“KUBANENERGO” PJSC
Consolidated Interim Condensed Financial Statements
prepared in accordance with IAS 34 “Interim Financial Reporting”
for the three and six months ended 30 June 2018 (unaudited)

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(in thousands of Russian rubles, unless otherwise stated)

		Three months ended 30 June		Six months ended 30 June	
	Notes	2018	2017	2018	2017
Revenue	7	10 524 792	8 770 044	22 256 686	18 885 905
Operating expenses	9	(10 287 063)	(8 877 256)	(21 125 630)	(18 541 174)
Other income, net	8	360 506	290 172	368 357	380 085
Results from operating activities		**598 235**	**182 960**	**1 499 413**	**724 816**
Finance income	10	20 780	13 365	35 176	40 160
Finance costs	10	(545 848)	(524 358)	(1 028 549)	(1 041 025)
Net finance income/(costs)		**(525 068)**	**(510 993)**	**(993 373)**	**(1 000 865)**
Profit/(loss) before income tax		**73 167**	**(328 033)**	**506 040**	**(276 049)**
Income tax expense		(169 541)	(32 556)	(409 950)	(232 148)
Profit/ (loss) for the period		**(96 374)**	**(360 589)**	**96 090**	**(508 197)**
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Remeasurements of defined benefit liability		45 677	1 287	12 992	(5 928)
Income tax		(9 135)	(257)	(2 598)	1 186
Total items that will not be reclassified subsequently to profit or loss		**36 542**	**1 030**	**10 394**	**(4 742)**
Other comprehensive income/(costs) for the period, net of income tax		**36 542**	**1 030**	**10 394**	**(4 742)**
Total comprehensive income/(costs) for the period		**(59 832)**	**(359 559)**	**106 484**	**(512 939)**
Profit/(loss) attributable to:					
Owners of the Company		(96 374)	(360 589)	96 090	(508 197)
Total comprehensive income/(costs) attributable to:					
Owners of the Company		(59 832)	(359 559)	106 484	(512 939)
Earnings/(loss) per share					
Basic earnings/(loss) per ordinary share (in Russian rubles)	18	(0,32)	(1,20)	0,32	(1,69)

These consolidated interim condensed financial statements were approved by the management on 22 August 2018 and were signed on its behalf by:

Director General
(by the power of attorney No. 23/256–n/23–2018–5–444 of 24 April 2018) Z.I. Khazikova

КРАСНОДАР Г. КРАСНОДАР ПАО «КУБАНЬЭНЕРГО» ИНН 2309001660 РОССИЯ

Chief Accountant I.V. Skiba

This Consolidated Interim Condensed Statement of Profit and Loss and Other Comprehensive Income is to be read in conjunction with the notes 1-25 to, and forming the part of, the consolidated financial statements

(in thousands of Russian rubles, unless otherwise stated)

	Notes	30 June 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	12	55 108 215	52 588 454
Intangible assets	13	149 378	150 435
Trade and other receivables	15	21 346	25 760
Assets related to employee benefits plans		312 712	318 910
Financial investments	14	1	1
Deferred tax assets		1 045 053	1 203 443
Total non-current assets		**56 636 705**	**54 287 003**
Current assets			
Inventories		1 505 602	1 584 669
Income tax prepayments		402 076	317 458
Trade and other receivables	15	7 967 334	6 694 054
Cash and cash equivalents	16	2 614 512	1 681 043
Total current assets		**12 489 524**	**10 277 224**
Assets classified as held for sale		447	8 492
Total assets		**69 126 676**	**64 572 719**
EQUITY AND LIABILITIES			
Equity			
Share capital	17	28 286 813	28 286 813
Share premium		6 481 916	6 481 916
Reserve for issue of shares	17	2 092 522	2 092 522
Other reserves		(226 459)	(236 851)
Retained earnings		(8 443 703)	(8 218 225)
Total equity attributable to owners of the Company		**28 191 089**	**28 406 175**
Total equity		**28 191 089**	**28 406 175**
Non-current liabilities			
Loans and borrowings	19	23 655 039	22 617 796
Trade and other payables	20	1 174 792	987 357
Employee benefits		599 697	611 115
Government grants		31 009	37 256
Total non-current liabilities		**25 460 537**	**24 253 524**
Current liabilities			
Loans and borrowings	19	682 450	91 686
Trade and other payables	20	13 838 967	10 900 665
Provisions		941 144	905 937
Government grants		12 401	12 355
Current income tax liabilities		88	2 377
Total current liabilities		**15 475 050**	**11 913 020**
Total liabilities		**40 935 587**	**36 166 544**
Total equity and liabilities		**69 126 676**	**64 572 719**

This Consolidated Interim Condensed Statement of Financial Position is to be read in conjunction with the notes 1-25 to, and forming the part of, the consolidated financial statements.

(in thousands of Russian rubles, unless otherwise stated)

	Notes	Six months ended 30 June 2018	Six months ended 30 June 2017
OPERATING ACTIVITIES			
Profit/(loss) for the period		**96 090**	**(508 197)**
Adjustments for::			
Depreciation and amortization	12, 13	1 744 695	1 564 012
Finance costs	10	1 028 549	1 041 025
Finance income	10	(35 176)	(40 160)
Loss on disposal of property, plant and equipment	8	35 337	20 640
Allowance for expected credit losses	9	(134 310)	452 962
Allowance for obsolete inventory		(478)	(2 015)
Provision for legal processes		78 587	818 274
Loss on disposal of intangible assets		1	–
Other non-cash transactions		(36 684)	(45 923)
Income tax expense		409 950	232 148
Effect of adjustments, total		**3 186 561**	**3 532 766**
Change in financial assets related to employee benefit liabilities		28 242	17 985
Change in employee benefit liabilities		(20 223)	(6 622)
Operating cash flow before changes in working capital and provisions		**3 194 580**	**3 544 129**
Changes in working capital:			
Change in trade and other receivables		(1 151 955)	570 406
Change in inventories		81 007	(142 118)
Change in trade and other payables		2 527 194	(1 550 265)
Change in government grants		(6 201)	(6 363)
Change in provisions		(43 380)	(668 135)
Operating cash flow before income tax and interest paid		**4 601 245**	**1 747 654**
Income tax paid		(341 065)	(381 583)
Interest paid		(1 145 065)	(1 052 583)
Net cash flows from operating activities		**3 115 115**	**313 488**
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(3 842 983)	(2 729 155)
Proceeds from the sale of property, plant and equipment and intangible assets		–	404
Interest received	10	29 729	20 016
Net cash flows used in investing activities		**(3 813 254)**	**(2 708 735)**
FINANCING ACTIVITIES			
Proceeds from loans and borrowings	19	32 760 960	25 677 230
Repayment of loans and borrowings	19	(31 128 839)	(23 480 439)
Proceeds from issue of shares		–	2
Dividends paid		(513)	–
Net cash flows from financing activities		**1 631 608**	**2 196 793**
Net (decrease)/ increase in cash and cash equivalents		**933 469**	**(198 454)**
Cash and cash equivalents at the beginning of the period		1 681 043	1 254 098
Cash and cash equivalents at the end of the period	16	**2 614 512**	**1 055 644**

This Consolidated Interim Condensed Statement of Cash Flows is to be read in conjunction with the notes 1-25 to, and forming the part of, the consolidated financial statements

(in thousands of Russian rubles, unless otherwise stated)

	Equity attributable to equity holders of the Company					
	Share capital	**Reserve for issue of shares**	**Share premium**	**Reserves**	**Accumulated loss**	**Total equity**
Balance at 1 January 2018	**28 286 813**	**2 092 522**	**6 481 916**	**(236 851)**	**(8 218 225)**	**28 406 175**
Impact of change in accounting policies	–	–	–	(2)	2	**–**
Balance at 1 January 2018 (restated)	**28 286 813**	**2 092 522**	**6 481 916**	**(236 853)**	**(8 218 223)**	**28 406 175**
Profit for the period	–	–	–	–	96 090	**96 090**
Other comprehensive income/(loss)	**–**	**–**	**–**	**–**	**–**	**–**
Remeasurements of the net defined benefit liability	–	–	–	12 992	–	**12 992**
Income tax relating to other comprehensive income	–	–	–	(2 598)	–	**(2 598)**
Total comprehensive income for the period	**–**	**–**	**–**	**10 394**	**96 090**	**106 484**
Transactions with owners of the Company						
Dividends	–	–	–	–	(321 570)	**(321 570)**
Total transactions with owners of the Company	**–**	**–**	**–**	**–**	**(321 570)**	**(321 570)**
Balance at 30 June 2018	**28 286 813**	**2 092 522**	**6 481 916**	**(226 459)**	**(8 443 703)**	**28 191 089**
Balance at 1 January 2017	**28 286 813**	**2 072 164**	**6 481 916**	**(225 347)**	**(8 400 237)**	**28 215 309**
Loss for the period	–	–	–	–	(508 197)	**(508 197)**
Other comprehensive income/(loss)	**–**	**–**	**–**	**–**	**–**	**–**
Remeasurements of the net defined benefit liability	–	–	–	(5 928)	–	**(5 928)**
Income tax relating to other comprehensive income	–	–	–	1 186	–	**1 186**
Total comprehensive income for the period	**–**	**–**	**–**	**(4 742)**	**(508 197)**	**(512 939)**
Transactions with owners of the Company						
Reserve for issue of shares	–	2	–	–	–	**2**
Dividends	–	–	–	–	(535 125)	**(535 125)**
Total transactions with owners of the Company	**–**	**2**	**–**	**–**	**(535 125)**	**(535 123)**
Balance at 30 June 2017	**28 286 813**	**2 072 166**	**6 481 916**	**(230 089)**	**(9 443 559)**	**27 167 247**

This Consolidated Interim Condensed Statement of Changes in Equity is to be read in conjunction with the notes 1-25 to, and forming the part of, the consolidated financial statements.

1 Background

(a) The Group and its operations

The primary activities of "Kubanenergo" PJSC (hereinafter referred to as the "Company") and its subsidiaries (hereinafter jointly referred to as the "Group" or "Kubanenergo Group Companies") are provision of services for transmission of electricity and provision of services for technological connection of consumers to the networks.

"ROSSETI" PJSC is the parent company of "Kubanenergo" PJSC.

In 1993 the Krasnodar Production Association of Power Industry and Electrification "Krasnodarenergo" was reorganized into Open Joint Stock Company of Power Industry and Electrification of Kuban (hereinafter referred to as "Kubanenergo" OJSC or the "Company") in accordance with the Decree of the President of the Russian Federation of 14 August 1992, No.922 *"On Specifics in the Transformation of State Enterprises, Associations, Organizations in Fuel and Energy Complex into Joint Stock Companies"*, the Decree of the President of the Russian Federation of 15 August 1992, No. 923 *"On Organization of Management of the Electric-Power Complex of the Russian Federation under Privatization"* and the Decree of the President of the Russian Federation of 5 November 1992, No. 1334 *"On the Implementation in the Electricity Industry of Decree of the President of the Russian Federation No. 922 "On Specifics in the Transformation of State Enterprises, Associations, Organizations in Fuel and Energy Complex into Joint Stock Companies" of 14 August 1992"*.

Due to changes in the Civil Code of the Russian Federation, the Annual General Meeting of Shareholders held on 22 June 2015 approved the new brand title of the company's organizational and legal form. Full name "Open joint-stock company of power industry and electrification of Kuban" (abbreviated name - "Kubanenergo" JSC) was changed to Public joint stock company of company of power industry and electrification of Kuban (abbreviated name - "Kubanenergo" PJSC).

The Company's registered office is located at 2A, Stavropolskaya Str., Krasnodar, Krasnodar Region, Russia, 350033

Kubanenergo Group Companies comprises "Kubanenergo" PSC and its subsidiaries: Recreation Centre "Energetik" JSC and "Energoservis Kuban" JSC.

(b) Russian business environment

The Group operates in the Russian Federation.

Therefore, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by the entities operating in the Russian Federation.

The continuing decline in the political situation caused by the growing tensions between the Russian Federation and USA together with EU, and related events have resulted in revaluation of risks in business operations in the Russian Federation towards their increase. The economic sanctions against Russian individuals and legal entities imposed by the European Union, the United States of America, Japan, Canada, Australia and others, and retaliatory sanctions imposed by the Russian government, have resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The future economic trend of the Russian Federation largely depends on the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

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

(c) Relations with the state

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

As of 30 June 2018, the Russian Government owned 88.89% of the ordinary voting shares and 7.01% of the preference shares of "ROSSETI" PJSC, which in its turn owned 92.78% of the ordinary voting shares of "Kubanenergo" PJSC (as of 30 June 2017 the Russian Government owned 88.89% of the ordinary voting shares and 7.01% of preference shares of "ROSSETI" PJSC, which in its turn owned 92.77% of the Company's ordinary voting shares).

As of 31 December 2017, the Russian Government owned 88.89% of the ordinary voting shares and 7.01% of the preference shares of "ROSSETI" PJSC, which in its turn owned 92.78% of the ordinary voting shares of "Kubanenergo" PJSC.

The Russian Government directly affects the Group's operations through tariffs regulations. In accordance with the Russian legislation, the Group's tariffs are regulated by executive authorities of territorial subjects of the Russian Federation in the field of state regulation of tariffs. Many customers of the Group's services are government-related entities.

2 Basis of preparation of consolidated financial statements

(a) Statement of compliance

These consolidated interim condensed financial statements for the three and six months ended 30 June 2018 have been prepared in accordance with International Financial Reporting Standards (IAS) 34 *"Interim Financial Statements"*. These consolidated interim condensed financial statements should be read in conjunction with the financial statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Use of professional judgments and estimates

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

The main evaluations and estimates used by the Group in the course of preparation of the consolidated interim condensed financial statements correspond with the ones described in the audited financial statements for the year ended 31 December 2017.

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

(c) Change in presentation

Certain items in the comparative statements for the previous period have been reclassified to comply with the current period of presentation. All reclassifications are immaterial.

3 Significant accounting policies

The principal accounting policies and methods of computation applied by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2017, except for the effect of adopting new standards as described below.

The following new standards have been adopted by the Group beginning on 1 January 2018:

(a) IFRS 15 Revenue from Contracts with Customers

The Group recognizes the revenue when (or as) the entity satisfies a performance obligation on transfer of promised goods or services (assets) to a customer. The revenue is evaluated in an amount of transaction or its part equal to the sum of consideration to which the Group expects to be entitled in exchange for the goods or services excluding amounts collected on behalf of third parties (for instance, net of recoverable taxes).

Electricity transmission and sales of electricity

Revenue from transmission and sales of electricity is recognized during the period (settlements month) and is estimated by the results method (cost of transferred electricity). The tariffs for transmission of electricity (in respect to all subjects of the Russian Federation) and sale of electricity on the regulated market (in respect of subjects of the Russian Federation that are not combined into the price zones of the wholesale electricity market) are approved by the executive authorities of subjects of the Russian Federation (hereinafter - regional regulatory authority) in the sphere of the state energy tariff regulation within the range of cap and (or) floor tariffs approved by the Federal Antimonopoly Service of the Russian Federation.

Services for technological connection to electric grids

Recognition of revenue from this type of service is made at the time of the beginning of the electricity supply and connection of a consumer to the power grid on the basis of the act on the implementation of technological connection.

Payment for technological connection based on individual project, standardized tariff rates, rates per unit of maximum supplied power and fee’s formula for the technological connection are approved by the regional energy commission (tariffs and fees department of the region) and do not depend on revenue from electricity transmission.

Payment for technological connection to the unified national (Russian) electric 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 is 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 revenue

Revenue from installation, repair and maintenance services and revenue from other sales are recognized when the customer obtains control over the asset.

In accordance with the transition provisions in IFRS 15, the Group chose the possibility of applying the new rules retrospectively with recognition of combined effect of initial adoption in the opening retained earnings as at 1 January 2018. The application of the standard had no material impact on the Group’s consolidated interim condensed financial statements and, therefore, the retained earnings as at 1 January 2018 were not restated

(b) IFRS 9 Financial Instruments

The standard introduces new requirements for classification and measurement of financial instruments, impairment, and hedge accounting. As the Group does not apply hedge accounting, the main changes relevant to the Group impacted its accounting policies for classification of financial instruments and impairment of financial assets.

According to IFRS 9, the financial assets are classified in the following measurement categories: those to be measured subsequently at amortized cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The classification depends on the Group’s business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets are classified as at amortized cost only if both of the following criteria are met: the asset is held within a business model with the objective of collecting the contractual cash flows, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(in thousands of Russian rubles, unless otherwise stated)

In respect of impairment, IFRS 9 replaced the "incurred loss" model used in IAS 39 Financial instruments: Recognition and Measurement, with a new "expected credit loss" ("ECL") model that requires a timely recognition of expected credit losses. An allowance for expected credit losses shall be recorded for financial assets classified as at amortized cost.

Under IFRS 9, loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument. For trade receivables and contract assets, the Group measures loss allowances applying a simplified approach at an amount equal to lifetime ECLs. For other financial assets classified as at amortized cost, loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

In accordance with the transition provisions in IFRS 9, the Group has applied the new rules retrospectively, except for the items that have already been derecognized at the date of initial application, which is 1 January 2018. The Group also used an exemption in IFRS 9 allowing not to restate prior periods presented as a result of adoption of the new classification and measurement requirements, but rather recognize any differences in the opening retained earnings as at 1 January 2018. The initial application of the standard did not result in any material changes in evaluation of financial instruments.

As at 1 January 2018 (the date of initial application of IFRS 9 Financial Instruments), the Group evaluated business models for management of financial assets and classified retained financial instruments by the respective categories of IFRS 9. Below are the following results of the classification:

		Reclassification of financial assets as at 1 January 2018	
	Balance as at 1 January 2018 under IAS 39	**Measurable at fair value through other comprehensive income**	**Balance as at 1 January 2018 under IFRS 9**
Financial assets available-for-sale	1	(1)	–
Measurable at fair value through other comprehensive income	–	1	1
Measurable at amortized cost	–	–	–
Total	**1**	**–**	**1**

The mentioned changes did not influence the carrying amounts of financial assets. Reclassification was made for investments in shares.

The impact of the changes on the Group's equity, inclusive of deferred tax, was as follows:

	Effect on available-for-sale reserve	**Effect on measurable at fair value through other comprehensive income reserve**	**Effect on retained earnings**
Balance as at 1 January 2018 under IAS 39	**2**	**–**	**–**
Reclassification of investments from category "available-for-sale" to category "measurable at fair value through other comprehensive income"	(2)	2	–
Total effect	**(2)**	**2**	**–**
Balance as at 1 January 2018 under IFRS 9	**–**	**2**	**–**

(in thousands of Russian rubles, unless otherwise stated)

The table below reflects the original measurement category according to IAS 39 and the new measurement category according to IFRS 9:

	Measurement category		**Carrying amount**		
	IAS 39	**IFRS 9**	**IAS 39**	**IFRS 9**	**Difference**
Non-current financial assets					
Financial investments, including:	*Available-for-sale*	*Measured at fair value through other comprehensive income*			
Shares			1	1	–
Trade and other receivables, loans given	*Amortized cost*	*Amortized cost*	25 760	25 760	–
Current financial assets					
Financial investments, including:					
Trade and other receivables, loans given	*Amortized cost*	*Amortized cost*	6 694 054	6 694 054	–
Cash and cash equivalents	*Amortized cost*	*Amortized cost*	1 681 043	1 681 043	–
Non-current and current financial liabilities					
Loans and credits, receivables	*Amortized cost*	*Amortized cost*	34 597 504	34 597 504	–

The following amendments and interpretations that took effect on 1 January 2018 did not have impact on these consolidated interim condensed financial statements:

- *Classification and measurement of share-based payment transactions (Amendments to IFRS 2);*
- *Transfer of investment property from one category to another (Amendments to IAS 40);*
- *Annual improvements to IFRS 2014–2016 cycle;*
- *Interpretations to IFRIC 22 Foreign Currency Transactions and Advance Consideration.*

The following new standards and interpretations have been released and will become effective for annual periods on or after 1 January 2019, and the Group did not adopt them early:

IFRS 16 Leases

IFRS 16 Leases was issued in January 2016 and it replaced IAS 17 Leases, Interpretations to IFRIC 4 Determining whether an Arrangement Contains a Lease, Interpretations to SIC 15 Operating Leases – Incentives and Interpretations to SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). The Group intends to apply both exemptions. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The Group will be required to recognize separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The Group may apply the standard using either a full retrospective or a modified retrospective approach. The Group is considering the implication of this standard for the Group's consolidated financial statement.

The following standards, amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);
- Interpretations to IFRIC 23 Uncertainty over Income Tax Treatments;
- IFRS 17 Insurance Contracts.

(in thousands of Russian rubles, unless otherwise stated)

4 Measurement of fair values

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

When measuring the fair value of an asset or liability, the Group uses observable market data as much as possible. Fair values are 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.

5 Subsidiaries

As at 30 June 2018 and 31 December 2017, the Consolidated Financial Statements of the Group include the Company and its subsidiaries:

		Ownership/voting shares, %	
	Country of incorporation	**30 June 2018**	**31 December 2017**
Recreation Centre “Energetik” JSC	Russian Federation	100	100
“Energoservis Kuban” JSC	Russian Federation	100	100

As defined by the court on 2 September 2015, the bankruptcy proceedings were initiated against “Recreation Centre “Plamya” JSC. Therefore, since then the Company has lost control over the subsidiary and recognized the exclusion of the subsidiary in the consolidated financial statements for the year 2015. In accordance with the decisions of the court of 23 January 2017 and 20 June 2017, the bankruptcy proceedings against Recreation Centre “Plamya” JSC were extended. By the decision of the Commercial Court of Krasnodar region of 11 December 2017 on case A-32-31443/2014 37/71-B, the bankruptcy proceedings against Recreation Centre “Plamya” JSC were terminated. The date of making the dissolution entry into the Uniform State Register of Legal Entities: 31 January 2018.

6 Segment information

Management of “Kubanenergo” PJSC is the supreme authority responsible for operating decisions.

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

Performance of each reportable segment is measured based on earnings, EBITDA, since these are reported in statutory accounts prepared on the basis of the RAS and are regularly assessed and analyzed by the Management Board. Indicator EBITDA is calculated as earnings 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 Adygea) and is managed as a whole. The segment "Other" includes several operating segments the primary activities of which are the provision of rent services, repair and maintenance services and recreational activity.

(in thousands of Russian rubles, unless otherwise stated)

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.

(a) Information on reportable segments

For the three months ended 30 June 2018:

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

For the three months ended 30 June 2017:

	Kubanenergo	**Other segments**	**Total:**
Revenue from external customers	8 761 437	9 253	**8 770 690**
Inter-segment revenue	562	5 602	**6 164**
Segment revenue	**8 761 999**	**14 855**	**8 776 854**
including			
Electricity transmission	8 664 200	–	**8 664 200**
Technological connection services	71 552	–	**71 552**
Other revenue	26 247	14 855	**41 102**
Finance costs	(503 849)	(43)	**(503 892)**
Depreciation and amortization	(934 465)	(1 211)	**(935 676)**
Segment loss before tax	(568 680)	(9 790)	**(578 470)**
EBITDA	**869 634**	**(8 536)**	**861 098**

For the six months ended 30 June 2018:

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

(in thousands of Russian rubles, unless otherwise stated)

For the six months ended 30 June 2017:

	Kubanenergo	**Other segments**	**Total:**
Revenue from external customers	18 876 083	10 468	**18 886 551**
Inter-segment revenue	1 051	19 520	**20 571**
Segment revenue	**18 877 134**	**29 988**	**18 907 122**
including			
Electricity transmission	18 557 475	–	**18 557 475**
Technological connection services	276 270	–	**276 270**
Other revenue	43 389	29 988	**73 377**
Finance costs	(998 285)	(43)	**(998 328)**
Depreciation and amortization	(1 867 535)	(2 422)	**(1 869 957)**
Segment loss before tax	(679 953)	(6 810)	**(686 763)**
EBITDA	**2 185 867**	**(4 345)**	**2 181 522**

30 June 2018:

	Kubanenergo	**Other segments**	**Total:**
Segment assets	**76 773 198**	**94 797**	**76 867 995**
Including property, plant and equipment and construction-in-progress	61 993 188	29 738	**62 022 926**
Segment liabilities	**41 723 267**	**47 248**	**41 770 515**

31 December 2017:

	Kubanenergo	**Other segments**	**Total:**
Segment assets	**71 856 753**	**110 586**	**71 967 339**
Including property, plant and equipment and construction-in-progress	59 659 050	28 864	**59 687 914**
Segment liabilities	**36 447 835**	**53 173**	**36 501 008**

(in thousands of Russian rubles, unless otherwise stated)

(b) The table below shows reconciliation of reportable segment revenues EBITDA:

Reconciliation of segment revenue before tax

	Three months ended 30 June		Six months ended 30 June	
	2018	**2017**	**2018**	**2017**
EBITDA of reportable segments	**1 482 321**	**861 098**	**3 257 874**	**2 181 522**
Adjustment for intangible assets	19 102	14 933	34 386	30 002
Recognition of retirement and other long-term employee benefit obligations	16 477	(17 033)	14 023	(14 156)
Other adjustments	5 069	14 850	4 807	23 110
Discounting receivables	1 192	430	2 435	894
Adjustment for value of property, plant and equipment	1 043	627	4 288	6 434
Discounting payables	831	–	2 345	–
Adjustment for accrual of provision for unused vacations and bonuses	(6 481)	114 413	(14 416)	100 416
Adjustment for revenue from electricity transmission	(10 036)	49	(9 077)	49
Adjustment for doubtful accounts receivable	(16 250)	(358)	(17 381)	(2)
EBITDA	**1 493 268**	**989 009**	**3 279 284**	**2 328 269**
Depreciation and amortization	(874 253)	(792 684)	(1 744 695)	(1 563 293)
Interest expenses on financial liabilities	(545 848)	(524 358)	(1 028 549)	(1 041 025)
Income tax expense	(169 541)	(32 556)	(409 950)	(232 148)
Consolidated profit/loss for the year per statement of profit and loss and other comprehensive income	**(96 374)**	**(360 589)**	**96 090**	**(508 197)**

	Six months ended 30 June 2018	Year ended 31 December 2017
Total segment assets	**76 867 995**	**71 967 339**
Recognition of assets related to employee benefits	312 712	318 910
Deferred tax adjustment	209 017	319 869
Adjustment for financial investments	9 684	9 684
Discounting receivables	(6 340)	(8 602)
Writing-off of receivables	(10 036)	(958)
Adjustment for bad debt provision	(16 953)	428
Intersegment balances	(42 245)	(59 031)
Intragroup financial assets	(45 687)	(45 687)
Adjustment for intangible assets	(85 756)	(87 401)
Reduction of VAT recoverable by the amount of VAT on advances received	(1 151 158)	(750 865)
Adjustment for property, plant and equipment	(6 914 368)	(7 090 966)
Other adjustments	(189)	(1)
Total assets per consolidated statement of financial position	**69 126 676**	**64 572 719**

(in thousands of Russian rubles, unless otherwise stated)

	Six months ended 30 June 2018	Year ended 31 December 2017
Total segment liabilities	**41 770 515**	**36 501 008**
Recognition of pension and other long-term employee benefit liabilities	599 697	611 115
Adjustment for accrual of provision for unused vacations and bonuses	136 815	122 399
Intersegment balances	(42 245)	(59 031)
Write-off of deferred income	(82 903)	(77 007)
Adjustment for deferred tax	(294 420)	(179 076)
Reduction in accounts payable on advances received by the amount of VAT on advances received	(1 151 347)	(750 713)
Other adjustments	(525)	(2 151)
Total liabilities per consolidated statement of financial position	**40 935 587**	**36 166 544**

The Group's operations are located in the Russian Federation.

Within the six months ended 30 June 2018, the Group had two major customers: retail companies operating in Krasnodar region, Russian Federation, with individual sales over 10% of the Group's total revenue. The total revenue from these customers for the six months ended 30 June 2018 amounted 18 300 515 thousand rubles, or 82,20% of the Group's net sales; for the three months ended 30 June 2018 – 8 498 786 thousand rubles, or 80,75% of the Group's net sales (for the six months ended 30 June 2017 – 15 387 156 thousand rubles, or 81,5% of the Group's net sales, for the three months ended 2017 – 7 098 532 thousand rubles, or 80,9%).

7 Revenue

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Electricity transmission	10 389 558	8 663 815	22 020 001	18 556 779
Technological connection services	80 166	71 552	143 639	276 270
Rental income	6 494	6 030	10 512	9 238
Repairs and maintenance	9 232	1 461	17 236	2 452
Other revenue	39 342	27 186	65 298	41 166
	10 524 792	**8 770 044**	**22 256 686**	**18 885 905**

Other revenue mainly comprises revenue from rendering services related to restriction of electricity consumption, assembling and dissembling of electrical meters, rendering services related to electricity metering.

8 Other income, net

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Income from identified non-contracted electricity consumption	13 071	5 446	22 303	10 661
Income in the form of fines and penalties on commercial contracts	319 054	265 970	340 788	272 385
Income from sale of inventories and property, plant	–	–	–	229
Loss on disposal of intangible assets	–	–	(1)	–
Loss on disposal of property, plant and equipment, including advances on property, plant and equipment	(2 666)	(16 927)	(36 799)	(23 166)
Insurance compensation, net	13 423	17 434	15 190	72 528
Write-off accounts payable	4 205	7 949	7 951	8 767
Income from inventories and property, plant and equipment received free of charge	12 367	8 825	17 463	36 384
Other income, net; of which:				
Income from inventories received after liquidation of property, plant and equipment	1 052	1 475	1 462	2 297
	360 506	**290 172**	**368 357**	**380 085**

(in thousands of Russian rubles, unless otherwise stated)

9 Operating expenses

	Three months ended 30 June		Six months ended 30 June	
	2018	**2017**	**2018**	**2017**
Personnel costs	1 512 545	1 196 853	3 043 513	2 504 770
Depreciation and amortization	874 253	792 684	1 744 695	1 563 293
Material expenses, including:				
Electricity for compensation of losses	1 298 876	1 244 359	3 586 909	3 603 407
Purchased electricity and heat power for own needs	14 779	16 325	60 819	63 913
Other material costs	367 099	279 261	599 806	450 331
Production work and services, including:				
Electricity transmission services	4 688 638	3 930 271	9 496 476	7 301 470
Repair and maintenance services	191 862	166 476	246 482	201 982
Other works and industrial services	16 535	16 631	27 413	25 785
Taxes and levies other than income tax	222 943	167 757	445 457	341 219
Rent	59 434	61 130	117 937	119 266
Insurance	19 261	19 052	38 690	38 057
Other third-party services, including:				
Communication services	16 805	15 267	32 655	29 732
Security services	60 921	33 250	124 727	80 350
Consulting, legal and audit services	3 633	53 021	11 006	54 661
Expenses on software and support	19 262	14 087	40 758	24 827
Transportation services	662	280	689	420
Other services, including				
Implementation of energy service contracts	269 069	147 187	509 018	246 637
Other outsourced services	82 779	82 227	141 448	159 744
Provision for expected credit losses	19 192	224 603	(134 310)	452 962
Provisions	51 364	329 660	78 587	818 274
Other expenses including				
Travel expenses	40 763	34 959	86 357	57 888
Expenses on services for organization, functioning and development of UES	29 130	19 121	55 918	38 242
Expenses recognized as fines, penalties and forfeitures for violation of contract conditions	375 346	17 169	380 860	187 509
Other operating expenses	51 912	15 626	389 720	176 435
	10 287 063	**8 877 256**	**21 125 630**	**18 541 174**

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

(in thousands of Russian rubles, unless otherwise stated)

10 Finance income and costs

	Three months ended 30 June		Six months ended 30 June	
	2018	**2017**	**2018**	**2017**
Finance income				
Interest income on loans, bank deposits, bills and balances in bank accounts	18 757	12 935	30 396	18 542
Interest income from assets related to employee benefits payable	–	–	–	20 724
Effect of initial discounting of financial liabilities	831	–	2 345	–
Amortization of discount on financial assets	1 192	430	2 435	894
	20 780	**13 365**	**35 176**	**40 160**

	Three months ended 30 June		Six months ended 30 June	
	2018	**2017**	**2018**	**2017**
Finance costs				
Interest expenses on financial liabilities measured at amortized cost	462 785	512 680	932 351	1 015 862
Interest expense on long-term employee benefits payable	10 521	11 527	21 795	23 518
Effect of initial discounting of financial assets	107	35	173	43
Amortization of discount on financial liabilities	1 160	116	2 955	1 602
Other finance costs	71 275	–	71 275	–
	545 848	**524 358**	**1 028 549**	**1 041 025**

Other finance costs are interest accrued on payables restructuring contracts.

11 Assets related to employee benefits plans

Assets related to pension plans and defined benefit plans are administered by non-state pension funds “NPF Electroenergetiki” and “Professionalny”.

These assets do not belong to the assets of the defined benefit plan, since it was agreed between by the Group and the funds that the Group has discretion to use the contributions paid under defined benefit plans for financing its own pension plans or to switch to another fund at its own initiative.

(in thousands of Russian rubles, unless otherwise stated)

12 Property, plant and equipment

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Initial cost / Deemed cost						
At 1 January 2017	**7 447 938**	**36 165 526**	**14 402 824**	**7 173 374**	**5 369 204**	**70 558 866**
Reclassification between group	163	(106)	(51)	(6)	–	**–**
Additions	2 249	3 155	70 708	50 837	2 642 100	**2 769 049**
Transfers	7 378	730 343	291 481	13 921	(1 043 123)	**–**
Disposal	(1 619)	(9 031)	(16 921)	(13 469)	(8 053)	**(49 093)**
Reclassification in non-current assets held for sale	–	–	–	–	–	**–**
At 30 June 2017	**7 456 109**	**36 889 887**	**14 748 041**	**7 224 657**	**6 960 128**	**73 278 822**
Depreciation and impairment						
At 1 January 2017	(2 350 190)	(9 323 005)	(6 109 542)	(4 438 517)	(109 543)	**(22 330 797)**
Reclassification between groups	(78)	3	69	6	–	**–**
Introduction of property, plant and equipment (reallocation of impairment)	(105)	(2 648)	(1 472)	–	4 225	**–**
Depreciation charge	(129 710)	(679 777)	(423 407)	(299 120)	–	**(1 532 014)**
Disposals	842	2 552	9 237	13 430	29	**26 090**
At 30 June 2017	**(2 479 241)**	**(10 002 875)**	**(6 525 115)**	**(4 724 201)**	**(105 289)**	**(23 836 721)**
Net book value						
At 1 January 2017	**5 097 748**	**26 842 521**	**8 293 282**	**2 734 857**	**5 259 661**	**48 228 069**
At 30 June 2017	**4 976 868**	**26 887 012**	**8 222 926**	**2 500 456**	**6 854 839**	**49 442 101**

(in thousands of Russian rubles, unless otherwise stated)

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Initial cost / Deemed cost						
At 1 January 2018	**7 843 727**	**38 083 459**	**16 002 370**	**7 682 998**	**8 367 283**	**77 979 837**
Reclassification between group	3	–	(3)	–	–	**–**
Additions	6	7 770	15 897	16 692	4 217 273	**4 257 638**
Transfers	94 458	543 703	670 529	100 364	(1 409 054)	**–**
Disposal	(809)	(46 096)	(4 883)	(1 537)	(3 320)	**(56 645)**
Reclassification in non-current assets held for sale	(631)	–	–	10 756	–	**10 125**
At 30 June 2018	**7 936 754**	**38 588 836**	**16 683 910**	**7 809 273**	**11 172 182**	**82 190 955**
Depreciation and impairment						
At 1 January 2018	**(2 609 739)**	**(10 717 364)**	**(6 962 311)**	**(5 009 642)**	**(92 327)**	**(25 391 383)**
Reclassification between groups	(6)	–	3	3	–	**–**
Introduction of property, plant and equipment (reallocation of impairment)	–	(262)	(525)	–	787	**–**
Depreciation charge	(137 845)	(810 921)	(458 004)	(300 637)	–	**(1 707 407)**
Disposals	502	12 326	3 724	1 537	40	**18 129**
Reclassification in non-current assets held for sale	184	–	–	(2 263)	–	**(2 079)**
At 30 June 2018	**(2 746 904)**	**(11 516 221)**	**(7 417 113)**	**(5 311 002)**	**(91 500)**	**(27 082 740)**
Net book value						
At 1 January 2018	**5 233 988**	**27 366 095**	**9 040 059**	**2 673 356**	**8 274 956**	**52 588 454**
At 30 June 2018	**5 189 850**	**27 072 615**	**9 266 797**	**2 498 271**	**11 080 682**	**55 108 215**

For the six months ended 30 June 2018, capitalized interest amounted 137 325 thousand rubles (for the six months ended 30 June 2017: 41 708 thousand rubles); capitalization rate is 7.04% (for the six months ended 30 June 2017: 8.76%)

As of 30 June 2018 construction-in-progress included advance payments on property, plants and equipment in amount of 1 081 129 thousand rubles, including capitalized interest on advance payments on property, plants in amount of 41 873 thousand rubles (as of 30 June 2017: 791 007 thousand rubles, including capitalized interest on advance payments on property, plants in amount of 17 190 thousand rubles), as well as materials for construction of fixed assets in amount of 637 817 thousand rubles (as of 30 June 2017: 857367 thousand rubles).

As at 30 June 2018 and 30 June 2018 there are no fixed assets pledged as collateral for loans and borrowings.

(in thousands of Russian rubles, unless otherwise stated)

13 Intangible assets

	Software	Licenses, certificates and patents	R&D	Other	Total
Initial cost					
At 1 January 2017	**280 722**	**5 295**	**14 511**	**11 541**	**312 069**
Additions	15 868	–	6 747	5 509	**28 124**
At 30 June 2017	**296 590**	**5 295**	**21 258**	**17 050**	**340 193**
Depreciation and impairment					
At 1 January 2017	**(193 678)**	**(5 295)**	**–**	**(4 869)**	**(203 842)**
Amortization charge	(29 811)	–	–	(2 186)	**(31 997)**
At 30 June 2017	**(223 489)**	**(5 295)**	**–**	**(7 055)**	**(235 839)**
Net book value					
At 1 January 2017	**87 044**	**–**	**14 511**	**6 672**	**108 227**
At 30 June 2017	**73 101**	**–**	**21 258**	**9 995**	**104 354**

	Software	Licenses, certificates and patents	R&D	Other	Total
Initial cost					
At 1 January 2018	**377 626**	**5 295**	**9 654**	**28 558**	**421 133**
Additions	32 537	–	9 308	(5 508)	**36 337**
Disposals	(11 852)	–	(2)	–	**(11 854)**
At 30 June 2018	**398 311**	**5 295**	**18 960**	**23 050**	**445 616**
Depreciation and impairment					
At 1 January 2018	**(255 631)**	**(5 295)**	–	**(9 772)**	**(270 698)**
Amortization charge	(35 049)	–	–	(2 343)	**(37 392)**
Disposals	11 852	–	–	–	**11 852**
At 30 June 2018	**(278 828)**	**(5 295)**	**–**	**(12 115)**	**(296 238)**
Net book value					
At 1 January 2018	**121 995**	**–**	**9 654**	**18 786**	**150 435**
At 30 June 2018	**119 483**	**–**	**18 960**	**10 935**	**149 378**

Other intangible assets comprise licenses and design models, including graphical schemes and prototypes amounting 10 934 thousand rubles as of 30 June 2018 (9 995 thousand rubles as of 30 June 2017).

For the six months ended 30 June 2018, 37 288 thousand rubles of depreciation of intangibles assets were included in the operating expenses and 104 thousand rubles were capitalized into the cost of capital facilities (for the six months ended 30 June 2017, 31 279 thousand rubles of depreciation of intangibles assets were included into operating costs and 718 thousand rubles were capitalized into the cost of capital facilities).

(in thousands of Russian rubles, unless otherwise stated)

14 Financial investments

Financial assets measured at fair value through other comprehensive income are securities without market quotations measured at fair value (3rd level in the fair value hierarchy).

15 Trade and other receivables

	30 June 2018	31 December 2017
Non-current trade and other accounts receivable		
Trade receivables	352	
Other receivables	10 017	14 207
Total financial assets	**10 369**	**14 207**
Advances given	5 316	5 890
VAT on advances from customers	5 661	5 663
	21 346	**25 760**
Current trade and other accounts receivable		
Trade receivables	8 411 141	7 463 513
Trade receivables allowance for expected credit impairment	(1 158 014)	(1 307 373)
Other receivables	928 589	1 007 802
Other receivables allowance for expected credit impairment	(549 255)	(701 532)
Total financial assets	**7 632 461**	**6 462 410**
Advances given	240 025	146 617
Advances given impairment allowance	(97 919)	(112 813)
VAT recoverable	189 495	190 081
Prepaid taxes, other than income tax and VAT	3 272	7 759
	7 967 334	**6 694 054**

Information on balances with related parties is disclosed in Note 23.

16 Cash and cash equivalents

	30 June 2018	31 December 2017
Cash at bank and in hand	2 598 519	1 678 788
Cash equivalents	15 993	2 255
	2 614 512	**1 681 043**

	Rating	Rating agency	30 June 2018	31 December 2017
Sberbank*	Ba2	Moody’s	11 167	39 799
Bank GPB*	Ba2	Moody’s	866 239	910 745
Bank Rossiya (AB Rossiya)	ruAA	Expert RA	4 182	50 082
Federal treasury department in Krasnodar region	–	–	1 694 583	658 459
Mosoblbank PJSC	–	–	22 221	19 681
Cash in hand			127	22
			2 598 519	**1 678 788**

*Government-related banks

(in thousands of Russian rubles, unless otherwise stated)

Cash equivalents consist of short-term bank deposits:

	Interest rate	Rating	Rating agency	30 June 2018	31 December 2017
Sberbank*	4,38%-5,42%	Ba2	Moody’s	3 500	2 000
				3 500	**2 000**

*Government-related banks

As at 30 June 2018 and 31 December 2017 all cash and equivalents balances are denominated in Russian rubles.

17 Equity

(a) Share capital

	Ordinary shares	
	For the six months ended 30 June 2018	**For the year ended 31 December 2018**
Par value	100 rubles	100 rubles
In circulation as of the beginning of the period – 1 January	303 793 350	282 868 130
In circulation at the end of the year and fully paid	303 793 350	303793 350

(b) Issue of additional shares

On 19 September 2016, the Annual General Meeting of Shareholders of “Kubanenergo” PJSC (minutes of the meeting No.38 of 21 September 2018) approved the decision to increase the Company’s authorized capital by issuing additional 57 457 846 ordinary shares by public offering. The offering price of one additional ordinary share is 100 rubles (as well as for persons entitled to preemptive right to purchase additional shares).

On 15 December 2016, the Bank of Russia adopted a decision on state registration of the additional issue and registration of the prospectus of uncertified registered ordinary shares of “Kubanenergo” PJSC. The additional issue was assigned state registration number: 1-02-00063-A.

Actual start date of the placement of securities (the date of concluding the first agreement to transfer title to securities): 18 January 2018

Actual end date of the placement of securities (the date of the last entry in the personal account (of the acquirer of securities): 20 October 2017

Payment for the additional shares was made in monetary assets. For the entire duration of offering the additional securities, the Company placed 20 925 220 shares and received 2 092 522 thousand rubles of payment for the shares.

The shareholders contributed 20 358 thousand rubles to the authorized capital of the Company in 2017 and 2 072 164 thousand rubles in 2016 that were recognized as reserve for issue of shares directly in equity.

State registration of changes in the Charter of “Kubanenergo” PJSC due to the increase of the authorized capital by additional issue of shares was not carried out as of the date of signing the consolidated interim condensed financial statements for the three and six months ended 30 June 2018 under IFRS.

(in thousands of Russian rubles, unless otherwise stated)

(c) Dividends

The basis for distribution of the Company’s profit to shareholders is defined by Russian legislation as net profit presented in its statutory financial statements prepared in accordance with the Regulations on Accounting and Reporting of the Russian Federation

The AGM of 25 May 2018 adopted a resolution to pay by the results of business activity of “Kubanenergo” PJSC in 2017 the dividends on the outstanding shares of the Company in amount of 321 570 thousand rubles (minutes of the AGM No.40 of 28 May 2018). The sum of dividends per one ordinary share is 1,0585165 rubles.

18 Earnings per share

The calculation of the basic profit/(loss) per share for the three and six months ended 30 June 2018 and 30 June 2017 is given below.

The Company does not have dilutive financial instruments.

	Three months ended 30 June		Six months ended 30 June	
In pieces of share	**2018**	**2017 (restated)**	**2018**	**2017 (restated)**
Ordinary shares at 1 January	303 793 350	303 589 785	303 793 350	303 589 770
Effect of issued shares	–	–	–	15
Ordinary shares at 30 June	**303 793 350**	**303 589 785**	**303 793 350**	**303 589 785**
Weighted average number of shares for the period ended 30 June	**303 793 350**	**300 136 173**	**303 793 350**	**300 136 173**

	Three months ended 30 June		Six months ended 30 June	
	2018	**2017 (restated)**	**2018**	**2017 (restated)**
Weighted average number of ordinary shares for the period ended 30 June (pieces)	303 793 350	300 136 173	303 793 350	300 136 173
Earnings/(loss) for the period attributable to holders of ordinary shares	(96 374)	(360 589)	96 090	(508 197)
Earnings/ (loss) per ordinary share – basic and diluted (in Russian rubles)	**(0,32)**	**(1,20)**	**0,32**	**(1,69)**

(in thousands of Russian rubles, unless otherwise stated)

19 Loans and borowings

	30 June 2018	31 December 2017
Non-current liabilities		
Unsecured loans and borrowings	17 249 917	15 617 796
Unsecured bonds	7 000 000	7 000 000
Less: current portion of long-term loans and borrowings	(594 878)	–
	23 655 039	**22 617 796**
Current liabilities		
Unsecured loans and borrowings	11 828	13 742
Unsecured bonds	75 744	77 944
Current portion of long-term loans and borrowings	594 878	–
	682 450	**91 686**
Including:		
Interests payable on loans and borrowings	11 206	13 120
Interests payable on bonds	75 744	77 944
	86 950	**91 064**

As at 30 June 2018 and 31 December 2017, all loans and borrowings balances are denominated in rubles.

For the six months ended 30 June 2018, the Group attracted the following essential bank credits:

	Maturity	Nominal interest rate	Nominal value
Unsecured loans and borrowings			
Sberbank*	min 2019 – max 2020	min 7.95% – max 8.20%	32 294 190
Bank GPB*	min 2019 – max 2020	min 7.95% – max 7.95%	465 770
Other	min 2019 – max 2020	min 12% – max 12%	1 000
			32 760 960

* Loans and borrowings from government-related companies

For the six months ended 30 June 2018, the Group repaid the following bank loans:

	Nominal value
Loans and borrowings from government-related entities	31 127 839
Other	1 000
	31 128 839

(in thousands of Russian rubles, unless otherwise stated)

20 Trade and other payables

	30 June 2018	31 December 2017
Non-current accounts payable		
Trade payables	3 836	3 013
Other payables	883	251
Total financial liabilities	**4 719**	**3 264**
Advances from customers	1 170 073	984 093
	1 174 792	**987 357**
Current accounts payable		
Trade payables	6 091 398	6 230 622
Other payables and accrued expenses	1 766 690	1 325 818
Payables to employees	853 622	826 831
Dividends payable	321 557	500
Total financial liabilities	**9 033 267**	**8 383 771**
Advances from customers	4 014 139	2 138 408
	4 014 139	**2 138 408**
Taxes payable		
Value-added tax	418 659	70 804
Property tax	213 668	152 509
Social security contributions	113 585	108 968
Other taxes payable	45 649	46 205
	791 561	**378 486**
	13 838 967	**10 900 665**

As at 30 June 2018 long-term advances from customers included advances for technological connection services in amount of 1 170 075 thousand rubles (as at 31 December 2017: 984 093 thousand rubles).

21 Financial risk and capital management

The Groups objectives and policies in financial risks and capital management as well as procedure for determining the fair value are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2017.

The management believes that as of the reporting date, the fair value of financial assets and liabilities of the Group approximates their carrying amount.

Financial assets and liabilities of the Group, except cash and cash equivalents (the 1st level of hierarchy), are referred to the 3rd level of fair value hierarchy.

(in thousands of Russian rubles, unless otherwise stated)

The fair value and carrying amount of financial assets and liabilities are as follows:

		30 June 2018		Level of fair value hierarchy		
	Notes	**Carrying amount**	**Fair value**	**1**	**2**	**3**
Receivables	15	7 642 830	7 642 830	–	–	7 642 830
Financial assets measured at fair value through other comprehensive income		1	1	–	–	1
Cash and cash equivalents	16	2 614 512	2 614 512	2 614 512	–	–
Current and non-current loans and borrowings	19	(24 337 489)	(24 337 489)	–	–	(24 337 489)
Trade and other payables	20	(9 037 986)	(9 037 986)	–	–	(9 037 986)
		(23 118 132)	**(23 118 132)**	**2 614 512**	**–**	**(25 732 527)**

		31 December 2017		Level of fair value hierarchy		
	Notes	**Carrying amount**	**Fair value**	**1**	**2**	**3**
Receivables	15	6 476 617	6 476 617	–	–	6 476 617
Financial assets measured at fair value through other comprehensive income		1	1	–	–	1
Cash and cash equivalents	16	1 681 043	1 681 043	1 681 043	–	–
Current and non-current loans and borrowings	19	(22 709 482)	(22 709 482)	–	–	(22 709 482)
Trade and other payables	20	(8 387 035)	(8 387 035)	–	–	(8 387 035)
		(22 938 856)	**(22 938 856)**	**1 681 043**	**–**	**(24 619 899)**

The interest rate used to discount the expected future cash flows for long-term and short-term borrowings for the purpose of determining the fair value disclosed as at 30 June 2018 was 7.95%-8.12% (as at 31 December 2017: 8.20%-10.80%).

During six months of 2018 there were no transfers between the levels of the fair value hierarchy.

As of 30 June 2018, the sum of free limit on open but unused credit lines of the Group amounted 13 770 083 thousand rubles (9 402 205 thousand rubles as of 31 December 2017.) The Group has opportunity to attract additional financing within the corresponding limits, including for the purpose of implementation of the short-term obligations.

22 Capital commitments

As at 30 June 2018, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment items for 3 395 172 thousand rubles, including VAT (as at 31 December 2017: 6 856 338 thousand rubles including VAT).

23 Contingencies

(a) Insurance

The Group has unified requirements in respect of the volume of insurance coverage, reliability of insurance companies and procedures of organization of insurance protection. The Group maintains insurance of assets, civil liability and other insurable risks. The main business assets of the Group have insurance coverage, including coverage in case of damage or loss of assets. However, there are risks of negative impact on the operations and the financial position of the Group in case of damage caused to third parties, and also as a result of damage or loss of assets, insurance protection of which is non-existent or not fully implemented.

(b) Taxation contingencies

The current taxation system in the Russian Federation is characterized by frequent changes in legislation, official pronouncements, and court decisions, which are sometimes vague and contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines and charges. Correctness of tax computation for the period remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax period may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation, striving to reveal cases of unjustified tax benefits. These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries.

Management of the Group believes that it has adequately provided for tax assets and liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions; the Group’s tax, currency and customs positions will be proved and sustained. However, the interpretations of the relevant authorities could differ and have an effect on these consolidated financial statements if the authorities were successful in enforcing their interpretations.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to principals of Organization for Economic Co-operation and Development (OECD), but also creating additional uncertainty in practical application of tax legislation in certain circumstances.

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, because tax inspections of compliance to the new transfer rules have started only a while ago. However, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny that potentially may have effect on these consolidated financial statements.

Based on the results of tax inspections in 2013-2015, the Group is currently disputing several claims using pretrial proceedings at the Federal Tax Service Federal. Generally, the management believes that the Group has paid or accrued all taxes that are applicable. With regard to transactions for which there is uncertainty concerning taxes, the Group has accrued tax liabilities based on management’s best estimate of the probable outflow of resources, which will be required to settle these liabilities.

(c) Legal proceedings

The Group is party to a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business activity. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the consolidated interim condensed financial statements.

(in thousands of Russian rubles, unless otherwise stated)

(d) Environmental commitments

The Group has been operating in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is 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 estimated. Under the existing legislation and control, the management believes that there are no probable liabilities, which may have a material adverse effect on the Group’s financial position, results of operations or cash flows.

24 Related party transactions

(a) Control relationships

Related parties include shareholders, affiliates and entities under common ownership and control with the Group and members of the Board of Directors and the key management personnel of the Company. The Company’s parent as at 30 June 2018 and 31 December 2017 was “ROSSETI” PJSC. The party with the ultimate control over the Company is the Government of the Russian Federation represented by the Federal Property Management Agency, which holds the majority of the voting rights of “ROSSETI” PJSC.

(b) Transactions with the Company’s Parent, its subsidiaries and associates

Transactions with the Company’s Parent, its subsidiaries and associate include transactions with “ROSSETI” PJSC, its subsidiaries and associates, and were as follows:

	Sum of transaction				Carrying amount	
	Three months ended 30 June		Six months ended 30 June		30 June	31 December
	2018	2017	2018	2017	2018	2017
Revenue, net other income, finance income						
Parent company						
Other revenue	296	296	592	592	–	–
Entities under common control of the parent company						
Rental income	49	12	97	24	23	5
Other revenue	38	9	42	10	174 804	205 223
Other income	–	–	1 031	–	–	–
	383	**317**	**1 762**	**626**	**174 827**	**205 228**

(in thousands of Russian rubles, unless otherwise stated)

	Sum of transaction				Carrying amount	
	Three months ended 30 June		Six months ended 30 June		30 June	31 December
	2018	2017	2018	2017	2018	2017
Operating expenses, finance costs						
Parent company						
Expenses on service related to organization of functioning and development of UES	29 130	19 121	55 918	38 242	20 411	–
Engineering supervision services	2 208	2 208	7 636	7 636	1 385	5 297
Other expenses	3 221	3 221	3 221	3 221	–	–
Interest expenses on financial liabilities measured at amortized cost	200 738	200 774	399 348	399 384	75 744	77 944
Entities under common control of the parent company						
Electricity transmission services	1 963 450	1 359 927	4 008 307	2 793 401	1 426 484	2 254 015
Technological connection services	501	579	617	1 713	–	54
Rent	2 885	18	2 903	36	1 284	221
Software and support expenses	868	–	868	–	–	–
Impairment of receivables	–	–	(960)	1 293	–	–
Reserves	–	277 657	–	535 410	–	168 409
Other	409 843	12 717	416 202	175 293	298 855	37 567
	2 612 844	**1 876 222**	**4 894 060**	**3 955 629**	**1 824 163**	**2 543 507**
Construction and installation work capitalized	107 997	707	124 732	707	42 429	39 805
	2 720 841	**1 876 929**	**5 018 792**	**3 956 336**	**1 866 592**	**2 583 312**

	Carrying amount	
	30 June 2018	31 December 2017
Parent company		
Loans and borrowings	7 000 000	7 000 000
Entities under common control of the parent company		
Advances given	(124 370)	(5 890)
Advances received	90	90
	6 875 720	**6 994 200**

As of 30 June 2018, liability owned to the parent company for payments of dividends on ordinary shares of the Company by the results of 2017 (minutes of the AGM No.40 of 28 May 2018) amounted 298 340 thousand rubles (as of 31 December 2017 liability owned to the parent company for payments of dividends was absent).

(in thousands of Russian rubles, unless otherwise stated)

(c) Transactions with the key management personnel

For the purposes of preparing these consolidated financial statements, the Group identifies the Director General and top managers of the Group, members of the Board of Directors and members of the Management Board as key management personnel.

There are no transactions or balances with key management personnel and their close family members except their remuneration in the form of salary and bonuses

The amounts of the key management personnel remuneration disclosed in the table are recognized as an expense related to the key management personnel during the reporting period and included in personnel costs.

	Three months ended 30 June		Six months ended 30 June	
	2018	**2017**	**2018**	**2017**
Short-term remuneration to employees	18 974	24 413	50 674	46 438
Post-employment benefits and other long-term remunerations	30	24	60	86
	19 004	**24 437**	**50 734**	**46 524**

As of 30 June 2018, the current value of defined benefit plan reported in the consolidated statement of financial position includes liabilities related to the key management personnel for 1 261 thousand rubles (as of 31 December 2017: 1 230 thousand rubles).

(d) Transactions with government-related entities

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

Revenues from government-related entities for the three and six months ended 30 June 2018 constitute 2.28% and 1.83% respectively (for the three and six months ended 30 June 2017: 0.51% and 0.47% respectively), 2.12 and 1.17% of revenue from electricity transmission (for the three and six months ended 30 June 2017: 0.46% and 0.45%).

Electricity transmission costs (including compensation of technological losses) for government-related entities for the three and six months ended 30 June 2018 constitute 3.20% and 2.93% of total electricity transmission costs (for the three and six months ended 30 June 2017: 4.74% and 501%).

Interest on loans and borrowings from government-related banks for the three and six months ended 30 June 2018 constitute 90.97% and 89.78% of the total sum of accrued interest (for the three and six months ended 30 June 2017: 42.62% and 59.30% respectively).

As of 30 June 2018, balance of cash and cash equivalents held in government-related banks amounted to 880 906 thousand rubles (as of 31 December 2017: 952 544 thousand rubles)

Information on loans and borrowings received from government-related banks is disclosed in Note 18.

25 Events after the reporting period

From 1 July to 22 August 2018 Kubanenergo PJSC, within the existing agreements, attracted credits for financing its investment activity in amount of 123 983 thousand rubles, among which 89 358 thousand rubles were received from Sberbank PJSC and 34 625 thousand rubles were received from GPB (JSC).

On 3 July 2018, the Company announced payment of dividends on ordinary shares of its subsidiary "Energoservis Kuban" JSC in amount of 90 677.50 rubles per one ordinary share by the results of 2017.