“Kubanenergo” PJSC

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

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Consolidated Interim Condensed Statement of Profit and Loss and Other Comprehensive Income
(in thousands of Russian rubles, unless otherwise stated)

	Notes	Three months ended 30 September 2018	Three months ended 30 September 2017	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Revenue	7	12 556 971	12 123 476	34 813 657	31 009 381
Operating expenses	9	(10 888 715)	(10 111 534)	(32 014 345)	(28 652 708)
Other income, net	8	259 765	177 890	628 122	557 975
Results from operating activities		**1 928 021**	**2 189 832**	**3 427 434**	**2 914 648**
Finance income	10	17 638	9 262	52 814	49 422
Finance costs	10	(486 810)	(509 294)	(1 515 359)	(1 550 319)
Net finance income/(costs)		**(469 172)**	**(500 032)**	**(1 462 545)**	**(1 500 897)**
Profit before income tax		**1 458 849**	**1 689 800**	**1 964 889**	**1 413 751**
Profit tax expense		(334 002)	(232 631)	(743 952)	(464 779)
Profit for the period		**1 124 847**	**1 457 169**	**1 220 937**	**948 972**
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Remeasurements of defined benefit liability		51 638	17 362	64 630	11 434
Income tax		(10 328)	(3 474)	(12 926)	(2 288)
Total items that will not be reclassified subsequently to profit or loss		**41 310**	**13 888**	**51 704**	**9 146**
Other comprehensive income for the period, net of income tax		**41 310**	**13 888**	**51 704**	**9 146**
Total comprehensive income for the period		**1 166 157**	**1 471 057**	**1 272 641**	**958 118**
Profit attributable to:					
Owners of the Company		1 124 847	1 457 169	1 220 937	948 972
Total comprehensive income attributable to:					
Owners of the Company		1 166 157	1 471 057	1 272 641	958 118
Earnings per share - Basic and diluted earnings per ordinary share (in Russian rubles)	17	3,70	4,84	4,02	3,15

These consolidated interim condensed financial statements were approved by the management on 21 November 2018 and were signed on its behalf by:

Director General
(by the power of attorney No.1-1907 of 20.12.2017) O.V. Ocheredko

Chief Accountant I.V. Skiba

КРАСНОДАРСКИЙ КРАЙ Г. КРАСНОДАР
ПАО «КУБАНЬЭНЕРГО»
ИНН 2309001660
РОССИЯ

This Consolidated Interim Condensed Statement of Profit and Loss and Other Comprehensive Income is to be read in conjunction with the notes 1-24 to, and forming the part of, the consolidated financial statements.

Consolidated Interim Condensed Statement of Financial Position
(in thousands of Russian rubles, unless otherwise stated)

	Notes	30 September 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	11	54 886 159	52 588 454
Intangible assets	13	165 052	150 435
Trade and other receivables	14	19 007	25 760
Assets related to employee benefits plans	12	296 444	318 910
Financial investments	12	1	1
Deferred tax assets		1 010 688	1 203 443
Total non-current assets		**56 377 351**	**54 287 003**
Current assets			
Inventories		1 611 660	1 584 669
Income tax prepayments		92 554	317 458
Trade and other receivables	14	9 400 341	6 694 054
Cash and cash equivalents	15	3 058 537	1 681 043
Total current assets		**14 163 092**	**10 277 224**
Assets classified as held for sale		20 854	8 492
Total assets		**70 561 297**	**64 572 719**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	28 286 813	28 286 813
Share premium		6 481 916	6 481 916
Reserve for issue of shares		2 092 522	2 092 522
Other reserves		(185 149)	(236 851)
Retained earnings		(7 318 856)	(8 218 225)
Total equity attributable to owners of the Company		**29 357 246**	**28 406 175**
Total equity		**29 357 246**	**28 406 175**
Non-current liabilities			
Loans and borrowings	18	23 384 141	22 617 796
Trade and other payables	19	1 113 893	987 357
Employee benefits liabilities		544 177	611 115
Government grants		27 909	37 256
Total non-current liabilities		**25 070 120**	**24 253 524**
Current liabilities			
Loans and borrowings	18	1 380 831	91 686
Trade and other payables	19	13 669 975	10 900 665
Provisions		1 070 532	905 937
Government grants		12 401	12 355
Current income tax liabilities		192	2 377
Total current liabilities		**16 133 931**	**11 913 020**
Total liabilities		**41 204 051**	**36 166 544**
Total equity and liabilities		**70 561 297**	**64 572 719**

Consolidated Interim Condensed Statement of Cash Flows
(in thousands of Russian rubles, unless otherwise stated)

		Nine months ended 30 September	
	Notes	**2018**	**2017**
OPERATING ACTIVITIES			
Profit/(loss) for the period		**1 220 937**	**948 972**
Adjustments for:			
Depreciation and amortization	9	2 643 522	2 359 353
Impairment loss on property, plant and equipment	9	33	–
Finance costs	10	1 515 359	1 550 319
Finance income	10	(52 814)	(49 422)
Loss on disposal of property, plant and equipment		15 871	21 900
Loss on disposal of intangible assets		–	11 908
Allowance for expected credit losses	9	(125 143)	(43 230)
Provision for legal processes		267 196	1 149 459
Allowance for obsolete inventory		(478)	(2 033)
Other non-cash transactions		(23 734)	(57 372)
Income tax (benefit)/expense		743 952	464 779
Total effect of adjustments		**6 204 701**	**6 354 633**
Change in financial assets related to employee benefit liabilities		**53 479**	**30 324**
Change in employee benefit liabilities		**(33 956)**	**(13 447)**
Operating cash flow before changes in working capital and provisions		**6 224 224**	**6 371 510**
Changes in working capital:			
Change in trade and other receivables		(2 606 177)	(158 469)
Change in inventories		(26 513)	(38 625)
Change in trade and other payables		3 247 496	309 428
Change in provisions		(102 601)	(867 622)
Change in government grants		(9 301)	(10 854)
Operating cash flow before income tax and interest paid		**6 727 128**	**5 605 368**
Income tax paid		(341 404)	(379 330)
Interest paid	10	(1 518 414)	(1 373 564)
Net cash flows provided by (used in) operating activities		**4 867 310**	**3 852 474**
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(5 069 733)	(4 390 115)
Proceeds from the sale of property, plant and equipment and intangible assets		–	404
Interest received		46 273	27 445
Net cash provided by (used in) investing activities		**(5 023 460)**	**(4 362 266)**

This Consolidated Interim Condensed Statement of Profit and Loss and Other Comprehensive Income is to be read in conjunction with the notes 1-24 to, and forming the part of, the consolidated financial statements.

Consolidated Interim Condensed Statement of Cash Flows
(in thousands of Russian rubles, unless otherwise stated)

		Nine months ended 30 September	
	Notes	**2018**	**2017**
FINANCING ACTIVITIES			
Proceeds from loans and borrowings	18	38 983 632	34 755 524
Repayment of loans and borrowings	18	(37 128 839)	(32 653 240)
Proceeds from issuance of shares		–	2
Dividends paid	16	(321 149)	(535 112)
Net cash provided by (used in) investing activities		**1 533 644**	**1 567 174**
Net (decrease)/ increase in cash and cash equivalents		**1 377 494**	**1 057 382**
Cash and cash equivalents at the beginning of the period	15	**1 681 043**	**1 254 098**
Cash and cash equivalents at the end of the period	15	**3 058 537**	**2 311 480**

Consolidated Interim Condensed Statement of Changes in Equity (in thousands of Russian rubles, unless otherwise stated)

	Equity attributable to equity holders of the Company					
	Share capital	**Share premium**	**Reserve for issue of shares**	**Reserves**	**Retained earnings**	**Total equity**
Balance at 31 December 2017	**28 286 813**	**6 481 916**	**2 092 522**	**(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**	**6 481 916**	**2 092 522**	**(236 853)**	**(8 218 223)**	**28 406 175**
Profit for the period	–	–	–	–	1 220 937	1 220 937
Remeasurements of defined benefit liability	–	–	–	64 630	–	64 630
Income tax relating to other comprehensive income	–	–	–	(12 926)	–	(12 926)
Total comprehensive income for the period	–	–	–	**51 704**	–	–
Transactions with owners of the Company						
Contributions and distributions						
Dividends to shareholders	–	–	–	–	(321 570)	(321 570)
Total transactions with owners of the Company	–	–	–	–	**(321 570)**	**(321 570)**
Balance at 30 September 2018	**28 286 813**	**6 481 916**	**2 092 522**	**(185 149)**	**(7 318 856)**	**29 357 246**

This Consolidated Interim Condensed Statement of Changes in Equity is to be read in conjunction with the notes 1-24 to, and forming the part of, the consolidated financial statements.

Consolidated Interim Condensed Statement of Changes in Equity (in thousands of Russian rubles, unless otherwise stated)

	Equity attributable to equity holders of the Company					
	Share capital	**Share premium**	**Reserve for issue of shares**	**Reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2017	28 286 813	6 481 916	2 072 164	(225 347)	(8 400 237)	28 215 309
Profit for the period	–	–	–		948 972	948 972
Remeasurements of defined benefit liability	–	–	–	11 434	–	11 434
Income tax relating to other comprehensive income	–	–	–	(2 288)	–	(2 288)
Total comprehensive income for the period	**–**	**–**	**–**	**9 146**	**–**	**9 146**
Transactions with owners of the Company						
Contributions and distributions						
Dividends	–	–	–	–	(535 125)	(535 125)
Total contributions and distributions	**–**	**–**	**–**	**–**	**(535 125)**	**(535 125)**
Reserve for issue of shares	–	—	2	–	–	**2**
Total transactions with owners of the Company	–	–	**2**	–	**(535 125)**	**(535 123)**
Balance at 30 September 2017	**28 286 813**	**6 481 916**	**2 072 166**	**(216 201)**	**(7 986 390)**	**28 638 304**

This Consolidated Interim Condensed Statement of Changes in Equity is to be read in conjunction with the notes 1-24 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 "Energoservice of Kuban" JSC.

(b) The Group's 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 companies 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 September 2018, the share of the Russian Federation in the share capital of the ultimate parent company “ROSSETI” PJSC was 88.04%, including 88.89 % of the ordinary voting shares and 7.01 % of the preference shares; “ROSSETI” PJSC in its turn owned 92.78% of the ordinary voting shares of “Kubanenergo” PJSC (as of 31 December 2017 the share of the Russian Federation in the share capital of “ROSSETI” PJSC was 88.04%, including 88.89% of the ordinary voting shares and 7.01 % of the preference shares; “ROSSETI” PJSC 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 nine months ended 30 September 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 professional judgements, assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

The management reviews these estimates and assumptions on a continuous basis, by reference to the 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) Changes in presentation

Reclassification of comparative information

Certain items in the comparative statements for the previous period have been reclassified to comply with their presentation for the current reporting year. 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 the new adopted 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 measured at the fair value of the 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.

(in thousands of Russian rubles, unless otherwise stated)

(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 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, or 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
Total:	**1**	**–**	**1**

The specified changes did not influence the carrying amounts of financial assets. Changes in reclassification were made for investments in shares.

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

(in thousands of Russian rubles, unless otherwise stated)

	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**	**–**

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:					
Shares	*Available-for-sale*	*Measured at fair value through other comprehensive income*	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:

(in thousands of Russian rubles, unless otherwise stated)

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.

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 September 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 September 2018**	**31 December 2017**
"Recreation Centre "Energetik" JSC	Russian Federation	100	100
"Energoservice of Kuban" JSC	Russian Federation	100	100

(in thousands of Russian rubles, unless otherwise stated)

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-Б, 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, and 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. The 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 repair services, rent services, and recreational activity.

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

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

(a) Information on reportable segments

For the three months ended 30 September 2018:

	Kubanenergo	**Other segments**	**Total**
Revenue from external customers	12 509 307	42 164	12 551 471
Inter-segment revenue	1 236	13 599	14 835
Segment revenue	**12 510 543**	**55 763**	**12 566 306**
including			
Electricity transmission	12 351 079	–	12 351 079
Technological connection services	81 422	–	81 422
Other revenue	78 042	55 763	133 805
Finance income	23 830	27	23 857
Finance costs	(478 227)	–	(478 227)

(in thousands of Russian rubles, unless otherwise stated)

Depreciation and amortization	1 026 392	907	1 027 299
Segment profit/(loss) before tax	1 389 138	13 864	1 403 002
EBITDA	**2 893 757**	**14 771**	**2 908 528**

For the three months ended 30 September 2017:

	Kubanenergo	Other segments	Total
Revenue from external customers	12 079 357	43 473	12 122 830
Inter-segment revenue	1 274	10 193	11 467
Segment revenue	**12 080 631**	**53 666**	**12 134 297**
including			
Electricity transmission	11 936 220	–	11 936 220
Technological connection services	119 508	–	119 508
Other revenue	24 903	53 666	78 569
Finance income	7 511	61	7 572
Finance costs	(466 956)	–	(466 956)
Depreciation and amortization	944 792	1 167	945 959
Segment profit/(loss) before tax	1 703 207	1 670	1 704 877
EBITDA	**3 114 955**	**2 837**	**3 117 792**

For the nine months ended 30 September 2018:

	Kubanenergo	Other segments	Total
Revenue from external customers	34 764 934	51 515	34 816 449
Inter-segment revenue	2 026	29 581	31 607
Segment revenue	**34 766 960**	**81 096**	**34 848 056**
including			
Electricity transmission	34 381 686	–	34 381 686
Technological connection services	225 061	–	225 061
Other revenue	160 213	81 096	241 309
Finance income	54 210	43	54 253
Finance costs	(1 441 701)	(17)	(1 441 718)
Depreciation and amortization	2 950 159	1 541	2 951 700
Segment profit/(loss) before tax	1 771 368	1 616	1 772 984
EBITDA	**6 163 228**	**3 174**	**6 166 402**

For the nine months ended 30 September 2017:

	Kubanenergo	Other segments	Total
Revenue from external customers	30 955 440	53 941	31 009 381
Inter-segment revenue	2 325	29 713	32 038
Segment revenue	**30 957 765**	**83 654**	**31 041 419**
including			
Electricity transmission	30 493 695	–	30 493 695
Technological connection services	395 778	–	395 778
Other revenue	68 292	83 654	151 946
Finance income	26 017	97	26 114
Finance costs	(1 465 241)	(43)	(1 465 284)

(in thousands of Russian rubles, unless otherwise stated)

Depreciation and amortization	2 812 327	3 589	2 815 916
Segment profit/(loss) before tax	1 023 254	(5 140)	1 018 114
EBITDA	**5 300 822**	**(1 508)**	**5 299 314**

30 September 2018:

	Kubanenergo	Other segments	Total
Segment assets	**76 937 173**	**77 865**	**77 015 038**
including			
Property, plant and equipment and construction-in-progress	61 698 934	28 843	61 727 777
Capital investments	5 057 129	1 520	5 058 649
Segment liabilities	**40 938 551**	**28 566**	**40 967 117**

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
Capital investments	7 560 885	1 231	7 562 116
Segment liabilities	**36 447 835**	**53 173**	**36 501 008**

(b) Reconciliation of reportable segment EBITDA is presented below:

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017**	**2018**	**2017**
EBITDA of reportable segments	**2 908 528**	**3 117 792**	**6 166 402**	**5 299 314**
Recognition of retirement and other long-term employee benefit obligations	25 904	(96 568)	11 488	3 848
Adjustment for intangible assets	11 842	(6 330)	46 228	23 672
Discounting receivables	1 177	970	3 612	1 864
Discounting receivables	(790)	1 405	4 017	997
Adjustment for doubtful accounts receivable	(3 613)	(124 338)	10 410	(114 976)
Adjustment for accrual of provision for unused vacations and bonuses	(12 026)	94 487	(7 738)	100 921
Adjustment for revenue from electricity transmission	(16 043)	49	(13 698)	49
Other adjustments	(33 770)	534	(42 847)	583
Adjustment for value of property, plant and equipment	(36 723)	6 093	(54 104)	6 091
EBITDA	**2 844 486**	**2 994 094**	**6 123 770**	**5 322 363**
Depreciation and amortization	(898 827)	(795 000)	(2 643 522)	(2 358 293)
Interest expenses on financial liabilities	(486 810)	(509 294)	(1 515 359)	(1 550 319)
Income tax expense	(334 002)	(232 631)	(743 952)	(464 779)
Consolidated profit/loss for the year per statement of profit or loss and other comprehensive income	**1 124 847**	**1 457 169**	**1 220 937**	**948 972**

(in thousands of Russian rubles, unless otherwise stated)

Reconciliation of total sum of segment assets:

	Nine months ended 31 March 2018	Year ended 31 December 2017
Total segment assets	**77 015 038**	**71 967 339**
Recognition of assets related to employee benefits	296 444	318 910
Deferred tax adjustment	228 965	319 869
Adjustment for financial investments	9 684	9 684
Discounting of receivables	(8 470)	(8 602)
Adjustment for bad debt provision	14 943	428
Writing-off of receivables	(18 762)	(958)
Intersegment balances	(17 713)	(59 031)
Intragroup financial assets	(45 687)	(45 687)
Adjustment for intangible assets	(92 484)	(87 401)
Reduction of VAT recoverable by the amount of VAT on advances received	–	(750 865)
Adjustment for property, plant and equipment	(6 820 764)	(7 090 968)
Other adjustments	103	(1)
Total assets per consolidated statement of financial position	**70 561 297**	**64 572 719**

Reconciliation of total sum of segment liabilities:

	Nine months ended 31 March 2018	Year ended 31 December 2017
Total segment liabilities	**40 967 117**	**36 501 008**
Recognition of pension and other long-term employee benefit liabilities	544 177	611 115
Adjustment for accrual of provision for unused vacations and bonuses	130 137	122 399
Intersegment balances	(17 713)	(59 031)
Write-off of deferred income	(83 824)	(77 007)
Adjustment for deferred tax	(373 609)	(179 076)
Reduction in accounts payable on advances received by the amount of VAT on advances received	–	(750 713)
Other adjustments	37 766	(2 151)
Total liabilities per consolidated statement of financial position	**41 204 051**	**36 166 544**

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

Within the nine months ended 30 September 2018, the Group had two major customers: retail companies operating in Krasnodar region, Russian Federation, with individual sales exceeding 10% of the Group's total revenue. The total revenue from these customers for the nine months ended 30 September 2018 amounted 28 432 169 thousand rubles, or 81.7% of the Group's net sales, and for the three months ended 30 June 2018 – 10 164 268 thousand rubles, or 80.9% of the Group's net sales (for the nine months ended 30 September 2017 – 25 440 534 thousand rubles, or 82% of the Group's net sales, for the three months ended 30 September 2017 – 10 053 378 thousand rubles, or 82.9%).

(in thousands of Russian rubles, unless otherwise stated)

7 Revenue

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017**	**2018**	**2017**
Electricity transmission	12 345 332	11 935 123	34 365 333	30 491 902
Technological connection services	81 422	119 508	225 061	395 778
Rental income	9 500	8 761	20 012	17 999
Repairs and maintenance	7 913	2 343	25 149	4 795
Other revenue	112 804	57 741	178 102	98 907
	12 556 971	**12 123 476**	**34 813 657**	**31 009 381**

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 / (expenses), net

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017**	**2018**	**2017**
Income from identified non-contracted electricity consumption	21 429	6 529	43 732	17 190
Income in the form of fines and penalties on commercial contracts	180 153	166 688	520 941	439 073
Income from sale of property, plant and equipment	–	–	–	229
Expenses on write-off of property, plant and equipment, including prepayments for property, plant and equipment	19 030	(3 551)	(17 769)	(26 717)
Loss on disposal of intangible assets	–	(11 908)	(1)	(11 908)
Insurance compensation, net	19 618	4 036	34 808	76 564
Write-off of accounts payable	6 328	3 487	14 279	12 254
Income from inventories and property, plant and equipment received free of charge	12 770	10 318	30 233	46 702
Other income, net; of which:				
Income from inventories received after liquidation of property, plant and equipment	437	2 291	1 899	4 588
	259 765	**177 890**	**628 122**	**557 975**

(in thousands of Russian rubles, unless otherwise stated)

9 Operating expenses

	Three months ended 30 September		**Nine months 30 September**	
	2018	**2017**	**2018**	**2017**
Personnel costs	1 504 268	1 436 503	4 547 781	3 941 273
Depreciation and amortization	898 827	795 000	2 643 522	2 358 293
Impairment/(reversal of impairment) of property, plant and equipment	33	–	33	–
Material expenses, including:				
Electricity for compensation of losses	1 662 692	1 588 341	5 249 601	5 191 748
Purchased electricity and heat power for own needs	14 142	13 284	74 961	77 197
Other material costs	357 451	333 388	957 257	783 719
Production work and services, including:				
Electricity transmission services	5 130 136	5 117 932	14 626 612	12 419 402
Repair and maintenance services	131 448	132 709	377 930	334 691
Other works and industrial services	13 760	10 241	41 173	36 026
Taxes and levies other than income tax	223 779	165 850	669 236	507 069
Rent	61 953	59 720	179 890	178 986
Insurance	19 329	19 083	58 019	57 140
Other third-party services, including:				
Communication services	21 049	16 265	53 704	45 997
Security services	53 932	66 520	178 659	146 870
Consulting, legal and audit services	9 432	33 686	20 438	88 347
Expenses on software and support	24 334	32 943	65 092	57 770
Transportation services	513	2 176	1 202	2 596
Other services, including:				
Implementation of energy service contracts	109 946	157 894	618 964	404 531
Other outsourced services	71 980	175 187	213 428	334 931
Provision for expected credit losses	9 167	(496 192)	(125 143)	(43 230)
Provisions	188 609	331 185	267 196	1 149 459
Other expenses, including				
Travel expenses	80 902	59 899	167 259	117 787
Expenses on services for organization, functioning and development of UES	–	19 122	55 918	57 364
Expenses recognized as fines, penalties and forfeitures for violation of contract conditions	44 961	5 951	425 821	193 460
Other operating expenses	256 072	34 847	645 792	211 282
	10 888 715	**10 111 534**	**32 014 345**	**28 652 708**

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 September		Nine months ended 30 September	
	2018	**2017**	**2018**	**2017**
Finance income				
Interest income on loans, bank deposits, bills and balances in bank accounts	14 789	7 295	45 185	25 837
Interest income from assets related to employee benefits payable	–	–	–	20 724
Effect of initial discounting of financial liabilities	1 672	997	4 017	997
Amortization of discount on financial assets	1 177	970	3 612	1 864
	17 638	**9 262**	**52 814**	**49 422**

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017**	**2018**	**2017**
Finance costs				
Interest expenses on financial liabilities measured at amortized cost	441 781	491 864	1 374 132	1 507 726
Interest expense on long-term employee benefits payable	9 851	10 416	31 646	33 934
Effect of initial discounting of financial assets	3 307	6 892	3 480	6 935
Amortization of discount on financial liabilities	379	122	3 334	1 724
Other finance costs	31 492	–	102 767	–
	486 810	**509 294**	**1 515 359**	**1 550 319**

Other finance costs are interest accrued on payables restructuring contracts.

(in thousands of Russian rubles, unless otherwise stated)

11 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 groups	235	(106)	(122)	(7)	(4 789)	4 128 559
Additions	2 015	3 904	96 275	63 711	3 962 654	–
Transfers	136 137	1 002 273	696 592	105 703	(1 940 705)	(55 222)
Disposal	(1 721)	(14 004)	(20 348)	(14 360)	–	–
At 30 September 2017	**7 584 604**	**37 157 593**	**15 175 221**	**7 328 421**	**7 386 364**	**74 632 203**
Accumulated 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	(132)	4	123	5	–	–
Introduction of property, plant and equipment (reallocation of impairment)	(107)	(3 148)	(2 104)	–	5 359	–
Depreciation charge	(195 012)	(1 026 652)	(640 370)	(449 481)	–	(2 311 515)
Disposals	938	3 466	11 084	14 247	30	29 765
At 30 September 2017	**(2 544 503)**	**(10 349 335)**	**(6 740 809)**	**(4 873 746)**	**(104 154)**	**(24 612 547)**
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 September 2017	**5 040 101**	**26 808 258**	**8 434 412**	**2 454 675**	**7 282 210**	**50 019 656**

(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 groups	313	–	(313)	–	–	–
Additions	6	9 911	25 325	34 079	4 924 605	4 993 926
Commissioning	108 714	752 521	942 418	135 008	(1 938 661)	–
Disposals	(862)	(47 714)	(5 329)	(9 611)	(12 146)	(75 662)
Reclassification in non-current assets held for sale	(643)	–	–	10 755	(20 403)	(10 291)
At 30 September 2018	**7 951 255**	**38 798 177**	**16 964 471**	**7 853 229**	**11 320 678**	**82 887 810**
Accumulated depreciation and impairment						
At 1 January 2018	**(2 609 739)**	**(10 717 364)**	**(6 962 311)**	**(5 009 642)**	**(92 327)**	**(25 391 383)**
Reclassification between groups	(345)	408	313	(376)		
Introduction of property, plant and equipment (reallocation of impairment)	–	(520)	(717)	–	1 237	–
Depreciation charge	(211 610)	(1 223 291)	(734 729)	(458 555)	–	(2 628 185)
Disposals	530	12 944	3 918	2 589	40	20 021
Reclassification in non-current assets held for sale	192	–	–	(2 263)	–	(2 071)
Impairment/(reversal of impairment)	–	(33)	–	–	–	(33)
At 30 September 2018	**(2 820 972)**	**(11 927 856)**	**(7 693 526)**	**(5 468 247)**	**(91 050)**	**(28 001 651)**
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 September 2018	**5 130 283**	**26 870 321**	**9 270 945**	**2 384 982**	**11 229 628**	**54 886 159**

(in thousands of Russian rubles, unless otherwise stated)

For the nine months ended 30 September 2018, capitalized interest amounted 242 212 thousand rubles (for the nine months ended 30 September 2017: 72 629 thousand rubles); capitalization rate is 7.33% (for the nine months ended 30 September 2017: 9.36%)

For the nine months ended 30 September 2018, the depreciation payments were capitalized into the cost of capital facilities in the amount of 148 thousand rubles (for the the nine months ended 30 September 2017 - in amount 1 061 thousand rubles.)

12 Financial assets and 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.

Financial assets measurable through other comprehensive income are securities without marketing quotation measured at fair value (3rd level of the fair value hierarchy).

13 Intangible assets

	Software	**Licences, certificates and patents**	**R&D**	**Other**	**Total**
Initial cost					
At 1 January 2017	**280 722**	**5 295**	**14 511**	**11 541**	**312 069**
Reclassification between groups	–	–	–	–	–
Additions	29 132	–	6 747	5 509	41 388
Disposals	–	–	(11 908)	–	(11 908)
At 30 September 2017	**309 854**	**5 295**	**9 350**	**17 050**	**341 549**
Accumulated depreciation and impairment					
At 1 January 2017					
Reclassification between groups	(193 678)	(5 295)	–	(4 869)	(203 842)
Accumulated depreciation	(44 281)	–	–	(3 558)	(47 839)
At 30 September 2017	**(237 959)**	**(5 295)**	–	**(8 427)**	**(251 681)**
Net book value					
At 1 January 2017	**87 044**	–	**14 511**	**6 672**	**108 227**
At 30 September 2017	**71 895**	–	**9 350**	**8 623**	**89 868**

(in thousands of Russian rubles, unless otherwise stated)

	Software	Licences, certificates and patents	R&D	Other	Total
Initial cost					
At 1 January 2018	**377 627**	**5 295**	**9 654**	**28 557**	**421 133**
Reclassification between groups	–	–	5 508	(5 508)	–
Additions	41 185	–	25 459	6 432	73 076
Disposals	(11 852)	–	–	–	(11 852)
At 30 September 2018	**406 960**	**5 295**	**40 621**	**29 481**	**482 357**
Accumulated depreciation and impairment					
At 1 January 2018	**(255 631)**	**(5 295)**	–	**(9 772)**	**(270 698)**
Accumulated depreciation	(54 759)	–	–	(3 700)	(58 459)
Disposals	11 852	–	–	–	11 852
At 30 September 2018	**(298 538)**	**(5 295)**	–	**(13 472)**	**(317 305)**
Net book value					
At 1 January 2018	**121 996**	–	**9 654**	**18 785**	**150 435**
At 30 September 2018	**108 422**	–	**40 621**	**16 009**	**165 052**

For the nine months ended 30 September 2018 capitalized interest amounted 0 thousand rubles (nine months ended 30 September 2017: 0 thousand rubles), capitalization rate – 0% (nine months ended 30 September 2017: 0%).

Sum of capitalized depreciation of intangible assets amounted 148 thousand rubles (nine months ended 30 September 2017: 1061 thousand rubles).

Other intangible assets comprise licences and design models, including graphical schemes and prototypes amounting 16 009 thousand rubles as of 30 September 2018 (8 623 thousand rubles as of 31 December 2017).

14 Trade and other receivables

	30 September 2018	31 December 2017
Non-current trade and other accounts receivable		
Trade receivables	282	–
Other receivables	12 740	14 207
Total financial assets	**13 022**	**14 207**
Advances given	4 838	5 890
VAT on advances from customers	1 147	5 663
	19 007	**25 760**

(in thousands of Russian rubles, unless otherwise stated)

Current trade and other accounts receivable		
Trade receivables	8 960 507	7 463 513
Trade receivables allowance for expected credit impairment	(1 155 375)	(1 307 373)
Other receivables	812 052	1 007 802
Other receivables allowance for expected credit impairment	(557 240)	(701 532)
Total financial assets	**8 059 944**	**6 462 410**
Advances given	154 924	146 617
Advances given impairment allowance	(31 609)	(112 813)
VAT recoverable	4 356	190 081
VAT on advances from customers and advances given for purchase of property, plant and equipment	1 208 420	–
Prepaid taxes, other than income tax	4 306	7 759
	9 400 341	**6 694 054**

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

15 Cash and cash equivalents

	30 September 2018	**31 December 2017**
Cash at bank and in hand	3 057 747	1 680 788
Cash equivalents	790	255
	3 058 537	**1 681 043**

	Rating	**Rating agency**	**30 September 2018**	**31 December 2017**
Sberbank*	Ba2	Moody’s	166 653	39 799
Bank GPB*	Ba2	Moody’s	464 413	910 745
Bank Rossiya (AB Rossiya)	ruAA	Expert RA	91 861	50 082
Federal treasury department in Krasnodar region	–	–	1 354 564	658 459
Mosoblbank PJSC			22 219	19 681
Cash in hand			36	22
			2 099 747	**1 678 788**

*** Government-related banks**

Cash equivalents consist of short-term bank deposits:

	Interest rate	**Rating**	**Rating agency**	**30 September 2018**	**31 December 2017**
Sberbank*	4,36% - 4,63%	Ba2	Moody’s	14 000	2 000
Bank GPB*	6,63% - 6,63%	Ba2	Moody’s	214 000	–
VTB bank	7,35% - 7,48%			730 000	–
				958 000	**2 000**

* Government-related banks

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

(in thousands of Russian rubles, unless otherwise stated)

16 Equity

(a) Share capital

In pieces	Ordinary shares 30 September 2018	Ordinary shares 31 December 2017
Par value per share	100 rubles	100 rubles
In circulation as of the beginning of the period	303 793 350	282 868 130
In circulation at the end of the year and fully paid	303 793 350	303 793 350

(b) Ordinary shares

The Company's share capital amounts 30 379 335 thousand rubles.

"Kubanenergo" PJSC placed 303 793 350 (three hundred and three million seven hundred ninety three thousand three hundred fifty) ordinary registered uncertified shares at the same par value of 100 rubles each for the total amount of 30 379 335 thousand rubles.

(c) Dividends

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

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.

Within nine months ended 30 September 2018, dividends for 2017 have been fully paid to the Company's shareholders in amount of 321 570 thousand rubles.

Based on the Company's business activity for nine months of 2018 dividends were not declared.

(d) 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 2017

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.

(in thousands of Russian rubles, unless otherwise stated)

State registration of changes in the Charter of "Kubanenergo" PJSC due to the increase of the authorized capital by additional issue of shares was carried out on 10 October 2018.

17 Earnings per share

The calculation of the basic profit per share for the three and nine months ended 30 September 2018 and 30 September 2017 is given below. The Company does not have dilutive financial instruments.

	Three months ended 30 September		**Nine months ended 30 September**	
In pieces of shares	**2018**	**2017 (restated)**	**2018**	**2017 (restated)**
Ordinary shares at the beginning of the period	303 793 350	303 589 785	303 793 350	303 589 770
Effect of issued shares	–	–	–	15
Ordinary shares at 30 September	303 793 350	303 589 785	303 793 350	303 589 785
Weighted average number of shares for the period ended 30 September	**303 793 350**	**301 287 377**	**303 793 350**	**301 287 377**

	Three months ended 30 September		**Nine months ended 30 September**	
	2018	**2017 (restated)**	**2018**	**2017 (restated)**
Weighted average number of ordinary shares for the period ended 30 September (pieces)	**303 793 350**	**301 287 377**	**303 793 350**	**301 287 377**
Earnings for the period attributable to holders of ordinary shares	1 124 847	1 457 169	1 220 937	948 972
Earnings per ordinary share – basic and diluted (in Russian rubles)	**3,70**	**4,84**	**4,02**	**3,15**

18 Loans and borrowings

	30 September 2018	**31 December 2017**
Non-current liabilities		
Unsecured loans and borrowings	17 472 589	15 617 796
Unsecured bonds	7 000 000	7 000 000
Less: current portion of long-term loans and borrowings	(1 088 448)	–
	23 384 141	**22 617 796**
Current liabilities		
Unsecured loans and borrowings	13 665	13 742
Unsecured bonds	278 718	77 944
Current portion of long-term loans and borrowings	1 088 448	–
	1 380 831	**91 686**
Including:		
Interests payable on loans and borrowings	13 043	13 120
Interests payable on bonds	278 718	77 944
	291 761	**91 064**

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

For the nine months ended 30 September 2018, the Group issued bonds and attracted the following essential bank credits:

(in thousands of Russian rubles, unless otherwise stated)

	Nominal interest rates	Maturity	Nominal value
Unsecured loans and borrowings*	min 7,60%-max 9,00%	min 2019 - max 2020	38 982 633
Other unsecured loans and borrowings	min 12.00 %-max 12.00%	min 2018 - max 2018	1 000
			38 983 633

* Loans and borrowings from government-related companies

The Group repaid the following essential bonds and bank loans during the nine months ended 30 September 2018:

	Nominal value
Loans and borrowings from government-related entities	37 127 839
Other loans and borrowings	1 000
	37 128 839

19 Trade and other payables

	30 September 2018	31 December 2017
Non-current accounts payable		
Trade payables	8 328	3 013
Other payables	788	251
Total financial liabilities	**9 116**	**3 264**
Advances from customers	1 104 777	984 093
	1 113 893	**987 357**
Current accounts payable		
Trade payables	4 767 105	6 230 622
Other payables and accrued expenses	1 779 706	1 325 818
Payables to employees	734 186	826 831
Dividends payable	921	500
Total financial liabilities	**7 281 918**	**8 383 771**
Advances from customers	5 236 179	2 138 408
	12 518 097	**10 522 179**
Taxes payable		
Value-added tax	725 536	70 804
Property tax	212 651	152 509
Social security contributions	144 940	108 968
Other taxes payable	68 751	46 205
	1 151 878	**378 486**
	13 669 975	**10 900 665**

(in thousands of Russian rubles, unless otherwise stated)

As of 30 September 2018 long-term advances from customers included advances for technological connection services in amount of 1 104 777 thousand rubles (as at 31 December 2017: 984 093 thousand rubles).

20 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.

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

	Notes	30 September 2018		Level of fair value hierarchy		
		Carrying amount	**Fair value**	**1**	**2**	**3**
Trade and other receivables	14	8 072 966	8 072 966	–	–	8 072 966
Financial assets measured at fair value through other comprehensive income	12	1	1	–	–	1
Cash and cash equivalents	15	3 058 537	3 058 537	3 058 537	–	–
Current and non-current loans and borrowings	18	(24 764 972)	(24 764 972)	–	–	(24 764 972)
Trade and other payables	19	(7 291 034)	(7 291 034)	–	–	(7 291 034)
		(20 924 502)	**(20 924 502)**	**3 058 537**	–	**(23 983 039)**

	Notes.	31 December 2017		Level of fair value hierarchy		
		Carrying amount	**Fair value**	**1**	**2**	**3**
Trade and other receivables	14	6 476 617	6 476 617	–	–	6 476 617
Financial assets measured at fair value through other comprehensive income	12	1	1	–	–	1
Cash and cash equivalents	15	1 681 043	1 681 043	1 681 043	–	–
Current and non-current loans and borrowings	18	(22 709 482)	(22 709 482)	–	–	(22 709 482)
Trade and other payables	19	(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 September 2018 was 7.95% – 9.00% (as at 31 December 2017: 8.20% – 10.80%).

During nine months ended 30 September 2018 there were no transfers between the levels of the fair value hierarchy.

As of 30 September 2018, the sum of free limit on open but unused credit lines of the Group amounted 15 547 410 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

21 Capital commitments

As at 30 September 2018, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment items for 3 224 518 thousand rubles, including VAT (as at 31 December 2017: 6 856 338 thousand rubles including VAT).

22 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 the 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.

(in thousands of Russian rubles, unless otherwise stated)

(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.

(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.

23 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 September 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:

	Sum of transaction				**Carrying amount**	
	Three months ended 30 September		**Nine months ended 30 September**		**30 September**	**31 December**
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Revenue, net other income, finance income						
Parent company						
Other revenue	296	297	888	889	–	–
Entities under common control of the parent company	49	13	146	37	18	5
Technological connection services	–	–	–	9		–
Other revenue	58	25	100	35		–
Other income	5 487	28 681	6 518	28 681	229 459	205 223
	5 890	**29 016**	**7 652**	**29 651**	**229 477**	**205 228**

(in thousands of Russian rubles, unless otherwise stated)

	Sum of transaction				Carrying amount	
	Three months ended 30 September		Nine months ended 30 September		30 September	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	36 854	19 122	92 772	57 364	22 892	–
Engineering supervision services	3 818	3 818	11 454	11 454	1 385	5 297
Other expenses	1 610	1 610	4 831	4 831	–	–
Interest expenses on financial liabilities measured at amortized cost	202 974	202 834	602 322	602 218	278 718	77 944
Entities under common control of the parent company						
Electricity transmission services	2 110 897	1 665 079	6 119 204	4 458 480	1 206 023	2 254 015
Technological connection services	660	139	1 277	1 852	–	54
Rent	3 228	19	6 131	55	–	221
Software and support expenses	3 364	8 581	4 232	8 581	3 295	2 108
Impairment of receivables	–	–	(960)	1 293	167 449	168 409
Reserves	–	283 999	–	819 409	–	–
Other expenses	1 567	6 185	346 494	181 478	269 089	35 459
Interest expenses on financial liabilities measured at amortized cost	31 492	–	102 767	–	34 169	–
	2 396 464	**2 191 386**	**290 524**	**6 147 015**	**1 983 020**	**2 543 507**
Construction and installation work capitalized	65 199	966	189 931	1 673	87 012	39 805
	2 461 663	**2 192 352**	**7 480 455**	**6 148 688**	**2 070 032**	**2 583 312**

	Carrying amount	
	30 September 2018	31 December 2017
Parent company		
Loans and borrowings	7 000 000	7 000 000
Entities under common control of the parent company	(91 437)	(5 890)
Advances given	90	90
	6 908 653	**6 994 200**

The amount of dividends attributable to the parent company amounted to 298.340 thousand rubles for the year ended 31 December 2017 (Minutes of the annual general meeting of shareholders of Kubanenergo PJSC No.40 of 28 May 2018). As of 30 September 2018, liability owned to the parent company for payments of dividends on ordinary shares of the Company by the results of 2017 was absent (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 the key management personnel.

The Group does not conclude transactions and has no balances with the key management personnel and their close family members except their remuneration in the form of salary and bonuses.

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

	Three months ended 30 September		**Nine months ended 30 September**	
	2018	**2017**	**2018**	**2017**
Short-term remuneration to employees	75 398	70 215	126 072	116 653
Post-employment benefits and other long-term remunerations	31	43	91	129
	75 429	**70 258**	**126 163**	**116 782**

As of 30 September 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 1 174 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 nine months ended 30 September 2018 constitute 2.42% and 2.04% of total revenues (for the three and nine months ended 30 September 2017: 0.25% and 0.39%), including 2.10% and 1.85% of revenue from electricity transmission (for the three and nine months ended 30 September 2017: 0.25% and 0.37%).

Electricity transmission costs (including compensation of technological losses) for government-related entities for the three and nine months ended 30 September 2018 constitute 2.84% and 2.90% of total electricity transmission costs (for the three and nine months ended 30 September 2017: 2.32% and 3.90%).

Interest on loans and borrowings from government-related banks for the three and nine months ended 30 September 2018 constitute 99.06% and 92.65% of the total sum of accrued interest (for the three and nine months ended 30 September 2017: 55.82% and 58.19%).

As of 30 September 2018, balance of cash and cash equivalents held in government-related banks amounted to 859 066 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 19.

24 Events after the reporting period

From 1 October 2018 to the date of signing the Consolidated Interim Condensed Financial Statements for the three and nine months ended 30 September 2018, Kubanenergo PJSC, within the existing agreements, attracted 115 545 thousand rubles of credits received from Sberbank PJSC for financing its investment activity.