 103) |  | (5 657) |  | (24) |  | (6 426) |  | (13 270) |
| **As at March 31, 2020**  |  | **9 981 381** |  | **46 003 228** |  | **21 594 114** |  | **9 025 604** |  | **3 813 129** |  | **90 417 456** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| *Accumulated amortization and impairment* |
| **As at January 1, 2020**  |  | **(3 207 102)** |  | **(14 098 992)** |  | **(8 986 012)** |  | **(5 964 288)** |  | **(71 282)** |  | **(32 327 676)** |
| Reclassification between groups |  | – |  | (151) |  | – |  | 151 |  | – |  | – |
| Accumulated amortization |  | (86 450) |  | (548 610) |  | (289 881) |  | (159 256) |  | – |  | (1 084 197) |
| Reclassification of impairment losses when introducing into fixed assets |  | (875) |  | (100) |  | (310) |  | (395) |  | 1 680 |  | – |
| Reclassification into assets available for sale |  |  |  |  |  |  |  |  |  |  |  |  |
| Retirement  |  | 59 |  | 360 |  | 5 250 |  | 21 |  | 41 |  | 5 731 |
| **As at March 31, 2020**  |  | **(3 294 368)** |  | **(14 647 493)** |  | **(9 270 953)** |  | **(6 123 767)** |  | **(69 561)** |  | **(33 406 142)** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| *Residual value* |  |  |  |  |  |  |  |  |  |  |  |  |
| **As at January 1, 2020**  |  | **6 650 026** |  | **31 632 595** |  | **12 514 935** |  | **2 978 242** |  | **3 631 533** |  | **57 407 331** |
| **As at March 31, 2020**  |  | **6 687 013** |  | **31 355 735** |  | **12 323 161** |  | **2 901 837** |  | **3 743 568** |  | **57 011 314** |

For the three months ended on March 31, 2020, capitalized interests amounted to 12,742 thousands rubles (for the three months ended on March 31, 2019 amounted to 129,526 thousand rubles), capitalization rate amounted to 7.46% (for the three months ended on March 31, 2019 amounted to 5.9%).

For the three months ended on March 31, 2020, amortization was capitalized into the value of the facilities of investment building amounting to 1,251 thousand rubles (for the three months ended on March 31, 2019 amounted to 2,244 thousand rubles).

1. **Intangible assets**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Software** |  | **Certificates, licenses and patents** |  | **R&D** |  | **Other**  |  | **Total** |
| *Historical cost* |  |  |  |  |  |  |  |  |  |
| **As at January 1, 2019**  | **505 189** |  | **5 295**  |  | **40 934** |  | **36 169** |  | **587 587** |
| Reclassification between groups |  |  |  |  |  |  |  |  |  |
| Receipts | 19 191 |  | – |  | – |  | – |  | **19 191** |
| Retirement | – |  | – |  | – |  | (8 297) |  | **(8 297)** |
| **As at March 31, 2019**  | **524 380** |  | **5 295** |  | **40 934** |  | **27 872** |  | **598 481** |
|  |  |  |  |  |  |  |  |  |  |
| *Accumulated amortization and impairment* |  |  |  |  |  |  |  |  |  |
| **As at January 1, 2019**  | **(318 369)** |  | **(5 295)** |  | – |  | **(15 102)** |  | **(338 766)** |
| Reclassification between groups |  |  |  |  |  |  |  |  |  |
| Accumulated amortization | (21 331) |  | – |  | – |  | (1 274) |  | **(22 605)** |
| Retirement | – |  | – |  | – |  | 8 297 |  | **8 297** |
| **As at March 31, 2019**  | **(339 700)** |  | **(5 295)** |  | – |  | **(8 079)** |  | **(353 074)** |
|  |  |  |  |  |  |  |  |  |  |
| ***Residual value*** |  |  |  |  |  |  |  |  |  |
| **As at January 1, 2019**  | **186 820** |  | – |  | **40 934** |  | **21 067** |  | **248 821** |
| **As at March 31, 2019**  | **184 680** |  | – |  | **40 934** |  | **19 793** |  | **245 407** |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Software** |  | **Certificates, licenses and patents** |  | **R&D** |  | **Other** |  | **Total** |
| *Historical cost* |  |  |  |  |  |  |  |  |  |
| **As at January 1, 2020**  | **652 801** |  | **7 171**  |  | **14 500** |  | **78 195** |  | **752 667** |
| Reclassification between groups |  |  |  |  |  |  |  |  |  |
| Receipts | 1 853 |  | 1 503 |  | – |  | – |  | **3 356** |
| Retirement |  |  |  |  |  |  |  |  |  |
| **As at March 31, 2020**  | **654 654** |  | **8 674** |  | **14 500** |  | **78 195** |  | **756 023** |
|  |  |  |  |  |  |  |  |  |  |
| *Accumulated amortization and impairment* |  |  |  |  |  |  |  |  |  |
| **As at January 1, 2020**  | **(403 576)** |  | **(5 895)** |  | – |  | **(17 319)** |  | **(426 790)** |
| Reclassification between groups |  |  |  |  |  |  |  |  |  |
| Accumulated amortization | (22 629) |  | (495) |  | – |  | (5 817) |  | **(28 941)** |
| Retirement |  |  |  |  |  |  |  |  |  |
| **As at March 31, 2020**  | **(426 205)** |  | **(6 390)** |  | – |  | **(23 136)** |  | **(455 731)** |
|  |  |  |  |  |  |  |  |  |  |
| ***Residual value*** |  |  |  |  |  |  |  |  |  |
| **As at January 1, 2020**  | **249 225** |  | **1 276** |  | **14 500** |  | **60 876** |  | **325 877** |
| **As at March 31, 2020**  | **228 449** |  | **2 284** |  | **14 500** |  | **55 059** |  | **300 292** |

For the three months ended on March 31, 2020, the sum of amortization of intangible assets included in operating expenses in the consolidated statements of profit and loss and other comprehensive income, amounted to 28,941 thousand rubles (for the three months ended on March 3, 2019 amounted to 22,605 thousand rubles).

For the three months ended on March 31, 2020, the sum of capitalized amortization of intangible assets amounted to 53 thousand rubles (for the three months ended on March 3, 2019 amounted to 27 thousand rubles).

Intangible assets are amortized using the straight-line method.

Expenses on R&D recognized in operating expenses for the three months ended on March 31, 2020 amounted to 2,255 thousand rubles (for the three months ended on March 3, 2019 amounted to 12,293 thousand rubles).

1. **Right-of-use assets**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Land and buildings** |  | **Transmission networks** |  | **Electric power transmission equipment** |  | **Other** |  | **Total** |
| *Historical cost* |  |  |  |  |  |  |  |  |  |
| **As at January 1, 2019** | 479 102 |  | 16 273 |  | 565 006 |  | 59 874 |  | **1 120 255** |
| Receipts | 2 772 |  | – |  | – |  | – |  | **2 772** |
| Modification of terms under lease agreements | – |  | – |  | – |  | – |  | – |
| Retirement or termination of lease agreements | – |  | – |  | – |  | – |  | – |
| **As at March 31, 2019**  | **481 874** |  | **16 273** |  | **565 006** |  | **59 874** |  | **1 123 027** |
|  |  |  |  |  |  |  |  |  |  |
| *Accumulated amortization and impairment* |  |  |  |  |  |  |  |  |  |
| **As at January 1, 2019**  | – |  | – |  | – |  | – |  | – |
| Accumulated amortization | (7 916) |  | (946) |  | (34 049) |  | (807) |  | **(43 718)** |
| Retirement or termination of lease agreements | – |  | – |  | – |  | – |  | – |
| **As at March 31, 2019**  | **(7 916)** |  | **(946)** |  | **(34 049)** |  | **(807)** |  | **(43 718)** |
|  |  |  |  |  |  |  |  |  |  |
| *Residual value* |  |  |  |  |  |  |  |  |  |
| **As at January 1, 2019**  | **479 102** |  | **16 273** |  | **565 006** |  | **59 874** |  | **1 120 255** |
| **As at March 31, 2019**  | **473 958** |  | **15 327** |  | **530 957** |  | **59 067** |  | **1 079 309** |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Land and buildings** |  | **Transmission networks** |  | **Electric power transmission equipment** |  | **Other** |  | **Total** |
| *Historical cost* |  |  |  |  |  |  |  |  |  |
| **As at January 1, 2020**  | **581 969** |  | **14 704** |  | **558 753** |  | **7 789** |  | **1 163 215** |
| Reclassification between groups | – |  | – |  | – |  | – |  | – |
| Receipts | 1 679 696 |  | 2 761 891 |  | 1 031 416 |  | 365 923 |  | **5 838 926** |
| Modification of terms under lease agreements | 75 534 |  | 47 |  | 92 |  | – |  | **75 673** |
| Retirement or termination of lease agreements | (9 353) |  | – |  | – |  | (288) |  | **(9 641)** |
| **As at March 31, 2020**  | **2 327 846**  |  | **2 776 642** |  | **1 590 261** |  | **373 424**  |  | **7 068 173** |
|  |  |  |  |  |  |  |  |  |  |
| *Accumulated amortization and impairment* |  |  |  |  |  |  |  |  |  |
| **As at January 1, 2020**  | **(32 455)** |  | **(3 804)** |  | **(133 505)** |  | **(1 587)** |  | **(171 351)** |
| Reclassification between groups | – |  | – |  | – |  | – |  | – |
| Accumulated amortization | (97 725) |  | (138 802) |  | (85 105) |  |  (18 641) |  | **(340 273)** |
| Modification of terms under lease agreements | 1 505 |  | – |  | – |  | – |  | **1 505** |
| Retirement or termination of lease agreements | 1 379 |  | – |  | – |  | 15 |  | **1 394** |
| **As at March 31, 2020**  | **(127 296)** |  | **(142 606)** |  | **(218 610)** |  | **(20 213)** |  | **(508 725)** |
|  |  |  |  |  |  |  |  |  |  |
| *Residual value* |  |  |  |  |  |  |  |  |  |
| **As at January 1, 2020**  | **549 514** |  | **10 900** |  | **425 248** |  | **6 202** |  | **991 864** |
| **As at March 31, 2020**  | **2 200 550** |  | **2 634 036** |  | **1 371 651** |  | **353 211** |  | **6 559 448** |

1. **Trade and other accounts receivable**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March 31,****2020** |  | **December 31,2019** |
| **Trade and other accounts receivable**  **long-term**  |  |  |  |
| Trade accounts receivable  | 839 |  | 285 |
| Provision for expected credit losses on trade accounts receivable | – |  | – |
| Other accounts receivable  | 14 041 |  | 11 058 |
| Provision for expected credit losses on other accounts receivable | – |  | – |
|  | **14 880** |  | **11 343** |
| **Trade and other accounts receivable** **short-term**  |  |  |  |
| Trade accounts receivable | 9 285 729 |  | 7 655 769 |
| Provision for expected credit losses on trade accounts receivable | (882 197) |  | (1 057 167) |
| Other accounts receivable  | 937 646 |  | 1 185 766 |
| Provision for expected credit losses on other accounts receivable | (674 400) |  | (717 423) |
|  | **8 666 778** |  | **7 066 945** |

1. **Advances issued and other assets**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March 31,2020** |  | **December 31,2019** |
| **Non-current** |  |  |  |
| Advances issued | 3 605 |  | 4 436 |
| Provision for impairment of advances issued | – |  | – |
| VAT for advances issued | 685 |  | 685 |
|  | **4 290** |  | **5 121** |
| **Current** |  |  |  |
| Advances issued | 34 275 |  | 45 760 |
| Provision for impairment of advances issued | (9 995) |  | (13 313) |
| VAT recoverable | 19 005 |  | 8 030 |
| VAT for advances received, and Vat for advances, issued for fixed asset acquisition | 780 |  | 431 |
| Prepaid taxes, except profit tax | 3 543 |  | 7 063 |
|  | **47 608** |  | **47 971** |

1. **Cash and cash equivalents**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March 31,2020** |  | **December 31,2019** |
|  |  |  |  |
| Cash at bank and in hand | 705 788 |  | 1 716 085 |
| Cash equivalents | – |  | – |
|  | **705 788** |  | **1 716 085** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Rating** |  | **Rating agency** |  | **March 31,2020** |  | **December 31,2019** |
| Federal Treasury Department in Krasnodar Region | – |  | – |  | 579 268 |  | 579 268  |
| JSC AB “ROSSIYA” | ruAA |  | Expert RA |  | 8 757 |  | 9 009  |
| Russian Regional Development Bank | Ва2 |  | Moody’s |  | 100 |  | 670  |
| Mosoblbank PJSC |  |  |  |  | – |  | 6 |
| PAO Sberbank\* | ba 1 |  | Moody’s |  | 107 127 |  | 44 154  |
| Bank GPB (JSC) \* | b 1 |  | Moody’s |  | 4 127 |  | 1 082 059 |
| VTB Bank (PJSC) \* | ВВВ- |  | Standart & Poor’s |  | 6 401 |  | 900  |
| Cash in hand | - |  | **-** |  | 8 |  | 19 |
|  |  |  |  |  | **705 788** |  | **1 716 085**  |
|  |  |  |  |  |  |  |  |

\* Government-related banks.

As at March 31, 2020 and December 31, 2019, all cash balance and cash equivalents are in rubles.

1. **Charter capital**

***(c) Charter capital***

|  |  |  |
| --- | --- | --- |
|  |  **Ordinary shares** |  |
| *Per share* | **March 31,****2020**  |  | **December 31,****2019**  |  |
|  Nominal value per share | 100 RUB |  | 100 RUB |  |
|  In circulation as at January 1 | 334 657 837 |  | 303 793 350 |  |
|  In circulation at the end of year and fully paid | 334 657 837 |  | 334 657 837 |  |

***(d) Ordinary shares***

In accordance with the Articles of Association as at January 1, 2020, the Charter capital of the Company amounted to 30,379,335,000 rubles and it is divided in 303,793,350 units of ordinary registered uncertified shares at nominal value of 100 (one hundred) rubles per share.

On July 18, 2019 the Bank of Russia carried out the official registration of secondary equity offering in the quantity of 37,477,392 units, 30,864,487 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 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.

As at December 31, 2020 the official registration of amendments to the Articles of Association of PJSC Kubanenergo related to the above-mentioned increase of share capital was not carried out.

***(e) Dividends***

The basis for distribution of the Company’s profit to shareholders is defined by Russian legislation as net profit according to the data of accounting statements prepared in accordance with Russian Accounting Standards and preparation of reporting in the Russian Federation.

As at March 31, 2020, dividends were not announced following the results of financial and operational activities for 2019.

***(f) 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-А 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.

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

1. **Earnings per share**

Calculation of earnings per share for the three months ended on March 31, 2020 and the three months ended March 31, 2019 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* | **Three Months EndedMarch 31,**  |
|  | **2020** |  | **2019**  |
| **Ordinary shares as at January 1** | 331 995 |  | 303 793 |
| The effect of stock floatation | 22 703 |  | – |
|  **Weighted average number of shares for the period ended on March 31**  | **334 658** |  | **303 793** |

|  |  |
| --- | --- |
|  | **Three Months EndedMarch 31,** |
|  | **2020**  |  | **2019**  |
| Weighted average number of shares outstanding for the period ended on March 31 (in thousands of units) | 334 658 |  | 303 793 |
| Loss/profit for period which is payable to Company owners | (40 934) |  | 62 577 |
| **Loss/Profit per share – basic and diluted (in Russian rubles)** | **(0,12)** |  | **0,21** |

1. **Borrowings**

|  | **March 31,2020** |  | **December 31,2019** |
| --- | --- | --- | --- |
| **Long-term liabilities** |  |  |  |
| Unsecured loans and borrowings | 21 382 466 |  | 19 432 911 |
| Unsecured bonds  | – |  | 3 600 000 |
| Lease liabilities | 6 985 165 |  | 1 063 418 |
| By deducting: current portion of long-term lease liabilities | (1 194 104) |  | (174 536) |
| By deducting: current portion of long-term unsecured bonds | – |  | (3 600 000) |
|  | **27 173 527** |  | **20 321 793** |
| **Short-term liabilities** |  |  |  |
| Unsecured loans and borrowings | 15 162 |  | 52 592 |
| Current portion of long-term lease liabilities | 1 194 104 |  | 174 536 |
| Current portion of long-term unsecured bonds | – |  | 3 600 000 |
|  | **1 209 266** |  | **3 827 128** |
| **Including:** |  |  |  |
| Interest on loans and borrowings payable | 13 962 |  | 19 652 |
| Interest on unsecured bonds payable | – |  | 32 940 |
|  | **13 962** |  | **52 592** |

Long-term and short term loans and borrowings liabilities, bonds liabilities as at March 31, 2020 and December 31, 2019 amounted to 21,397,628 thousand rubles and 23,085,503 thousand rubles as relevant (except long-term and short-term lease liabilities).

As at March 31, 2020 and December 31, 2019, long-term and short-term lease liabilities amounted to 6,985,165 thousand rubles and 1,063,418 thousand rubles as relevant.

As at March 31, 2020 and December 31, 2019, all loans and borrowings balances are denominated in rubles.

For the three months ended on March 31, 2020, the Group took out the following bank loans:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Effective interest rates** |  |  | **Repayment periods** |  | **Nominal value** |
| Unsecured bank loans \* |  | 7,25%-7,40% |  |  | 2022-2023  |  | 16 021 090 |
| Unsecured bank loans |  | 7,40%-7,40% |  |  | 2022-2023. |  | 1 672 822 |
| Other unsecured loans and borrowings |  | 15,0%-15,0% |  |  | 2020-2020  |  | 1 200 |
|  |  |  |  |  |  |  | **17 695 112** |

\* Loans from state-controlled entities.

For the three months ended March 31, 2020, the Group repaid the following bonded and bank loans:

|  |  |  |
| --- | --- | --- |
|  |  | **Nominal value** |
| Loans and borrowings from state-controlled entities |  | 14 113 538 |
| Bonded loans |  | 3 600 000 |
| Other loans and borrowings |  | 1 630 819 |
|  |  | **19 344 357** |

As at March 31, 2020, the sum of available line of open but untapped credits of the Group amounted to 18,900,534 thousand rubles (as at December 31, 2019 amounted to 20,850,089 thousand rubles).

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

.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Repayment period** |  | **Effective interest rate** |  | **Nominal value** |
|  | **March 31, 2020**  |  | **December 31, 2019**  |  | **March 31, 2020** |  | **December 31, 2019** |
| **Unsecured loans and borrowings** |  |  |  |  |  |  |  |  |  |
| **Unsecured loans and borrowings** \* | 2021-2023  |  | 7,32%-7,40% |  | 7,70%-7,75% |  | 18 230 285 |  | 19 432 911 |
| Other unsecured borrowings | 2020-2020  |  | 15% |  | 15% |  | 1 200 |  | – |
| Other unsecured loans | 2022-2023  |  | 7,40%-7,40% |  | – |  | 3 152 181 |  | – |
|  |  |  |  |  |  |  | **21 383 666** |  | **19 432 911** |
| **Unsecured bonds** |  |  |  |  |  |  |  |  |  |
| Unsecured bonds | 2012-2020  |  | 10,44%-12,65% |  | 10,44%-12,65% |  | – |  | 3 600 000 |
|  |  |  |  |  |  |  | – |  | 3 600 000 |
| Lease liabilities | 2020-2068  |  | 7,37%-8,13% |  | 7,37%-9,2% |  | 6 985 165 |  | 1 063 418 |
| **Total liabilities** |  |  |  |  |  |  | **28 368 831** |  | **24 096 329** |

*\** *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 25.

1. **Trade and other accounts payable**

|  | **March 31, 2020** |  | **December 31,2019** |
| --- | --- | --- | --- |
| **Long-term debt** |  |  |  |
| Trade accounts payable | 103 051 |  | 103 725 |
| Other accounts payable | 90 |  | 368 |
|  | **103 141** |  | **104 093** |
|  |  |  |  |
| **Short-term debt** |  |  |  |
| Trade accounts payable | 6 194 603 |  | 5 120 393 |
| Other accounts payable and accrued costs | 639 139 |  | 592 588 |
| Payables to employees | 1 021 987 |  | 1 036 148 |
| Dividends payable | 452 |  | 453 |
|  | **7 856 181** |  | **6 749 582** |

1. **Taxes payable except profits tax**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March 31,****2020** |  | **December 31,** **2019** |
|  |  |  |  |
| VAT | 727 449 |  | 418 872 |
| Property tax | 341 839 |  | 173 921 |
| Social security contribution | 134 394 |  | 157 424 |
| Other taxes payable | 52 867 |  | 58 945 |
|  | **1 256 549** |  | **809 162** |

1. **Advances received**

| **Long-term** | **March 31,2020** |  | **December 31,2020** |
| --- | --- | --- | --- |
|  Advances for services of technological connection to electric networks | 1 055 835 |  | 880 900 |
| Other advances received | – |  | – |
|  | **1 055 835** |  | **880 900** |
| **Short-term** |  |  |  |
|  Advances for services of technological connection to electric networks | 1 536 987 |  | 1 537 903 |
| Other advances received | 61 380 |  | 37 538 |
|  | **1 598 367** |  | **1 575 441** |

1. **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 the present 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.

## 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.

Deposits with original repayment period more than three months, 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.

Interest rate used for discounting of the expected cash flow on long-term accounts payable for the purpose of determination of disclosed fair value on March 31, 2020 amounted to 7,37% – 8,13% (as at December 31, 2019 amounted to 5,38% – 8,84%).

Interest rate used for discounting of the expected cash flow on long-term accounts receivable for the purpose of determination of disclosed fair value on March 31, 2020 amounted to 7,37% – 8,13% (as at December 31, 2019 amounted to 4,95% – 9,63%).

Interest rate used for discounting of the expected cash flow on long-term and short-term borrowings for the purpose of determination of disclosed fair value on March 31, 2020 amounted to 7,32 % – 15,0% (as at December 31, 2019 amounted to 4,87% – 8,84%).

Carrying value of financial instruments of the Group is approximately equal to their fair value; therefore, the additional disclosure is not required in respect of these financial instruments.

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

|  |  | **Financial assets measurable at fair value through other comprehensive income** |
| --- | --- | --- |
| **As at January 1, 2020** |  | **1** |
| Purchase |  | – |
| Selling |  | – |
| Changes in fair value recognized as a part of other comprehensive income |  | – |
| Change in fair value recognized as a part of profit or loss |  | – |
| **As at March 31, 2020**  |  | **1** |

## (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 March 31, 2020, the sum of available line of open but untapped credits of the Group amounting to 18,900,534 thousand rubles (as at December 31, 2019, amounted to 20,850,089 thousand rubles). The Group has an opportunity to involve the additional financing within the relevant credit lines in order to carry out short-term obligations.

1. **Capital contractual commitments**

The sum of capital liabilities of the Group under the contracts for purchasing and construction of fixed assets amounted to 2,023,834 thousand rubles including VAT as at March 31, 2020 (as at March 31, 2019 amounted to 2,186,595 thousand rubles including VAT).

1. **Contingent liabilities**

**(g) 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.

**(h) Contingent tax liabilities**

Russian tax 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 were correctly interpreted and the position “Group” may be well-reasoned and secured with regard to tax compliance.

**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.

**(i) 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.

1. **Related-party transactions**

**(j) 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 had control over the company as at March 31, 2020 and December 31, 2019. The Government represented by the Federal Agency for Property Management holding the majority shares of Rosseti PJSC is the ultimate controlling party.

 **(k)** **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 of PJSC Kubanenergo as the key management personnel.

Key management personnel benefits are made up of salary provided by labour contract, non-cash benefits and also bonuses based on the results for the period and other payments. Benefits and compensation are not paid to those members of the Board of Directors who occupy civil service positions.

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.

|  |  |
| --- | --- |
|  | **Three Months Ended March 31,** |
|  | **2020**  |  | **2019**  |
| Short-term employee benefits | 42 987 |  | 20 003 |
|  Post-employment benefits and other long-term benefits (including Pension Plans) | – |  | 15 |
| **Total** | **42 987** |  | **20 018** |

As at March 31, 2020, the current value of liabilities according to the plans with fixed payments and assessed contributions and also 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 rubles (as at March 31, 2019 amounting to 1,961 thousand rubles).

 **(l)** **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 amounted to 0.23% of total revenue of the Group for the three months ended March 31, 2020 (for the three months ended March 31, 2019 amounted to 1.41%), including 0.11% of revenue from electric power transmission (for the three months ended March 31, 2019 amounted to1.41%).

Expenses for electric power transmission to the government-related entities (including offset against technological losses) amounted to 34.84 % of total expenses for electric power transmission for the three months ended March 31, 2020 (for the three months ended March 31, 2019 amounted to 7.37%).

Interests accrued on loans and borrowings from government-related banks for the three months ended March 31, 2020 amounted to 317,832 thousand rubles (for the three months ended March 31, 2019 amounted to 251,478 thousand rubles).

As at March 31, 2020, the cash balance and cash equivalents placed on government-related banks accounts amounted to 696,923 thousand rubles (as at December 31, 2019 amounted to 1,127,113 thousand rubles).

As at March 31, 2020, the bank deposit balance placed on government-related banks accounts with initial offering period over three months amounted to 0 thousand rubles (as at December 31, 2018 amounted to 0 thousand rubles).

Information on loans and borrowings received from government-related banks is disclosed in Note 21.

As at March 31, 2020, the lease liabilities of government-related entities (as a part of borrowings) amounted to 657,357 thousand rubles (as at December 31, 2019 amounted to 472,171 thousand rubles).

**(m)** **Transactions with the parent company, its affiliated and associated companies**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Three Months Ended** |  **Three Months Ended** |  | **Carrying value** |
|  | **March 31,** **2020** |  | **March 31,** **2019** |  | **March 31,2020**  |  | **December 31,2019**  |
| **Revenue, other revenues,** **financial income** |  |  |  |  |  |  |  |
| **Parent company** |  |  |  |  |  |  |  |
| Other revenue | 296 |  | 296 |  | – |  | – |
| **The enterprises are under common control of the parent company** |  |  |  |  |  |  |  |
| Lease | 1 100 |  | 11 |  | 6 |  | 4 |
| Other revenue | 26 788 |  | 111 |  | 127 677 |  | 86 818 |
| Revenues from termination of lease agreement  | – |  | 165 595 |  | – |  | – |
| Interest yield | 270 |  | – |  | 270 |  |  |
|  | **28 454** |  | **166 013** |  | **127 953** |  | **86 822** |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Transaction amount for the three months ended** |  | **Carrying value** |
|  | **2020** |  | **2019**  |  | **March 31,** **2020** |  | **December 31,2019**  |
| **Operating expenses, financial expenses** |  |  |  |  |  |  |  |
| **Parent company** |  |  |  |  |  |  |  |
| Other work and services of production nature | 3 818 |  | 5 413 |  | 1 409 |  | 1 409 |
| Other expenses | 28 859 |  | 27 268 |  | 42 716 |  | 23 208 |
| Interest expense on lease | 40 |  | – |  | – |  | \_ |
| Interest expenses for financial liabilities measured at amortized cost | 31 932 |  | 198 540 |  | – |  | 32 940 |
| **The enterprises are under common control of the parent company** |  |  |  |  |  |  |  |
| Services for electric power transmission | 1 980 605 |  | 2 130 973 |  | 1 546 017 |  | 854 915 |
| Repair services and technical maintenance | 440 |  | - |  | 528 |  | – |
| Short-term lease/lease | 5 |  | 33 |  | 2 |  | 12 |
| Expenses for software and maintenance | 361 |  | 280 |  | 289 |  | 239 |
| Other expenses | 15 378 |  | 129 010 |  | 60 737 |  | 86 644 |
| Interest expense on lease | 3 964 |  | – |  | – |  | – |
| Interest expenses for financial liabilities measured at amortized cost | – |  | 13 276 |  | – |  | – |
|  | **2 065 402** |  | **2 504 793** |  | **1 651 698** |  | **999 367** |
| Construction and installation jobs capitalized | 2 255 |  | 49 924 |  | 126 520 |  | 131 557 |
|  | **2 067 657** |  | **2 554 717** |  | **1 778 218** |  | **1 130 924** |

|  |  |
| --- | --- |
|  | **Carrying value** |
|  | **March 31,2020**  |  | **December 31, 2019**  |
| **Parent company** |  |  |  |
| Loans and borrowings | – |  | 3 600 000 |
| Lease liabilities | 1 877 |  | 1 947 |
| **The enterprises are under common control of the parent company** |  |  |  |
| Advances issued | 3 605 |  | 4 436 |
| Advances received | 76 |  | 76 |
| Lease liabilities | 202 704 |  | 800 |
|  | **208 262** |  | **3 607 259** |

1. **Subsequent Events**

According to Executive Board opinion, the other economic events that have or may have an impact on financial position, cash flow or operating results of the Group, that occur between the reporting date and the date of signing of the Consolidated Financial Statements for the three months ended on March 31, 2020 and as of March 31, 2020 are absent in the Group.