PJSC «Rosseti Kuban»

Consolidated Financial Statement prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2020 (unaudited)

Contents

Consolidated Statement of Profit and Loss and Other Comprehensive Income (in thousands of Russian rubles, if not mentioned otherwise)

	Note	For the year, ended on December 31, 2020	For the year, ended on December 31, 2019
Revenue	7	49 561 633	51 076 970
Operating expenses	10	(49 266 371)	(45 981 321)
Charge of provision for expected credit losses		(387 155)	(73 161)
Net charge of impairment loss of fixed assets and right-of use assets	14	(4 984)	(12)
Other income	8	1 166 432	1 380 755
Other expenses	9	(83 332)	(346 684)
Operating profit		**986 223**	**6 056 547**
Finance income	12	58 988	76 495
Finance expenses	12	(2 090 467)	(1 932 547)
Total finance expenses		**(2 031 479)**	**(1 856 052)**
Profit/(loss) before tax		**(1 045 256)**	**4 200 495**
Expense on income tax	13	(194 954)	(1 179 807)
Profit/(loss) for the period		**(1 240 210)**	**3 020 688**
Other comprehensive income/(loss)			
Items that cannot be reclassified subsequently to profit or loss			
Revaluation of obligations for the programmes with fixed payments	27	28 815	(286 068)
Income tax	13	(5 763)	57 213
Total items that cannot be reclassified subsequently to profit or loss		**23 052**	**(228 855)**
Other comprehensive income/(loss) for the period, except income tax		**23 052**	**(228 855)**
Total comprehensive income/(loss) for the period		**(1 217 158)**	**2 791 833**
Profit/(loss) is attributable to:			
Company owners		(1 240 210)	3 020 688
Total comprehensive income/(loss) is attributable to:			
Company owners		(1 217 158)	2 791 833
Earnings per share			
Basic and diluted earnings per share (RUB)	24	(3.71)	9.68

The present Consolidated Financial Statement is approved by Company Management on 9 March 2021 and signed on behalf of Company Management by the following persons:

General Director S.V. Sergeev

Chief Accountant – Head of Accounting and Tax Accounting Department I.V. Skiba

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

	Note	December 31, 2020	December 31, 2019
ASSETS			
Non-current assets			
Fixed assets	14	58 164 002	57 407 331
Intangible assets	15	304 618	325 877
Right-of-use assets	16	5 642 257	991 864
Trade and other accounts receivable	20	13 139	11 343
Assets associated with employee benefits obligations	27	319 337	318 362
Other non-current financial assets		1	1
Deferred tax assets	17	116 371	291 819
Advances issued and other non-current assets	21	3 942	5 121
Total non-current assets		**64 563 667**	**59 351 718**
Assets classified as held for sale – non-current	18	-	61 358
Total non-current assets		**64 563 667**	**59 413 076**
Current assets			
Inventory	19	2 014 723	1 944 833
Prepayment of income tax		302 622	226 256
Trade and other accounts receivable	20	8 115 500	7 066 945
Cash and cash equivalents	22	752 545	1 716 085
Advances issued and other current assets	21	139 484	47 971
Total current assets		**11 324 874**	**11 002 090**
Assets classified as held for sale	18	22 314	-
Total current assets		**11 347 188**	**11 002 090**
Total assets		**75 910 855**	**70 415 166**
EQUITY AND LIABILITIES			
Equity			
Charter capital	23	33 465 784	30 379 335
Share premium		6 481 916	6 481 916
Reserve for capital stock issues		-	3 086 449
Other reserves		(399 377)	(422 429)
Retained earnings		(6 739 229)	(4 862 354)
Total equity which is payable to Company owners		**32 809 094**	**34 662 917**
Non-current liabilities			
Non-current borrowings	25	22 778 403	20 321 793
Non-current trade and other accounts payable	28	104 439	104 093
Non-current advances received	30	1 179 235	880 900
Liabilities for employee benefits	27	561 821	732 902
Government subsidies		404	12 287
Deferred tax liabilities	17	845	-
Total non-current liabilities		**24 625 147**	**22 051 975**
Current liabilities			
Current borrowings and current portion of non-current borrowings	25	6 755 657	3 827 128
Trade and other accounts payable	28	7 592 834	6 749 582
Government subsidies		11 878	12 270
Advances received	30	2 252 510	1 575 441
Taxes payable except income tax	29	938 301	809 162
Estimated liabilities	31	921 992	726 472
Current income tax payable		3 442	219
Total current liabilities		**18 476 614**	**13 700 274**
Total liabilities		**43 101 761**	**35 752 249**
Total equity and liabilities		**75 910 855**	**70 415 166**

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

	Note	For the year, ended on December 31, 2020	For the year, ended on December 31, 2019
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(loss) for the period		**(1 240 210)**	**3 020 688**
Adjustments:			
Depreciation of fixed assets, right-of-use assets and amortization of intangible assets	10	5 720 577	3 948 329
Net charge of impairment loss of fixed assets and right-of use assets	14	4 984	12
Finance expenses	12	2 090 467	1 932 547
Finance income	12	(58 988)	(76 495)
Loss from fixed assets sale	9	83 332	341 140
Recovery of provision for impairment of inventory		(3 930)	147
Charge of provision for expected credit losses		387 155	73 161
Write-off of bad debts		124 889	10 799
Write-off of accounts payable	8	(25 296)	(43 918)
Change of government subsidies		(12 275)	(12 653)
Charge of estimated liabilities	10	531 893	214 965
Other non-cash transactions		52 286	(251 452)
Expense on income tax	13	194 954	1 179 807
Total adjustments impact		**9 090 048**	**7 316 389**
Change of assets associated with employee benefits obligations		(975)	(27 141)
Change of employee benefits obligations		(175 452)	(41 138)
Change in long-term trade and other accounts receivable		1 785	(3 058)
Change in long-term advances issued and other non-current assets		1 179	917
Change in long-term trade and other accounts payable		1 253	53 184
Change in long-term advances received		299 321	(360 752)
Cash flow from operating activities before changes in working capital and estimated liabilities		**7 976 949**	**9 959 089**
Changes in operating assets and liabilities:			
Change in trade and other accounts receivable		(1 539 290)	(460 859)
Change in advances issued and other assets		(85 790)	56 823
Change in inventories		(32 769)	87 174
Change in trade and other accounts payable		994 574	(1 321 502)
Change in advances received		694 856	(2 517 890)
Usage of estimated liabilities		(361 753)	(304 860)
Cash flow from operating activities before payment of income tax and interests		**7 646 777**	**5 497 975**
Income tax paid		(425 086)	(389 414)
Interest paid under the lease agreements		(498 722)	(94 567)
Interest paid		(1 510 614)	(2 234 812)
Net cash from operating activities		**5 212 355**	**2 779 182**
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed assets and intangible assets acquisition		(4 922 336)	(4 599 648)
Interests received		29 721	68 088
Net cash used in investing activities		**(4 892 615)**	**(4 531 560)**
CASH FLOW FROM FINANCING ACTIVITIES			
Borrowed funds		49 965 693	22 139 643
Repayment of borrowings		(49 715 682)	(23 689 975)
Proceeds from shares issuing		-	3 086 449
Dividends which are payable to Company owners		(636 639)	(143 586)
Changes in lease liabilities		20 317	-
Payments for lease liabilities		(916 969)	(128 989)
Net cash from (used in) financing activities		**(1 283 280)**	**1 263 542**
Net decrease in cash and cash equivalents		**(963 540)**	**(488 836)**
Cash and cash equivalents as of the beginning of the reporting period	22	**1 716 085**	**2 204 921**
Cash and cash equivalents at the end of the reporting period	22	**752 545**	**1 716 085**

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

	Charter capital	Share premium	Reserve for capital stock issues	Reserves	Retained earnings	Total equity
Ending on January 1, 2020	**30 379 335**	**6 481 916**	**3 086 449**	**(422 429)**	**(4 862 354)**	**34 662 917**
Loss for the reporting period	-	-	-	-	(1 240 210)	(1 240 210)
Other comprehensive income/(expense):						
Revaluation of net obligations (assets) pension liabilities	-	-	-	28 815	-	28 815
Income tax in respect of other comprehensive income (Note 13)	-	-	-	(5 763)	-	(5 763)
Total comprehensive income for the period	**-**	**-**	**-**	**23 052**	**(1 240 210)**	**(1 217 158)**
Transactions with Company owners recorded directly in equity						
Registration of an additional share issue	3 086 449	-	(3 086 449)	-	-	-
Dividends to shareholders (Note 23)	-	-	-	-	(636 665)	(636 665)
Ending on 31 December, 2020	**33 465 784**	**6 481 916**	**-**	**(399 377)**	**(6 739 229)**	**32 809 094**
Ending on January 1, 2019	**30 379 335**	**6 481 916**	**-**	**(193 574)**	**(7 739 922)**	**28 927 755**
Profit for the reporting period	-	-	-	-	3 020 688	3 020 688
Other comprehensive income/(expense):						
Revaluation of net obligations (assets) pension liabilities	-	-	-	(286 068)	-	(286 068)
Income tax in respect of other comprehensive expense	-	-	-	57 213	-	57 213
Total comprehensive expense for the period	**-**	**-**	**-**	**(228 855)**	**3 020 688**	**2 791 833**
Transactions with Company owners recorded directly in equity						
Shares issuing	-	-	3 086 449	-	-	3 086 449
Dividends to shareholders	-	-		-	(143 120)	(143 120)
Ending on 31 December, 2019	**30 379 335**	**6 481 916**	**3 086 449**	**(422 429)**	**(4 862 354)**	**34 662 917**

1 General information

(a) The Group and its activities

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

In 1993 the Krasnodar Industrial Group of Power Industry and Electrification «Krasnodarenergo» was reorganized into Open Joint-Stock Company of Power Industry and Electrification of Kuban (hereinafter referred to as the OJSC «Kubanenergo» or «Company») on the basis of Decree of the President of Russia of August 14, 1992 No. 922 «On Aspects of Reorganization of State Owned Enterprises, Associations, Organizations of Fuel and Energy Industry into Joint Stock Companies», the Decree of the President of Russia of August 15, 1992 No. 923 «On Management Arrangements of Electric Power Complex of the Russian Federation in the context of privatization», the Decree of the President of Russia of November 5, 1992 No. 1334 «On Implementation of Decree of the President of Russia for Electric Power Industry» of August 14, 1992 No. 922 «On Aspects of Reorganization of State Owned Enterprises, Associations, Organizations of Fuel and Energy Industry into Joint Stock Companies». The new corporate name as to type of legal entity was approved by the Annual General Meeting of Shareholders of June 22, 2015 due to introduction of amendments to the Civil Code of the Russian Federation. Full corporate name Open Joint Stock Company of power industry and electrification of Kuban (OJSC «Kubanenergo») was changed to Public Joint Stock Company of power industry and electrification of Kuban (PJSC «Kubanenergo»).

Interdistrict inspection of the Federal tax service No. 16 in the Krasnodar region on August 10th, 2020 made changes in the Unified state register of legal entities on state registration about changes in the constituent documents of a legal entity with the state registration number 2202306332908 related to the renaming of PJSC «Kubanenergo».

The full corporate name of the Company, which comes into force on August 11th, 2020:

- in Russian language – Публичное акционерное общество «Россети Кубань»;

- in English language – Public Joint stock company «Rosseti Kuban».

The short corporate name of the Company, which comes into force on August 11th, 2020:

- in Russian language – ПАО «Россети Кубань»;

- in English language – Rosseti Kuban. PJSC.

PJSC Rosseti is a parent company.

The address of the Company: 350033, Russia, Krasnodar Region, Krasnodar, 2A Stavropolskaya Street.

Note 5 lists the Company's subsidiaries with a 100% interest in its share capital.

Information on the Group's relations with other related parties is provided in Note 35.

(b) Relations with the Government

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

As of December 31, 2020 and 2019 the Russian Federation owned 88,04 % of the shares in the statutory fund of the ultimate parent company PJSC Rosseti, including 88,89 % of the ordinary voting shares, 7,01% of the preference shares.

As of December 31, 2020 and 2019 PJSC Rosseti owned 93,44% of outstanding ordinary shares PJSC «Rosseti Kuban».

The State has an impact on the activities of the Group by the agency of representatives of the Board of

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

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

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

The economy of the Russian Federation shows some characteristics of emerging markets. The economy of the country is particularly sensitive to oil and gas prices. The legal, tax and normative systems are continuing to develop and are often subject to amendments and there is the possibility for various interpretations. The ongoing political tensions as well as international sanctions with regard to some Russian companies and citizens continue to affect the Russian economy negatively.

In 2020, the COVID-19 pandemic has caused financial and economic tensions on the global markets, decrease in level of consumer expenditures and business activity. Decrease in demand for oil, natural gas and oil products together with the increase in oil supply, as a result of abrogation of the OPEC + agreement on production in March 2020, led to the fall in hydrocarbon prices. Since March 2020, there has been a substantial volatility in the stock market, currency market and raw materials market.

Quarantine measures were enforced in many countries including the Russian Federation. Social distancing and isolation measures led to the cessation of activities of the companies in the sphere of retail trade, transport, travelling and tourism, public catering, and many other directions.

The impact of the COVID-19 pandemic on economic development at the national level and global economy generally does not have historical analogues compared with the other periods, when the government took set of measures to rescue the economy. The forecasts for changes in macroeconomic parameters in short-term and long-term outlook, scope of the impact of the COVID-19 pandemic on the companies of different industries including the evaluation of duration of the crisis and recovery rate, vary significantly.

The Group evaluates the impact of above-mentioned events on the Group's activities as limited, taking into account the following prerequisites:

- systemically important nature of the industry and position in the industry where the Group operates its activity, maintaining the uninterruptible power supply to consumers and connection of power;
- state regulation of tariffs for main operating activity allows to forecast within the limits of approved tariffs for the Group's services;
- lack of changes in the way and extent of usage of the Group's business assets in the current period;
- absence of currency risk (the major part of income and expenses of the Group and also monetary assets and liabilities are denominated in Russian rubles);
- absence of direct negative impact of legislative (regulatory) changes on the main operating activity of the Group intended to contain the spread of the COVID-19 pandemic.

Starting with the second quarter, there has been a gradual recovery in global economic activity due to the partial withdrawal of restrictions aimed at preventing the spread of the epidemic, as well as a partial recovery in world oil prices as a result of the adoption of a new OPEC+ mining agreement and compliance with mining reduction targets. This process continued in the second half of 2020. However, the scope and duration of these events remain uncertain and may continue to have an impact on our earnings, cash flows and financial position in the future.

The Group continues to control and evaluate the development of the situation as well as reacting adequately, as follows:

- work in coordination with the government authorities at federal and regional levels in order to prevent the spread of the coronavirus as well as taking reasonable measures to ensure the safety, protecting life and health of its employees and contractors;
- implement the actions on maintaining the reliability of electric power supply and implement investment projects;

- control forecasting and factual information on the impact of pandemic on the economy of the Russian Federation, and activities of the main contractors of the Group;
- adapt the Group's activities to new market opportunities, take measures to neutralize the possible negative impact of the pandemic, and ensure the financial stability of the.

2 Basis for Preparation of Consolidated Financial Statement

(a) Declaration of conformity of IFRS

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

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

(b) The basis for determination of cost

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

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

(c) Functional currency and reporting currency

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

(d) The usage of accounting estimates and professional judgements

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

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

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

Impairment of assets and right-of-use assets

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

Determination of the lease term under contracts with an option to extend or an option to terminate the lease – The Group as a lessee

The Group defines a lease term as a non-cancellable lease period, together with periods for which an option to extend the lease is available if it is reasonably certain that it will be exercised, or periods for which an option to terminate the lease is available if it is reasonably certain that it will not be exercised.

In making a judgment to assess whether the Group has sufficient confidence in the exercise of an option to extend or terminate the lease in determining the lease term, the Group considers the following factors:

- if the leased object specialized;
- location of the object;
- whether the Group and the lessor have the practical option of choosing an alternative counterparty (choosing an alternative asset);
- costs associated with the termination of the lease and the conclusion of a new (replacement) contract;
- availability of significant improvements to leased properties.

Impairment of accounts receivables

Provision for expected credit losses on accounts receivable is created on the basis of Executive Board's probability estimation of specific debt redemption of the specific borrowers. The Group takes into consideration all reasonable and verified information about past, current and predictable events for the purposes of estimation of credit losses. The past experience is to be reviewed based on data available at the moment in order to reflect the current factors that have no impact on the previous periods and to exclude the impact of factors that happened in the past and no longer exist.

Obligations for pension payments

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

The acknowledgment of deferred tax assets

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

Estimated reserves for lawsuits and claims

The provision for lawsuits and claims is created based on management's assessment of the likelihood of an adverse outcome for the received lawsuits and claims of repayment. For the purposes of estimating reserves, the Group consistently considers all reasonable and verifiable information about past events, current and projected events that is available without undue effort and is relevant to the measurement of the liability. The experience gained in the past is adjusted based on the data currently available to reflect current conditions that did not affect previous periods, and to exclude the influence of conditions that occurred in the past that no longer exist.

(e) Changes in submission. Reclassification of comparison data

During the reporting period, the Group changed the presentation of individual indicators in order to provide more accurate information about their nature. To ensure comparability, the previous reporting period indicators were reclassified in the consolidated statement of cash flows:

- Changes in long-term trade and other receivables, long-term advances issued and other non-current assets, long-term trade and other payables, long-term advances received, previously disclosed under the lines «Change in trade and other receivables», «Change in advances issued and other assets», «Change in trade and other payables», «Change in advances received» respectively, to ensure comparability of the consolidated statement of cash flows, included in separate lines «Changes in long-term trade and other receivables» in the amount of 3 058 thousand rubles, «Change in long-term advances issued and other non-current assets» in the amount of 917 thousand rubles, «Change in long-term trade and other payables» in the amount of 53 184 thousand rubles, «Change in long-term advances received» in the amount of 360 752 thousand rubles.

(f) New standards, clarifications on amendments to existing standards

The Group for the first time applied the following amendments and interpretations that relates to the activities of the Group, which comes into force on January 1, 2020 and after that date. Applying these changes had no significant impact on the present Consolidated Financial Statement.

Amendments to (IFRS) 3 «Business combinations»

These amendments change the definition of business in order to simplify its application in practice. In addition, a optional «asset concentration test» is introduced, during which further analysis to determine the presence of a business might not be carried out. When applying the asset concentration test, if virtually all of the fair value of the acquired assets is concentrated in a single asset (or a group of similar assets), such assets will not be considered a business.

Conceptual Framework for Financial Reporting

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

Amendments to IAS 1 and IAS 8 «Definition of Material»

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

Amendments to IFRS 16 «Lease assignments related to the Covid-19 pandemic»

These amendments provide an exemption for lessees from applying the requirements of IFRS 16 to account for lease modifications in the case of lease assignments that arise as a direct consequence of the Covid-19 pandemic. As a practical simplification, the lessee may decide not to analyze whether the lease assignment granted by the lessor in connection with the Covid-19 pandemic is a modification of the lease agreement. The lessee, who makes such a decision, must account for any change in lease payments resulting from a lease assignment related to the Covid-19 pandemic, in the same way, as this change would be accounted for under IFRS 16, if it were not a modification of the lease agreement.

Amendments to IFRS 9, IAS 39 and IFRS 7 «Base Interest Rate Reform»

These amendments provide for a number of exemptions applied to the accounting of hedging transactions that fall under the reform of the base interest rate. The reform affects hedging transactions if there is uncertainty about the period and / or amount of the underlying cash flow of the hedged item or instrument. The application of these amendments did not have an impact on the Group's consolidated financial statement due to the fact that it does not have any hedging operations.

The new standards, amendments and clarifications that have been issued, but are not yet active at the date of issue of the Group's consolidated financial statement are set out below.

The Group intends to adopt the applicable standards and interpretations for use after the effective date, and no material impact on the Group's consolidated financial statements is expected.

- Amendments to IAS 1 *«Classification of liabilities as short-term or long-term»;*
- Amendments to IAS 37 *«Onerous contracts - contract performance costs»;*
- Amendments to IAS 16 *«Property, plant and equipment: proceeds before intended use»;*
- Amendments to IFRS 3 *«References to the conceptual framework»* IFRS 17 *«Insurance contracts»;*

- Amendment to IFRS 9 *«Financial instruments»* - commission fee for the «10% test» in the event of derecognition of financial liabilities;
- Amendment to IFRS 1 *«First-time adoption of international financial reporting standards»* – subsidiary applying International Financial Reporting Standards for the first time;
- IFRS 17 *«Insurance contracts»*;
- Amendment to IAS 41 *«Agriculture»* - taxation at fair value measurement.

3 Significant Accounting Policies

The accounting policies described below have been applied consistently in all reporting periods presented in these consolidated financial statements.

(a) Consolidation principles

i. Subsidiaries

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

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

ii. Transactions eliminated on consolidation

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

(b) Financial instruments

i. Financial assets

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

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

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

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

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

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

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

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

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

***ii*. Impairment of financial assets**

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

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

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

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

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

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

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

iii. Financial liabilities

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

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

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

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

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

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

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

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

(c) Fixed assets

i. Recognition and evaluation

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

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

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

Any amounts of profit or loss on disposal of asset are determined by comparing the proceeds from disposal with the carrying value of fixed assets and recognized in net amount as a part of profit or loss within the line code «Other income» or «Other expenses».

ii. Subsequent costs

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

iii. Depreciation

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

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

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

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

(d) Intangible assets

Intangible assets include mainly capitalized computer software and licenses with a limited useful life. The purchased software and licenses are capitalized on the basis of the costs incurred in acquiring and bringing it to ready for use condition.

Research costs are expensed as incurred. Development costs are recognized as intangible assets only when the Group can demonstrate the following: the technical feasibility of creating an intangible asset so that it is available for use or sale; intention to create an intangible asset and use or sell it; how the intangible asset will generate future economic benefits; the availability of resources to complete development, and the ability to reliably estimate the costs incurred during development. Other development costs are expensed as incurred. Development costs previously expensed are not recognized as assets in the subsequent period. The carrying amount of development costs is subject to an annual impairment test.

After initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful life of the asset. At the end of each reporting year the amortization methods, useful lives and residual values are reviewed to determine whether they need to be revised and revised, if necessary.

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

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

At each reporting date management assesses, whether there is any indication that intangible assets are impaired. In the event of an impairment, the carrying amount of intangible assets is written down to the higher of the value in use and the fair value of the asset less costs to sell.

(e) Lease

At the time of the conclusion of the contract the Group assesses, whether the contract as a whole or its individual components is a lease agreement. A contract as a whole or its individual components is a lease agreement, if the contract transfers the right to control the use of the identified asset for a certain period in exchange for compensation.

Right-of-use assets are initially measured at cost and amortized to the earlier of the following dates: the end of the useful life of the right-of-use asset or the end of the lease term. The initial cost of a right-of-use asset includes the initial measurement of the lease liability, lease payments made before or at the lease commencement date, and initial direct costs. After recognition, right-of-use assets are carried at cost less accumulated depreciation and accumulated impairment losses. Right-of-use assets are presented separately in the statement of financial position.

The lease liability is initially measured at the present value of lease payments that have not yet been made at the lease commencement date and is subsequently measured at amortized cost, with interest expense recognized as finance expense in the consolidated profit and loss statement. Lease liabilities are presented in the Statement of Financial Position as long-term and short-term borrowings.

The Group recognizes lease payments on short-term leases as an expense on a straight-line basis over the lease term.

For an individual lease agreement, the Group may decide to qualify the agreement as a lease, in which the underlying asset has a low value and recognize the lease payments under such agreement as an expense on a straight-line basis over the lease term.

For lease agreements for land under power grid facilities with an indefinite term, or with a contract term of no more than 1 year with the possibility of annual renewal, the Group determines the term of the contract, using as a basic criterion the useful life of the fixed assets located on the leased land.

For contracts for the lease of power grid facilities with an indefinite term, or with a term under the contract of no more than 1 year with the possibility of annual renewal, the Group determines the term of the contract, using as a basic criterion the useful life of its own fixed assets with similar technical characteristics.

(f) Advances issued

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

(g) Inventories

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

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

Inventories intended for the provision of work on the prevention and elimination of accidents (emergencies) at power grid facilities (industry emergency reserve) are reflected in the section «Inventories».

(h) Impairment of nonfinancial assets

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

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

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

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

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

For other assets, an impairment loss recognized in a prior period is reviewed at each reporting date to determine, whether there is any indication that the amount of the loss should be reduced or that it should no longer be recognized.

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

(i) Value added tax

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

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

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

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

(j) Employee benefits

i. Defined contribution plans

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

ii. Defined benefit plan

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

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

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

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

iii. Other long-term employee benefits

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

iv. Short-term benefits

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

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

(k) Estimated liabilities

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

(l) Share capital

Ordinary shares and preferred shares that are not subject to mandatory redemption by the decision of the owners are classified as equity.

(m) Dividends

Dividends are recognized as a liability and excluded from equity at the reporting date only if they are declared (approved by shareholders) on or before the reporting date. Dividends are subject to disclosure if they are declared after the reporting date, but before the consolidated financial statements are signed.

(n) Revenue from contracts with customers

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

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

Services for electric power transmission

Revenue from electricity transmission services is recognized during the period (billing month) and is measured using the results method (cost of electricity and capacity transferred).

Tariffs for services for electric power transmission of electric power are approved by federal executive government body of the constituent entity relating to State regulation of tariffs (Federal Antimonopoly Service) and by executive government body of the subjects of Russian Federation to State regulation of tariffs.

Services for technological connection to electric networks

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

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

The Group made judgment that technological connection service is a separate performance obligation that is recognized when the services are provided.

Once connection services are performed, there are no any other obligations beyond the connection services contract. Practically and in accordance with the laws on electricity market, technological connection and electricity transmission contracts are negotiated separately with different customers as different sets of services and with different commercial objectives with no relation in the contracts in pricing, purpose, acceptance, or type of service.

Other revenue

The revenue from other technical and maintenance services, also the revenue from other sales is recognized at that time when the buyer gains control over such assets.

Trade receivables

Trade receivables represent the Group's right to an amount of compensation that is unconditional (i.e., only the passage of time is required before payment is due). The accounting policy for the recognition of trade and other receivables is set out in the section «Financial assets».

Contractual obligations

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

The advances received mainly represent deferred income under technological connection contracts.

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

(o) Government subsidies

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

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

(p) Social payments

When the Group's contributions to social programs are intended for the benefit of society as a whole, and are not limited to payments to the Group's employees, they are recognized in profit or loss as they are implemented. Group costs related to the financing of social programmes, without making a commitment with respect to such financing in the future date, are recognized in the consolidated statement of profit or loss and other comprehensive income as they arise.

(q) Financial income and costs

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

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

(r) Income tax expense

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

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

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

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

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

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

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

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

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

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

(s) Earnings per share

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

4 Fair Value Measurement

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

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

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. such as prices) or indirectly (i.e. derived from prices).

Level 3: inputs are unobservable inputs for the assets and liabilities.

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

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

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

5 Principal Subsidiaries

The Group's Consolidated Financial Statements as of December 31, 2020 and December 31, 2019 includes the Company and its subsidiaries, which are owned (founded) by PJSC «Rosseti Kuban»:

		Ownership share / voting shares, %	
	Country of registration	**December 31, 2020**	**December 31, 2019**
JSC Energetik Holiday Facility	The Russian Federation	100	100
JSC Kuban Energoservis	The Russian Federation	100	100

6 Segment Information

The Management of Rosseti Kuban is the supreme body that makes decisions regarding the operating activities.

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

To reflect the results of each reporting segment, revenue and EBITDA indicators are used, since they are included in internal management reports prepared on the basis of RAS reporting data, and are regularly analyzed and evaluated by the Management Board. EBITDA is calculated as profit or loss before interest expense, taxation depreciation and amortization. The Management Board believes that these indicators are most relevant when evaluating the results of certain segments in relation to other segments and other companies that operate in these industries. Management believes that the EBITDA calculated in this way is the most relevant for evaluating the performance of the Group's operating segments.

For the purpose of presenting a reconciliation of EBITDA to consolidated profit for the period, in relative information with the net accrual of impairment loss of property, plant and equipment and right-of-use assets has been moved from the adjustments section to the second section.

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

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

Key segment indicators are presented and analyzed by the Group's Management Board and are disclosed in the tables below.

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

(a) Information on reportable segments

For the year, ended on December 31, 2020:

	Rosseti Kuban	**Other segments**	**Total**
Revenue from external buyers	49 365 948	196 736	49 562 684
Sales revenue between segments	3 632	837 784	841 416
Segment revenues	**49 369 580**	**1 034 520**	**50 404 100**
Including			
Electric power transmission	*48 101 880*	-	*48 101 880*
Services for technological connection to electric networks	*731 309*	-	*731 309*
Other revenue	*536 391*	*1 034 520*	*1 570 911*
Finance income	29 540	1 092	30 632
Finance expenses	(1 593 371)	(105)	(1 593 476)
Depreciation and amortization	(4 559 838)	(3 913)	(4 563 751)
Segment profit/(loss) before tax	(1 384 286)	91 703	(1 292 583)
EBITDA	**4 768 923**	**95 721**	**4 864 644**

For the year, ended on December 31, 2019:

	Rosseti Kuban	**Other segments**	**Total**
Revenue from external buyers	51 001 303	87 361	51 088 664
Sales revenue between segments	2 396	72 160	74 556
Segment revenues	**51 003 699**	**159 521**	**51 163 220**
Including			
Electric power transmission	*46 515 696*	-	*46 515 696*
Services for technological connection to electric networks	*4 206 155*	-	*4 206 155*
Revenue from lease agreements	*14 905*	*9 701*	*24 606*
Other revenue	*266 943*	*149 820*	*416 763*
Finance income	68 025	237	68 262
Finance expenses	(1 971 069)	(35)	(1 971 104)
Depreciation and amortization	(4 256 562)	(2 160)	(4 258 722)
Segment profit before tax	3 524 763	2 487	3 527 250
EBITDA	**9 752 394**	**4 682**	**9 757 076**

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

For the year, ended on December 31, 2020:

	Rosseti Kuban	Other segments	Total
Assets of segments	**77 380 244**	**434 941**	**77 815 185**
Including Fixed assets and construction in progress	63 827 345	58 828	**63 886 173**
Capital investment	5 052 934	30 923	**5 083 857**
Liabilities of segments	**39 551 046**	**312 955**	**39 864 001**

For the year, ended on December 31, 2019:

	Rosseti Kuban	Other segments	Total
Assets of segments	**76 231 919**	**83 120**	**76 315 039**
Including Fixed assets and construction in progress	63 343 130	32 213	**63 375 343**
Capital investment	5 451 095	4 756	**5 455 851**
Liabilities of segments	**35 622 033**	**33 273**	**35 655 306**

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

(b) Reconciliation EBITDA of reportable segments is described below:

Reconciliation of segments revenues:

	For the year, ended on December 31	
	2020	**2019**
Segments revenues	**50 404 100**	**51 163 220**
Exclusion of sales revenues between segments	(841 416)	(74 556)
Sales revenue adjustment (external)	(1 051)	(11 694)
Revenue in Consolidated Statement of Profit or Loss and other Comprehensive Income	**49 561 633**	**51 076 970**

Reconciliation of EBITDA of reportable segments:

	For the year, ended on December 31	
	2020	**2019**
EBITDA of reportable segments under RAS	**4 864 644**	**9 757 076**
Adjustment of intangible asset value	58 351	67 648
Discounting of accounts payable	1 170	3 928
Adjustment of accounts payable	33 856	27 685
Discounting of accounts receivable	5 034	4 940
Adjustment of disputed accounts receivable	42 615	-
Adjustment for impairment of other financial assets	-	(1 594)
Adjustment to the allowance for expected credit losses	-	(63 136)
Lease adjustment (reversal of lease expenses under IFRS 16)	1 733 407	232 504
Adjustment of estimated liabilities	(8 338)	27 525
Acknowledgment of pension and other non-current liabilities to employees	176 427	68 279
Adjustment of accrued provisions for unused vacation days and bonuses	(42 665)	(9 061)
Adjustment of fixed assets value	9 838	(15 398)
Adjustment of taxes	16 431	(8 010)
Adjustment of revenue from electric power transmission	(1 051)	(11 694)
Adjustment for intra-group transactions	(132 960)	-
Subsidy adjustment	3 942	-
Other adjustments	5 087	679
EBITDA of reportable segments under IFRS	**6 765 788**	**10 081 371**
Depreciation of fixed assets, right-of-use assets and amortization of intangible assets	(5 720 577)	(3 948 329)
Interest expenses for financial liabilities	(1 585 331)	(1 837 865)
Interest expenses for lease liabilities	(505 136)	(94 682)
Income tax expense	(194 954)	(1 179 807)
Consolidated profit/(loss) for the period in Consolidated Statement of Profit or Loss and Other Comprehensive Income	**(1 240 210)**	**3 020 688**

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

Reconciliation of the total sum of assets of reportable segments:

	For the year, ended on December 31	
	2020	**2019**
Total sum of assets of segments	**77 815 185**	**76 315 039**
Recognition of right-of-use assets on lease within the scope of IFRS 16	5 642 257	991 864
Recognition of assets, associated with employee benefits obligations	319 337	318 362
Adjustment of deferred tax assets	(932 816)	(501 586)
Adjustment of financial investments	14 109	6 638
Adjustment of provision for expected credit losses	(17 773)	(61 280)
Decrease in accounts receivables of advances for VAT amount from advances issued	(721 071)	(5 601)
Calculations between segments	(295 841)	(26 243)
Discounting of accounts receivable	(6 800)	(10 381)
Reclassification of accounts receivable on lease to lease obligations	(12 784)	(8 777)
Write-off of accounts receivable	(25 619)	(24 522)
Intragroup financial assets	(45 687)	(45 687)
Adjustment of intangible assets value	(108 058)	(89 063)
Decrease in VAT recoverable amount for VAT amount from advances received	(17 687)	(517 157)
Adjustment of fixed assets value	(5 570 362)	(5 906 065)
Excluding current RE from capital expenditures	(106 368)	-
Write-off of current assets	(21 740)	-
Other adjustments	2 573	(20 375)
Total sum of assets in Consolidated Statement of Financial Position	**75 910 855**	**70 415 166**

Reconciliation of the total sum of liabilities of reportable segments:

	For the year, ended on December 31	
	2020	**2019**
Total sum of liabilities of segments	**39 864 001**	**35 655 306**
Acknowledgment of lease liabilities within the scope of IFRS 16	6 097 272	1 017 174
Reclassification of accounts payable to lease IFRS 16	(298 281)	-
Acknowledgment of pension and other non-current liabilities to employees	561 821	732 902
Adjustment of accrued provisions for unused vacation days and bonuses	188 181	145 516
Discounting of accounts payable	(308)	(2 080)
Subsidy adjustment	(3 971)	-
Decrease in other accounts payable for VAT amount from advances received	(721 071)	(5 601)
Calculations between segments	(295 841)	(26 243)
Write-off of deferred income	(147 572)	(113 716)
Adjustment of deferred tax liabilities	(2 133 121)	(1 134 136)
Decrease in accounts payable for advances received for VAT amount from advances received	(17 687)	(517 157)
Other adjustments	8 338	284
Total sum of liabilities in Consolidated Statement of Financial Position	**43 101 761**	**35 752 249**

(c) The significant buyer

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

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

For the year, ended on December 31, 2020 and December 31, 2019 the Group had two contractors, who individually owned more than 10 percent of the consolidated revenue of the Group. The revenue from the above-mentioned contractors are recorded in the financial statement of the Group.

The total revenue from the first contractor for 2020 year amounts to 23 392 295 thousand rubles or 47,23% of total revenues of the Group (for 2019 – 21 975 765 thousand rubles or 47,25%). The total revenue from the second contractor for 2020 year amounts to 15 920 732 thousand rubles or 32,15% of total revenues of the Group (for 2019 – 16 061 606 thousand rubles or 34,53%).

7 Revenue

	For the year, ended on December 31	
	2020	**2019**
Electric power transmission	48 099 486	46 502 139
Technological connection to electric networks	731 309	4 206 155
Other revenue	579 154	344 580
Total of the revenue from contracts with customers	**49 409 949**	**51 052 874**
Revenue from lease agreements	151 684	24 096
	49 561 633	**51 076 970**

Other revenue includes mainly revenue from the sale of additional (non-tariff) services provided by the company and not related to the main activities: services for the placement of equipment at power grid facilities, services for technical and repair maintenance, diagnostics and testing, construction and installation works, consulting and organizational and technical services and other non-tariff services.

8 Other income

	For the year, ended on December 31	
	2020	**2019**
Income from discovered electric power consumption without agreements	70 376	90 998
Доход от прекращения договора аренды	17 117	870
Income in the form of penalties, fines and forfeits in economic contracts	527 826	433 750
Income from compensation for losses due to disposal/liquidation of electric grid property	225 558	687 790
Income from donated fixed assets and inventories	65 648	59 078
Income from subsidies received	3 942	-
Insurance payout	230 669	64 351
Write-off of accounts payable	25 296	43 918
	1 166 432	**1 380 755**

9 Other expenses

	For the year, ended on December 31	
	2020	**2019**
Loss/(profit) from fixed assets sale	83 332	341 140
Other expenses	-	5 544
	83 332	**346 684**

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

10 Operating expenses

	For the year, ended on December 31	
	2020	**2019**
Expenses for employee benefits	7 482 352	6 532 396
Depreciation of fixed assets, right-of-use assets and amortization of intangible assets	5 720 577	3 948 329
Material expenses, including		
Electric energy for compensation of process losses	8 284 103	7 861 591
Purchasing electrical energy and heat for own requirements	120 836	115 069
Other material expenses	1 732 846	1 886 312
Works and services of production nature, including		
Services for electric power transmission	20 504 022	20 019 048
Repair services and technical maintenance	693 764	1 541 744
Other works and services of production nature	402 090	73 498
Taxes and dues except income tax	682 534	667 156
Short-term lease	13 324	9 827
Insurance	90 878	76 103
Other services of third parties, including:		
Communication services	72 569	76 569
Security	236 053	206 895
Consulting, legal and auditing services	56 721	43 525
Expenses for software and maintenance	96 330	103 601
Transport services	4 062	6 106
Other services, including		
Expenses for energy service agreements	1 435 925	1 372 278
Other services of third parties	104 481	53 873
Other expenses, including		
Business expenses	76 334	187 947
Estimated liabilities	531 893	224 688
Expenses related to the maintenance of the property	169 585	96 758
Expenses for services for implementation, operation and development of UPS	118 322	118 322
Expenses recognized in the form of penalties, fines and forfeits for breach of contract	61 483	35 937
Profit and loss for prior periods	382 224	316 307
Other operational services	193 063	407 442
	49 266 371	**45 981 321**

11 Expenses for employee benefits

	For the year, ended on December 31	
	2020	**2019**
Salary	5 559 871	4 756 593
Social security contribution	1 697 707	1 455 934
Expenses/(income) related to Authorized Payment Programs	(122 858)	10 693
Other	347 632	309 176
	7 482 352	**6 532 396**

For the year ended December 31, 2020, an amount of assessment according to the programme with fixed contributions amounted to 52 594 thousand rubles (for the year ended December 31, 2019: 51 831 thousand rubles).

The amounts of key management personnel benefits are disclosed in the Note 35 «Related-party transactions».

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

12 Finance Income and Expenses

	For the year, ended on December 31	
	2020	**2019**
Finance income		
Interest income on loans issued, bank deposits and bills and bank account balance	29 642	67 627
Interest income on assets associated with liabilities for employee benefits	22 820	
The effect from initial discounting of financial liabilities	1 170	3 928
Amortization of discount of financial assets	5 034	4 940
Other financial income	322	-
	58 988	**76 495**

	For the year, ended on December 31	
	2020	**2019**
Finance expenses		
Interest expenses for financial liabilities measured at amortized cost	(1 547 750)	(1 770 319)
Interest expenses for lease liabilities	(505 136)	(94 682)
Interest expenses for long-term liabilities for employee benefits	(33 186)	(34 907)
The effect from initial discounting of financial assets	(1 453)	(7 870)
Amortization of discount of financial liabilities	(2 942)	(3 949)
Other finance expenses	-	(20 820)
	(2 090 467)	**(1 932 547)**

13 Income tax

	For the year, ended on December 31	
	2020	**2019**
Current income tax		
Accrued of current tax	(107 284)	(727 758)
Tax adjustment for the prior periods	82 860	305 493
Total current income tax	**(24 424)**	**(422 265)**
Deferred income tax		
Accrual and recovery of temporary differences	(170 530)	(757 542)
Current income tax expense	**(194 954)**	**(1 179 807)**

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

	For the year, ended on December 31, 2020			For the year, ended on December 31, 2019		
	Before tax	**Income tax**	**After tax**	**Before tax**	**Income tax**	**After tax**
Revaluation of pension liabilities for the programmes with fixed payments	28 815	(5 763)	23 052	(286 068)	57 213	(228 855)
	28 815	**(5 763)**	**23 052**	**(286 068)**	**57 213**	**(228 855)**

As at December 31, 2020 and December 31, 2019, deferred income tax assets and liabilities are calculated at a rate of 20 percent that is expected to be applicable to the realization of the related assets and liabilities.

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

	For the year, ended on December 31, 2020	%	For the year, ended on December 31, 2019	%
Profit/(loss) before tax	**(1 045 256)**	(100)	**4 200 495**	(100)
Theoretic cost amount of income tax at 20% rate	**209 051**	(20)	**(840 099)**	(20)
Tax effects from sections, untaxed and non - deductible for tax purposes	(486 865)	47	(645 201)	(15)
Corrections on previous years	82 860	(8)	305 493	7
	(194 954)	19	**(1 179 807)**	(28)

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

14 Fixed assets

	Real estate and buildings	Transmission networks	Electric power transmission equipment	Other	Construction in progress	Total
Initial /deemed cost						
As at January 1, 2019	**8 078 303**	**39 375 396**	**17 999 307**	**7 961 187**	**11 312 191**	**84 726 384**
Reclassification between groups	(2 211)	(1 679)	2 970	920	-	-
Receipts	816	28 523	141 565	365 589	5 099 970	5 636 463
Transfer to right-of-use assets	-	-	-	-	(589)	(589)
Entry into operation	1 785 181	6 349 074	3 359 207	846 819	(12 340 281)	-
Disposal	(3 512)	(19 727)	(2 102)	(231 234)	(368 476)	(625 051)
Transfer to non-current assets held for sale	(1 449)	-	-	(751)	-	(2 200)
As at December 31, 2019	**9 857 128**	**45 731 587**	**21 500 947**	**8 942 530**	**3 702 815**	**89 735 007**
Accumulated depreciation and impairment						
As at January 1, 2019	**(2 890 092)**	**(12 341 674)**	**(7 942 339)**	**(5 602 190)**	**(78 302)**	**(28 854 597)**
Reclassification between groups	1 149	476	(1 312)	(313)	-	-
Introduction into fixed asset structure (loss carryforward due to impairment)	-	(1 527)	(3 610)	-	5 137	-
Accumulated depreciation	(320 363)	(1 765 989)	(1 040 563)	(557 952)	-	(3 684 867)
Transfer to non-current assets held for sale	192	-	-	97	-	289
Impairment/reversal of impairment	(12)	-	-	-	-	(12)
Disposal	2 024	9 722	1 812	196 070	1 883	211 511
As at December 31, 2019	**(3 207 102)**	**(14 098 992)**	**(8 986 012)**	**(5 964 288)**	**(71 282)**	**(32 327 676)**
Carrying amount						
As at January 1, 2019	**5 188 211**	**27 033 722**	**10 056 968**	**2 358 997**	**11 233 889**	**55 871 787**
As at December 31, 2019	**6 650 026**	**31 632 595**	**12 514 935**	**2 978 242**	**3 631 533**	**57 407 331**
Initial /deemed cost						
As at January 1, 2020	**9 857 128**	**45 731 587**	**21 500 947**	**8 942 530**	**3 702 815**	**89 735 007**
Reclassification between groups	(4 588)	5 424	2	(838)	-	-
Transfer to right-of-use assets	-	-	-	-	589	589
Receipts	220	37 621	50 358	31 272	5 012 693	5 132 164
Entry into operation	460 524	2 153 273	1 240 311	542 803	(4 396 911)	-
Disposal	(2 517)	(11 609)	(17 458)	(27 700)	(115 320)	(174 604)
As at December 31, 2020	**10 310 767**	**47 916 296**	**22 774 160**	**9 488 067**	**4 203 866**	**94 693 156**
Accumulated depreciation and impairment						
As at January 1, 2020	**(3 207 102)**	**(14 098 992)**	**(8 986 012)**	**(5 964 288)**	**(71 282)**	**(32 327 676)**
Reclassification of depreciation and impairment losses	2 854	(3 003)	(1)	150	-	-
Impairment/reversal of impairment	-	-	-	-	(4 984)	(4 984)
Introduction into fixed asset structure (loss carryforward due to impairment)	(898)	(509)	(1 106)	(534)	3 047	-
Accumulated depreciation	(350 727)	(2 088 952)	(1 164 795)	(646 616)	-	(4 251 090)
Disposal	1 311	4 492	18 942	24 877	4 974	54 596
As at December 31, 2020	**(3 554 562)**	**(16 186 964)**	**(10 132 972)**	**(6 586 411)**	**(68 245)**	**(36 529 154)**
Carrying amount						
As at January 1, 2020	**6 650 026**	**31 632 595**	**12 514 935**	**2 978 242**	**3 631 533**	**57 407 331**
As at December 31, 2020	**6 756 205**	**31 729 332**	**12 641 188**	**2 901 656**	**4 135 621**	**58 164 002**

As at December 31, 2020 construction in progress includes advances for acquisition of fixed assets amounting to 140 958 thousand rubles (as at December 31, 2019 amounting to 73 195 thousand rubles), and also building materials for fixed assets amounting to 802 561 thousand rubles (as at December 31, 2019 amounting to 574 560 thousand rubles).

For the year ended on December 31, 2020 capitalized interests amounted to 64 138 thousand rubles (for the year ended December 31, 2019 amounted to 400 368 thousand rubles), capitalization rate amounted to 6,94% (for the year ended December 31, 2019 amounted to 7,96%).

For the year ended on December 31, 2020 amortization was capitalized into the value of the facilities of investment building amounting to 13 717 thousand rubles (for the year ended December 31, 2019 amounted to 5 358 thousand rubles).

As at December 31, 2020 and December 31, 2019 there are no fixed assets are pledged as security for a loan.

Impairment of property, plant and equipment

Due to the presence of signs of impairment of non-current assets, the Group conducted an impairment test as at December 31, 2020.

Most of the Group's property, plant and equipment are specialized items that rarely become available for sale on the open market, except, when they are sold as part of existing businesses. The market for such property, plant and equipment is not active in the Russian Federation and does not provide enough examples of purchase and sale for a market-based approach to determine the fair value of these property, plant and equipment.

As a result, the value in use of property, plant and equipment as at December 31, 2020 was determined using the discounted cash flow method. This method takes into account the future net cash flows that these property, plant and equipment will generate in the course of operating activities, as well as on disposal, in order to determine the recoverable amount of these assets.

The main activity of the Group for the supplying of services for the transmission and distribution of electricity, technological connection to electric networks is carried out in the regions of the Russian Federation: Krasnodar Krai and the Republic of Adygea. When determining the CGU, the structure of assets, their territorial location, mechanisms of electricity transmission, the method of tariff formation, the isolation of the energy system, as well as the possibility of separate accounting and planning of financial indicators for a group of assets are taken into account. The main criteria for determining the CGU is the indivisibility of the tariff and the impossibility of further detailing of accounting and planning. The group of assets of PJSC «Rosseti Kuban» as a whole (without the allocation of groups of assets of branches) is defined as the CGU.

The following key assumptions were used to estimate the recoverable amount of the assets of the generating units:

The forecast cash flows were determined for the period 2021-2025 based on the management's best estimate of electricity transmission volumes, operating and capital costs, as well as tariffs approved by the regulatory authorities for 2021 (Unified (boiler) tariffs for electricity transmission services on the networks of the Krasnodar Krai and the Republic of Adygea for 2021 were approved by Order of the regional Energy Commission - Department of Prices and Tariffs of the Krasnodar Krai dated 29.12.2020 №51/2020-э).

The source for the forecast of electricity transmission tariffs for the forecast period is the indicators of business plans, which are based on tariff models formed taking into account the average annual growth of the tariff for electricity transmission services in accordance with the Forecast of Socio-economic Development of the Russian Federation for 2021 and the planning period 2022-2023, published on the website of the Ministry of Economic Development of the Russian Federation on September 26, 2020.

The projected electricity transmission volumes for the generating unit were determined on the basis of the annual Business Plan for 2021 and forecast indicators for 2022-2025, approved by the Board of Directors of PJSC «Rosseti Kuban» (Minutes №414/2020 on December 28, 2020).

The projected cash flows were discounted to their present value using the weighted average cost of equity (WACC) of 9,03%.

The long-term growth rate of net cash flows in the post-forecast period was 4%.

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

Based on the results of testing, as at December 31, 2020, no impairment of the Group's non-current assets was detected. The sensitivity of the recoverable amount of the assets of the CGU to changes in the basic assumptions in the calculation is presented below:

	Increase, %	**Decrease, %**
Change in the discount rate by 1%	(14,91%)	22,02%
Change of the RGR to the base value in each period by 3%	27,37%	(28,27%)
Change in the growth rate of net cash flow in the post-forecast period by 1%	17,23%	(11,51%)
Change in the level of operating expenses for 5%	(40,40%)	38,31%
Change in the level of investment (capital investment) by 10%	(2,0%)	2,0%
Change in useful release in each period by 0,5%	(2,92%)	2,92%

The sensitivity analysis of the material assumptions used to construct the impairment model for PJSC Rosseti Kuban as at December 31, 2020 is presented below:

- increase in the discount rate to 10,03% (by 1%): results in an impairment loss on property, plant and equipment of PJSC «Rosseti Kuban» in the amount of 6 185 194 thousand rubles;
- reduction of the required gross revenue to the base value in each period by 3%: results in an impairment loss on property, plant and equipment of PJSC «Rosseti Kuban» in the amount of 15 228 512 thousand rubles;
- increase in the level of operating expenses to the base value in each period by 5%: results in an impairment loss on property, plant and equipment of PJSC «Rosseti Kuban» in the amount of 23 436 209 thousand rubles;
- increase in the level of capital investments in the forecast and post-forecast period by 10%: does not result in an impairment loss on property, plant and equipment of PJSC «Rosseti Kuban» in the amount of 2 552 175 thousand rubles;
- decrease in the growth rate of net cash flow in the post-forecast period by 1%: results in an impairment loss on property, plant and equipment of PJSC «Rosseti Kuban» in the amount of 3 885 066 thousand rubles.

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

15 Intangible assets

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

	Software	Certificates, licenses and patents	R&D	Other	Total
Initial cost					
As at January 1, 2020	**652 801**	**7 171**	**14 500**	**78 195**	**752 667**
Receipts	101 505	1 908	-	-	103 413
Disposal	(1 770)	-	-	-	(1 770)
As at December 31, 2020	**752 536**	**9 079**	**14 500**	**78 195**	**854 310**
Accumulated amortization and impairment					
As at January 1, 2020	**(403 576)**	**(5 895)**	-	**(17 319)**	**(426 790)**
Accumulated amortization	(100 125)	(2 558)	-	(21 989)	(124 672)
Disposal	1 770	-		-	1 770
As at December 31, 2020	**(501 931)**	**(8 453)**	-	**(39 308)**	**(549 692)**
Carrying amount					
As at January 1, 2020	**249 225**	**1 276**	**14 500**	**60 876**	**325 877**
As at December 31, 2020	**250 605**	**626**	**14 500**	**38 887**	**304 618**

For the year ended on December 31, 2020 the sum of amortization of intangible assets is included in operating expenses in the consolidated statement of profit or loss and other comprehensive income is amounted to 122 350 thousand rubles (for the year ended December 31, 2019: 96 218 thousand rubles).

The amount of capitalized amortization of intangible assets is amounted to 1 206 thousand rubles (for the year ended December 31, 2019: 104 thousand rubles).

Intangible assets are amortized on a straight-line basis.

The amount of research and development costs recognized as part of operating expenses for the year 2020 was 8 525 thousand rubles (for the year 2019: 13 316 thousand rubles).

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

16 Right-of-use Assets

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

Initial cost					
As at January 1, 2020	**581 969**	**14 704**	**558 753**	**7 789**	**1 163 215**
Receipts	1 843 120	2 769 041	1 054 874	379 283	6 046 318
Modification of terms under lease agreements	75 106	838	(161 272)	(249)	(85 577)
Disposal or termination of lease agreements	(36 526)	(2 039)	(6 002)	(396)	(44 963)
As at December 31, 2020	**2 463 669**	**2 782 544**	**1 446 353**	**386 427**	**7 078 993**
Accumulated depreciation and impairment					
As at January 1, 2020	**(32 455)**	**(3 804)**	**(133 505)**	**(1 587)**	**(171 351)**
Accumulated depreciation	(396 756)	(555 755)	(334 363)	(74 856)	(1 361 730)
Modification of terms under lease agreements	1 329	-	71 020	109	72 458
Disposal or termination of lease agreements	21 239	585	2 022	41	23 887
As at December 31, 2020	**(406 643)**	**(558 974)**	**(394 826)**	**(76 293)**	**(1 436 736)**
Carrying amount					
As at January 1, 2020	**549 514**	**10 900**	**425 248**	**6 202**	**991 864**
As at December 31, 2020	**2 057 026**	**2 223 570**	**1 051 527**	**310 134**	**5 642 257**

For the purposes of the impairment test, specialized right-of-use assets (including leased land under own and leased specialized properties) are classified as CGU assets in the same way as own non-current assets.

The value of use of the right-of-use assets is determined using the discounted cash flow method. Information on the impairment test conducted as at December 31, 2020 is disclosed in Note 14 «Property, plant and equipment».

17 Deferred tax assets and liabilities

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

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

(a) Recognized deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	December 31, 2020	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
Fixed assets	27 470	-	(723 839)	(392 773)	(696 369)	(392 773)
Intangible assets	2 346	-	-	(9 507)	2 346	(9 507)
Right-of-use assets	-	-	(1 128 451)	(198 373)	(1 128 451)	(198 373)
Financial assets, measured at fair value, changes of which are recorded through other comprehensive income	-	-	(9 138)	(9 138)	(9 138)	(9 138)
Trade and и other accounts receivable	408 361	362 465	-	-	408 361	362 465
Advances issued and other assets	2 548	895	-	-	2 548	895
Lease liabilities	1 219 454	212 684	-	-	1 219 454	212 684
Estimated liabilities	184 398	145 294	(2)	-	184 396	145 294
Employee benefits liabilities	11 529	41 367	-	-	11 529	41 367
Trade and other accounts payable	122 702	147 032	(19 858)	-	102 844	147 032
Advances received	1 038	-	(806)	-	232	-
Tax losses, subject to transferring for the future	15 172	188	-	-	15 172	188
Assets are qualified as available for sale	-	-	(4 463)	(12 272)	(4 463)	(12 272)
Other	7 855	3 957	(790)	-	7 065	3 957
Tax assets/(liabilities)	**2 002 873**	**913 882**	**(1 887 347)**	**(622 063)**	**115 526**	**291 819**
Tax offset	(1 886 502)	(622 063)	1 886 502	622 063	-	-
Net tax assets/(liabilities)	**116 371**	**291 819**	**(845)**	**-**	**115 526**	**291 819**

(b) Change in deferred tax assets and liabilities for a year

	January 1 2020	**Acknowledged as part of profit or loss**	**Acknowledged as part of other comprehensive income**	**December 31 2020**
Fixed assets	(392 773)	(303 596)	–	(696 369)
Intangible assets	(9 507)	11 853	–	2 346
Right-of-use assets	(198 373)	(930 078)	–	(1 128 451)
Financial assets, measured at fair value, changes of which are recorded through other comprehensive income	(9 138)	–	–	(9 138)
Trade and other accounts receivable	362 465	45 896	–	408 361
Advances issued and other assets	895	1 653	–	2 548
Lease liabilities	212 684	1 006 770	–	1 219 454
Estimated liabilities	145 294	39 102	–	184 396
Employee benefits liabilities	41 367	(24 075)	(5 763)	11 529
Trade and other accounts payable	147 032	(44 188)	–	102 844
Advances received	–	232	–	232
Tax losses, subject to transferring for the future	188	14 984	–	15 172
Assets are qualified as available for sale	(12 272)	7 809	–	(4 463)
Other	3 957	3 108	–	7 065
	291 819	**(170 530)**	**(5 763)**	**115 526**

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

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

18 Assets are qualified as available for sale

As at December 31, 2020 and 2019, the non-core assets were indicated on the balance sheet of the Company, as outlined below:

	For the year ended on December 31	
	2020	**2019**
As part of non-current assets		
Assets are qualified as available for sale - long term	–	61 358
	–	**61 358**
As part of current assets		
Assets are qualified as available for sale - short term	22 314	–
	22 314	**–**

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

Immediately prior to the classification of the items as assets for sale, an estimate of the recoverable amount was made. As at 31 December 2020, no write-off was made as the carrying amount of assets held for sale did not decrease below its fair value less costs to sell.

19 Inventory

	December 31, 2020	December 31, 2019
Raw materials	827 016	905 244
Reserve for impairment of raw materials	(1 704)	(4 599)
Other inventories	1 192 258	1 048 070
Reserve for impairment of other inventory	(2 847)	(3 882)
	2 014 723	**1 944 833**

The Group does not hold inventory offered as collateral according to the loan agreement or other agreement as at December 31, 2020 and December 31, 2019.

For a year ended on December 31, 2020 the amount equal to 1 732 846 thousand rubles was recognized as expenses (for a year ended on December 31, 2019 amounted to 1 886 312 thousand rubles) as part of operating expenses in the section «Other material expenses».

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

As at December 31, 2020 inventories intended for the provision of works on the prevention and elimination of emergency situations at power grid facilities (industry emergency reserve) are amounted to 507 511 thousand rubles (as at December 31, 2019: 455 806 thousand rubles) and is reflected in the section «Inventories».

20 Trade and Other Accounts Receivable

	December 31, 2020	December 31, 2019
Trade and other accounts receivable long-term		
Trade accounts receivable	445	285
Other accounts receivable	12 694	11 058
	13 139	**11 343**
Trade and other accounts receivable short-term		
Trade accounts receivable	8 858 237	7 655 769
Provision for expected credit losses on trade accounts receivable	(1 253 116)	(1 057 167)
Other accounts receivable	1 263 664	1 185 766
Provision for expected credit losses on other accounts receivable	(753 285)	(717 423)
	8 115 500	**7 066 945**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 32.

Information on balances with related parties is disclosed in Note 35.

21 Advances Issued and Other Assets

	December 31, 2020	December 31, 2019
Non-current		
Advances issued	3 257	4 436
VAT for advances received	685	685
	3 942	**5 121**
Current		
Advances issued	36 700	45 760
Provision for impairment of advances issued	(5 877)	(13 313)
VAT recoverable	22 597	8 030
VAT for advances received, and VAT for advances, issued for fixed asset acquisition	15 366	431
Prepaid taxes, except income tax	70 698	7 063
	139 484	**47 971**

Information on balances with related parties is disclosed in Note 35.

22 Cash and Cash Equivalents

	December 31, 2020	December 31, 2019
Cash at bank and in hand	752 545	1 716 085
	752 545	**1 716 085**

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

	Rating	Rating agency	December 31, 2020	December 31, 2019
Federal Treasury Department in Krasnodar Region*	-	-	579 268	579 268
JSC AB «ROSSIYA»	A+(RU)	ACRA	624	9 009
Russian Regional Development Bank*	Ba2	Moody’s	20 263	670
Mosoblbank PJSC	-	-	-	6
PJSC Sberbank*	AAA(RU)	ACRA	104 637	44 154
Bank GPB (JSC)*	ruAA+	Expert RA	1 628	1 082 059
VTB Bank (PJSC)*	ruAAA	Expert RA	1 266	900
Russian Agricultural Bank*	AA(RU)	ACRA	34 657	-
Promsvyazbank*	ruAA-	Expert RA	10 170	-
Other banks	-	-	12	-
Cash in hand	-	-	20	19
			752 545	**1 716 085**

* Government-related banks

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

23 Charter Capital

(a) Charter Capital

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

(b) Ordinary shares

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

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

On November 28, 2019 the relevant extract of the Bank of Russia from the register of securities was received. According to the present extract, units of the ordinary shares of PJSC «Kubanenergo» at nominal value of 100 (one hundred) rubles per share are in circulation at the moment, the total make at nominal value amounted to 33 465 783 700 rubles.

The State registration of such amendments to the Articles of Association of the Company was carried out on July 15th, 2020.

(c) Dividends

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

The Annual General Meeting of Shareholders was held on May 29, 2020 and the decision was made to pay dividends on outstanding shares of the Company following the results of financial and operational activities of PJSC «Kubanenergo» for 2019 amounted to 636 914 thousand rubles (Minutes of the Annual General Meeting of Shareholders of May 29, 2020 No. 43). The amount of dividends amounted to 1,90318 rubles per one ordinary share of the Company.

For the year ended on December 31, 2020, dividends that were paid to the Company's owners amounted to 636 639 thousand rubles, including dividends that were paid to PJSC Rosseti – 595 146 thousand rubles (for the year ended on December 31, 2019 – 143 638 thousand rubles, including dividends that were paid to PJSC Rosseti – 133 262 thousand rubles).

As at December 31, 2020 the amount of dividends for 2016, unclaimed and included in retained earnings, is in amount of 249 thousand rubles (as at December 31, 2019 the amount of unclaimed dividends for 2015 included in retained earnings is 518 thousand rubles).

(d) Additional issue of the securities

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

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

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

The payment for supplement shares was made in cash.

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

The stock floatation of the additional issue was completed by the Group on October 23, 2019. The quantity of shares actually floated amounted to 30 864 487 units.

The State registration of such amendments to the Articles of Association of the Company was carried out on July 15th, 2020.

February 24, 2021 (Minutes № 44 of 26.02.2021) the extraordinary General meeting of shareholders of PJSC «Rosseti Kuban» the decision to increase the authorized capital of PJSC «Rosseti Kuban» by placing additional ordinary shares in the amount of 69 583 132 (Sixty-nine million five hundred eighty-three thousand one hundred thirty-two) shares with a nominal value of 100 (one hundred) rubles each for the total amount of the nominal value 6 958 313 200 (Six billion nine hundred and fifty-eight million three hundred thirteen thousand two hundred) rubles on the following basic conditions:

- placement - open subscription;
- the price of placing one ordinary share (including when exercising the pre-emptive right to purchase additional shares placed) is 100 (one hundred) rubles;
- form of payment for additional shares - additional shares are paid in cash in rubles of the Russian Federation in non-cash form.

24 Earnings per Share

Calculation of earnings per share for the nine months ended on December 31, 2020 and December 31, 2019 is based on earnings that are payable to the ordinary shareowners and weighted average number of common shares outstanding. The Company does not have the dilutive finance instruments.

In thousands of shares	**2020**	**2019**
Ordinary shares as at January 1	334 658	303 793
The effect of stock floatation	-	8 162
Weighted average number of shares for the period ended on December 31	**334 658**	**311 955**

	For the year, ended on December 31, 2020	**For the year, ended on December 31, 2019**
Weighted average number of shares outstanding for the period ended on December 31 (in thousands of units)	334 658	311 955
Profit/(loss) for period which is payable to Company owners	(1 240 210)	3 020 688
Profit/(loss) per share – basic and diluted (in Russian rubles)	**(3,71)**	**9,68**

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

25 Borrowings

	December 31, 2020	December 31, 2019
Long-term liabilities		
Unsecured loans and borrowings	17 882 922	19 432 911
Unsecured bonds	-	3 600 000
Lease liabilities	6 097 272	1 063 418
By deducting: current portion of long-term lease liabilities	(1 201 791)	(174 536)
By deducting: current portion of long-term unsecured bonds	-	(3 600 000)
	22 778 403	**20 321 793**
Short-term liabilities		
Unsecured loans and borrowings	5 553 866	52 592
Current portion of long-term lease liabilities	1 201 791	174 536
Current portion of long-term unsecured bonds	-	3 600 000
	6 755 657	**3 827 128**
Including:		
Interest payable on loans and borrowings	153 866	19 652
Interest payable on unsecured bonds	-	32 940
	153 866	**52 592**

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

For the year, ended on December 31, 2020 the Group took out the following bank loans and borrowings:

	Effective interest rates	Repayment periods	Nominal value
Unsecured bank loans*	КС+1,90% - 7,40%	2022-2023 гг.	42 163 993
Unsecured bank loans	5,95%	2023 г.	1 000 000
Unsecured loans and borrowings	5,68% - 7,07%	2020-2025гг	6 800 000
Other unsecured loans and borrowings	12,0 %	2020 г.	1 700
			49 965 693

* Loans and borrowings from government-controlled entities.

For the year, ended on December 31, 2020 the Group repaid the following bonded and bank loans:

	Nominal value
Loans and borrowings from government-controlled entities	46 113 982
Other loans and borrowings	1 700
Bonded loans	3 600 000
	49 715 682

As at December 31, 2020 the sum of available line of open but untapped credits of the Group amounted to 37 112 578 thousand rubles (as at December 31, 2019 amounted to 20 850 089 thousand rubles).

As at the date of signing the financial statement, PJSC «Rosseti» does not intend to use the right for early full or partial recovery of debt and payment of accrued interest and penalties in connection with the violation of the restrictive conditions under the agreement № 5781/407/30-905.

The Group has an opportunity to involve the additional financing within the relevant credit lines, including as for carrying out short-term obligations.

The Group does not use hedging instruments to manage interest rate risk.

Information on exposure of the Group to interest rate risk is disclosed in Note 32.

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

		Effective interest rate		Book value	
	Repayment period	**December 31, 2020**	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
Unsecured loans and borrowings					
Unsecured loans and borrowings*	2022-2025 гг.	5,68% - 7,40%	7,70%-7,75%	22 436 788	19 432 911
Other unsecured loans and borrowings	2023 г.	5,95%	Interest-free	1 000 000	-
				23 436 788	**19 432 911**
Unsecured bonds					
Unsecured bonds*	-	-	10,44%-12,65%	-	3 600 000
				-	3 600 000
Lease liabilities	2021-2069 гг.	5,95% - 8,13%	7,37%-9,2%	6 097 272	1 063 418
Total liabilities				**29 534 060**	**24 096 329**

26 Changes in liabilities arising from financial activities

	Borrowings		Interest payable except		
	Long-term	**Short-term**	**interest on lease agreements**	**Lease liabilities**	**Dividends payable**
As at January 1, 2020	**19 432 911**	**3 600 000**	**52 592**	**1 063 418**	**453**
Changes due to cash flow from financing activities					
Debt financing	36 128 620	13 837 073	-	-	-
Repayment of loans and borrowings	(37 678 609)	(12 037 073)	(1 510 614)	-	-
Lease payments	-	-	-	(916 969)	-
Interest expenses (operating activities, for reference)	-	-	-	(498 722)	-
Dividends payable	-	-	-	-	(636 639)
Total	**(1 549 989)**	**1 800 000**	**(1 510 614)**	**(1 415 691)**	**(636 639)**
Non-cash changes					
Capitalized interests	-	-	64 138	1 383	-
Interest expenses	-	-	1 547 750	505 136	-
Receipts under lease contracts	-	-	-	6 046 317	-
Dividends accrued	-	-	-	-	636 665
Other changes, net	-	-	-	(103 291)	-
Total	**-**	**-**	**1 611 888**	**6 449 545**	**636 665**
As at December 31, 2020	**17 882 922**	**5 400 000**	**153 866**	**6 097 272**	**479**

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

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

(in thousands Russian rubles, if not mentioned otherwise)

27 Employee benefits

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

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

	December 31, 2020	**December 31, 2019**
Net cost of liabilities for benefits programs after termination of labor activity	561 821	732 902
Total net cost of liabilities	**561 821**	**732 902**

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

	For the year ended December 31	
	2020	**2019**
Value of assets as at January 1	**318 362**	**291 221**
Employer's contribution	20 014	67 599
Other movement on accounts	24 011	2 181
Benefits payment	(43 050)	(42 639)
Value of assets as at December 31	**319 337**	**318 362**

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

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

	For the year ended December 31, 2020		**For the year ended December 31, 2019**	
	Benefits after termination of labor activity	**Other long-term benefits**	**Benefits after termination of labor activity**	**Other long-term benefits**
Liabilities according to the programs with fixed payments as at January 1	**732 902**	**-**	**453 065**	**-**
Current service cost	30 692	-	10 693	-
Past service cost and budget sequestration	(153 550)	-	-	-
Interest expense on liabilities	33 186	-	34 907	-
Effect of revaluation:				
– loss from changes in demographical actuarial assumptions	-	-	23 098	-
– loss from changes in financial actuarial assumption	9 133	-	97 951	-
– (profit)/ from experience adjustment	(37 948)	-	165 019	-
Contributions to the program	(52 594)	-	(51 831)	-
Liabilities according to the programs with fixed payments as at December 31	**561 821**	**-**	**732 902**	**-**

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

	For the year ended	
	December 31, 2020	**December 31, 2019**
Employee service cost	(122 858)	10 693

(in thousands Russian rubles, if not mentioned otherwise)

Interest expenses	33 186	34 907
Total (income)/expenses included as part of profit and loss	**(89 672)**	**45 600**

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

	For the year ended	
	December 31, 2020	**December 31, 2019**
Loss from changes in demographical actuarial assumptions	-	23 098
Loss from changes in financial actuarial assumption	9 133	97 951
(Profit)/loss from experience adjustment	(37 948)	165 019
Total (profit)/loss included as part of other comprehensive income	**(28 815)**	**286 068**

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

	For the year ended December 31	
	2020	**2019**
Revaluation as at January 1	**528 033**	**241 965**
Changes in revaluation	(28 815)	286 068
Revaluation as at December 31	**499 218**	**528 033**

The main actuarial assumptions:

	December 31, 2020	December 31, 2019
Financial assumptions		
Discounting rate	6,10%	6,30%
Salary increase in the future	4,50%	4,50%
Inflation rate	4,00%	4,00%
Demographical assumptions		
Predictable retirement age		
Men	65	65
Women	60	60
Moderate level of employee turnover	9,50%	9,50%

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

	Change in assumptions	Impact on obligations
Discounting rate	Increase/decrease by 0,5%	Change by (3,9)%
Salary increase in the future	Increase/decrease by 0,5%	Change by 3,0%
Benefits (inflation) increase in the future	Increase/decrease by 0,5%	Change by 1,4%
Level of employee turnover	Increase/decrease by 10%	Change by (3,0)%
Death rate	Increase/decrease by 10%	Change by (1,2)%

Amounts of expectable benefits according to the long-term employee benefits programs for 2021 amounting to 153 039 thousand rubles, including:

– according to the programs with fixed payments, including non-state pension provision of employees amounting to 153 039 thousand rubles;

– according to other long-term employee benefits programs amounting 0 thousand rubles.

(in thousands Russian rubles, if not mentioned otherwise)

28 Trade and other accounts payable

	December 31, 2020	December 31, 2019
Long-term debt		
Trade accounts payable	95 472	103 725
Other accounts payable	8 967	368
	104 439	**104 093**
Short-term debt		
Trade accounts payable	5 864 793	5 120 393
Other accounts payable and accrued costs	597 154	592 588
Payables to employees	1 130 408	1 036 148
Dividends payable	479	453
	7 592 834	**6 749 582**

The Group's exposure to liquidity risk related to payables is disclosed in Note 32.

29 Taxes payable except income tax

	December 31, 2020	December 31, 2019
VAT	570 035	418 872
Property tax	162 485	173 921
Social security contribution	138 979	157 424
Other taxes payable	66 802	58 945
	938 301	**809 162**

30 Advances received

Long-term	December 31, 2020	December 31, 2019
Advances for services of technological connection to electric networks	1 179 235	880 900
	1 179 235	**880 900**
Short-term		
Advances for services of technological connection to electric networks	2 083 710	1 537 903
Other advances received	168 800	37 538
	2 252 510	**1 575 441**

Advances received mostly included differed income from the technological connection contracts.

Short-term advances received from the buyers under the technological connection contracts as at December 31, 2019 were included as a part of revenue under the contracts with the buyers for the year ended on December 31, 2020.

The Management of the Group expects that the entire amount of short-term advances received under technological connection contracts as at 31 December 2020 will be recognized as part of the revenue from contracts with customers within the next reporting period.

The increase in short-term advances received as at December 31, 2020 was due to the reclassification from long-term advances received under technological connection contracts to short-term advances under technological connection contracts, including for the largest applicants: FSI «Rostransmodernization» – 575 893 thousand rubles; SHI «Regional Clinical Hospital No. 1 named after Professor S. V. Ochapovsky» of the Department of Health of the Krasnodar Krai – 278 609 thousand rubles.

The increase in long-term advances received as at December 31, 2020 was due to the receipt of advances under technological connection contracts, including the largest applicant JSC "Caspian Pipeline Consortium-R» – 689 873 thousand rubles. It is expected, that these advances will be included in the revenue from contracts with customers during 2021.

(in thousands Russian rubles, if not mentioned otherwise)

31 Estimated liabilities

	For the year ended December 31	
	2020	**2019**
Balance as at January 1	**726 472**	**788 366**
Increase for the period	596 284	319 635
Decrease due to provision recovery	(64 391)	(104 670)
Release of provisions	(361 753)	(304 860)
Capitalized	25 380	28 001
Balance as at December 31	**921 992**	**726 472**

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

32 Financial risk and capital management

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

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

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

(a) Credit risk

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

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

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

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

The Group preferably uses the prospective payment system to engage with contractors. In general, advance for technological connection of consumers to the networks is stipulated in the contract. The Group does not require collateral for receivables.

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

(in thousands Russian rubles, if not mentioned otherwise)

i. Credit risk level

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

	Carrying value	
	December 31, 2020	**December 31, 2019**
Trade and other accounts receivable (less the provision for expected credit losses)	8 128 639	7 078 288
Cash and cash equivalents	752 545	1 716 085
	8 881 184	**8 794 373**

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

	December 31, 2020		**December 31, 2019**	
	Total nominal value	**Reserve for expected credit loss**	**Total nominal value**	**Reserve for expected credit loss**
Buyers of services for electric power transmission	8 515 965	(1 129 735)	7 352 026	(1 014 606)
Buyers of services for technological connection to electric networks	37 783	(27 652)	66 105	(38 185)
Other Buyers	304 934	(95 729)	237 923	(4 376)
	8 858 682	**(1 253 116)**	**7 656 054**	**(1 057 167)**

The carrying value of trade accounts receivable accrued to the ten largest borrowers of the Group amounted to 7 962 695 thousand rubles as at December 31, 2020 (as at December 31, 2019 amounted to 7 129 660 thousand rubles).

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

	December 31, 2020		**December 31, 2019**	
	Total nominal value	**Reserve for expected credit loss**	**Total nominal value**	**Reserve for expected credit loss**
Undue debts	5 865 076	(36)	5 715 353	(151 662)
Overdue by less than 3 months	1 369 296	(10 236)	885 831	(4 104)
Overdue by more than 3 months and less than 6 months	111 160	(51 208)	254 785	(67 973)
Overdue by more than 6 months and less than a year	534 371	(205 454)	565 275	(128 105)
Overdue for a certain period more than a year	2 255 137	(1 739 467)	1 431 634	(1 422 746)
	10 135 040	(2 006 401)	8 852 878	(1 774 590)

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

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

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

(in thousands Russian rubles, if not mentioned otherwise)

	2020	2019
Ending on January 1	1 774 590	1 722 985
Increase in reserve for a period	505 341	352 822
Reversal of the amounts of reserve for a period	(114 073)	(277 074)
Amounts of trade and other accounts receivable written-off out of the previous accrued reserve	(159 457)	(24 143)
Reclassification for the period	-	-
Ending on December 31	**2 006 401**	**1 774 590**

The Group has no contractual basis for netting off of financial assets and financial liabilities and management of the Group does not expect future netting based on additional agreements as at December 31, 2020 and December 31, 2019.

(b) Liquidity risk

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

Management of liquidity risk involves maintaining sufficient cash and the availability of financial resources by attracting credit lines. The Group adheres to a balanced model of financing working capital by using both short-term and long-term sources. Temporary free funds are invested in the short-term financial instruments such as bank deposits.

The Group’s approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group’s image. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

The Group is able to realize its assets and settle its liabilities in the ordinary course of business in the foreseeable future. As reflected in these consolidated financial statement, the Group's financial result (total loss) for the year 2020 was 1 217 158 thousand rubles, which is mainly due to the impact of negative consequences related to COVID-19.

The Group's current liabilities as at 31 December 2020 amounted to 18 476 614 thousand rubles, including borrowings in the amount of 6 755 657 thousand rubles.

As at December 31, 2020 the sum of available line of open but untapped credits of the Group amounting to 37 112 578 thousand rubles (20 850 089 thousand rubles as at December 31, 2019). The Group has an opportunity to involve the additional financing within the relevant credit lines in order to carry out short-term obligations.

The Group's management forecasts that net cash flow from operating activities in 2021 will be sufficient to cover the Group's liabilities due in 2021.

Thus, despite the working capital deficit, the Group's management believes that the Group will be able to meet all its current obligations during 2021.

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

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

December 31, 2020	**Carrying value**	**Cash flows under the contract**	**Prior to 1 year**	**From 1 to 2 years**	**From 2 to 3 years**	**From 3 to 4 years**	**From 4 to 5 years**	**Over 5 years**
Non-derivative financial liabilities								
Credit and loans	23 436 788	26 854 818	6 861 988	2 184 128	16 279 350	98 980	1 430 372	-
Lease liabilities	6 097 272	8 372 398	1 891 139	1 587 416	1 514 815	1 493 315	98 106	1 787 607
Trade and other account payable	7 709 555	7 857 435	7 752 306	10 554	5 912	3 610	3 755	81 298
	37 243 615	43 084 651	16 505 433	3 782 098	17 800 077	1 595 905	1 532 233	1 868 905

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

(c) Market risk

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

i. Currency risk

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

ii. Interest risk

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

Fair value sensitivity analysis for fixed rate instruments

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

(d) Fair and carrying value

Interest rate that is used for discounting of expectable future cash flows on long-term accounts receivable for the purpose of determination of disclosed fair value as at December 31, 2020 amounted to 6,97% – 9,01% (as at December 31, 2019 amounted to 9,17 – 9,98%).

Interest rate that is used for discounting of expectable future cash flows on long-term accounts payable for the purpose of determination of disclosed fair value as at December 31, 2020 amounted to 6,97% – 9,01% (as at December 31, 2019 amounted to 9,17 – 9,98%).

Interest rate used to discount the expected future cash flows for long-term and short-term loans for the purpose of determining the disclosed fair value as at December 31, 2020 amounting to 5,68% – 7,40% (as at December 31, 2019 amounted to 7,70 – 7,75%).

Within the year ended December 31, 2020 there were no transfers between fair value hierarchy levels.

(e) Capital management

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

The Group monitors the structure and return on equity using coefficients calculated on the basis of the consolidated financial statements in accordance with IFRS, management statements and statements prepared in accordance with RAS. The Group analyzes the dynamics of the indicators of total debt and net debt, the structure of debt, as well as the ratio of equity and debt capital.

The Group manages its debt position by implementing a credit policy aimed at improving financial stability, optimizing its debt portfolio and building long-term relationships with debt capital market participants. To manage the debt position, the Group applies limits, including the categories of financial leverage, debt coverage, and debt service coverage. The initial data for calculating the limits are the RAS reporting indicators.

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

As at December 31, 2020 and December 31, 2019, these requirements were fulfilled.

33 Capital contractual obligations

As at 31 December 2020, the Group has outstanding commitments under contracts for purchase and construction of property, plant and equipment items for 1 386 140 thousand rubles, including VAT (as at 31 December 2019: 2 099 864 thousand rubles, including VAT).

34 Contingent liabilities

(a) Insurance

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

(b) Contingent tax liabilities

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

The Russian tax authorities have the right to add additional tax liabilities and penalties based on the rules established by the legislation on transfer pricing (hereinafter – TP), if the price/profitability in controlled transactions differs from the market level. The list of controlled transactions mainly includes transactions concluded between related parties.

Starting from January 1, 2019, control over transfer pricing for a significant part of domestic transactions has been canceled. However, the exemption from price controls may not apply to all transactions made in the domestic market. At the same time, in the case of additional charges, the mechanism of counter-adjustment of tax liabilities can be used if certain legal requirements are met. Intra-group transactions that have been out of the control of the TP since 2019 can nevertheless be checked by the territorial tax authorities for obtaining unjustified tax benefits, and the TP methods can be used to determine the amount of additional charges. The federal executive entity authorized to control and supervise taxes and fees may check prices/profitability in controlled transactions and, in case of disagreement with the prices applied by the Group in these transactions, add additional tax liabilities if the Group is unable to justify the market nature of pricing in these transactions, by providing transfer pricing documentation that meets the legal requirements.

With the further development of the practice of applying the tax rules on property tax, the tax authorities and courts may challenge the criteria the Group uses for assigning the property to movable or immovable property. The Group's Executive Board does not eliminate the risk of resource outflow, however, the impact of the events cannot be estimated with sufficient measure of reliability.

According to Executive Board opinion, the applicable legislative provisions are correctly interpreted and the position of the Group may be well-reasoned and secured with regard to tax compliance.

For the tax periods 2016-2020, the Group assessed the risk of additional property tax charges, excluding fines, in the amount of 972 005 thousand rubles. In terms of risk for the tax periods of 2016-2018, the Group assessed the risk at the level of «probable» and created a reserve in the amount of 156 967 thousand rubles.

In terms of risk for the tax periods 2019-2020, the Group estimated the risk at the level of «possible» in the amount of 700 000 thousand rubles.

(c) Legal proceedings

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

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

(d) Environmental commitments

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

(e) Contingent loan obligations

As at December 31, 2020, the subsidiary of PJSC «Rosseti Kuban» had borrowed funds classified as a subsidy, since if the terms of the loan agreement are met, the principal debt and interest become non-refundable.

As at 31 December 2020, the amounts for which there was a contingent repayment obligation consisted of: principal debt in the amount of 3 942 thousand rubles, interest arrears in the amount of 29 thousand rubles.

The date of full repayment of the issued loan is June 30, 2021.

The monitoring period under the loan agreement (from December 1, 2020 to March 31, 2021) begins under the following conditions: 1) the number of employees of the borrower at the end of several reporting months after the loan is granted and before December 1, 2020 is at least 80% of the number of employees of the borrower as at June 1, 2020; 2) as at November 25, 2020 the borrower has not entered bankruptcy proceedings, and its activities are not suspended.

The Bank has the right to early termination of lending in the following cases: 1) the loan funds were not used for their intended purpose; 2) the grant was refused; 3) there is a shortage of budget funds, at the expense of which the financial support for the grant is provided; 4) the creditor is excluded from the authorized banks.

The conditions for classifying borrowed funds as a subsidy are as follows: 1) on the date of completion of the observation period in respect of the borrower not entered bankruptcy, and its activities are not suspended; 2) the number of employees during the period of observations at the end of each reporting month shall be not less than 80% of the number of employees as at 1 June 2020; 3) the average wage paid to one employee during the observation period should not be less than the minimum wage; 4) a decision of the lender to write off the debt of the borrower to the creditor: 4.1) 100% of the debt, if the ratio of the number of employees as at March 1, 2021 to the number as at June 1, 2020 is not less than 0.9; 4.2) 50% of the debt, if the ratio of the number of employees as at March 1, 2021 to the number as at June 1, 2020 is at least 0.8.

The management of the subsidiary has reasonable confidence that all the terms of the agreement will be met.

35 Related Party Transactions

(a) *Control relationship*

Related parties include shareholders, affiliates and entities under common ownership and control with the Group, members of the Board of Directors and the key management personnel of the Company. Rosseti PJSC had control over the company as at December 31, 2020 and December 31, 2019. The Government represented by the Federal Agency for Property Management holding the majority shares of Rosseti PJSC is the ultimate controlling party.

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

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

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

	Transaction amount		**Carrying value**	
	2020	**2019**	**December 31, 2020**	**December 31, 2019**
Revenue, other income, finance income				
Parent Company				
Other revenue	1 185	1 185	-	-
Income from the termination of the lease agreement	157	-	-	-
The enterprises are under common control of the parent company				
Lease	4 434	43	4	4
Other revenue	30 669	52 440	109 811	86 818
Other income	322	-	160	-
Income from the termination of the lease agreement	-	55	-	-
Provision for impairment of other receivables	-	167 449	-	-
	36 767	**221 172**	**109 975**	**86 822**

	Transaction amount		**Carrying value**	
	2020	**2019**	**December 31, 2020**	**December 31, 2019**
Operating expenses, finance expense				
Parent company				
Expenses for UES organization and development services	118 322	118 322	37 165	-
Other work and services of production nature	15 272	15 272	2 817	1 409
Other expenses	6 413	6 382	37	23 208
Interest expense on lease	151	56	-	-
Interest expenses for financial liabilities measured at amortized cost	228 187	755 858	153 866	32 940
The enterprises are under common control of the parent company				
Services for electric power transmission	7 627 903	8 452 613	765 295	854 915
Services for technological connection to electric networks	3491	1 822	-	5 645
Repair services and technical maintenance	1759	949	-	-
Short-term lease	558	61	2 385	12
Other expenses	58 089	188 943	20 901	81 238
Interest expense for lease liabilities	16 644	59	-	-
Interest expenses for financial liabilities measured at amortized cost	-	20 820	-	-
Provision for impairment of other receivables	(97 750)	-	(97 750)	-
	7 979 039	**9 561 157**	**884 716**	**999 367**
Construction and installation jobs capitalized	42 815	188 190	295 632	131 557
	8 021 854	**9 749 347**	**1 180 348**	**1 130 924**

Explanatory notes to the Consolidated Financial Statements for the year ended on December 31, 2020 (unaudited) (in thousands Russian rubles, if not mentioned otherwise)

	Carrying value	
	December 31, 2020	**December 31, 2019**
Parent company		
Loans and borrowings	6 800 000	3 600 000
Lease liabilities	-	1 947
The enterprises are under common control of the parent company		
Advances issued	4 867	4 436
Lease liabilities	293 285	800
Advances received	76	76
	7 098 228	**3 607 259**

As at December 31, 2020 the liability owed to ultimate parent in paying dividends is absent (as at December 31, 2019 is absent).

(c) Transactions with key management personnel

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

The remuneration of key management personnel consists of the salary stipulated in the employment agreement, non-monetary benefits, as well as bonuses determined by the results for the period and other payments.

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

	For the year ended December 31	
	2020	**2019**
Short-term employee benefits	214 488	162 039
	214 488	**162 039**

As at December 31, 2020 the current value of liabilities according to the programs with fixed payments and assessed contributions, other post-employment benefits that is reported in the Consolidated Statement of Financial Position, includes the liabilities in relation to key managerial personnel amounting to 0 thousand rubes (as at December 31, 2019 amounting to 0 thousand rubles).

(d) Transactions with the government-related entities

In the course of its operating activities, the Group is engaged in many transactions with government-related entities. These transactions are carried out in accordance with regulated tariffs or based on market prices, market interest rates. Taxes are calculated and paid in accordance with Russian tax legislation.

Revenues from government-related entities are amounting to:

- 1,39% of total revenue of the Group for the year ended December 31, 2020 (for the year ended December 31, 2019 amounting to 1,03%);
- 0,95% of revenue of electric power transmission for the year ended December 31, 2020 (for the year ended December 31, 20119 amounting to 0,97%).

Expenses for electric power transmission to the government-related entities (including offset against technological losses) are amounting to 3,36% of total expenses for electric power transmission for the year ended December 31, 2020 (for the year ended December 31, 2019 are amounting to 4,6%).

Interests accrued on credit and loans from government-related banks for the year ended December 31, 2020 are amounting to 1 539 254 thousand rubles (for the year ended December 31, 2019 are amounting to 1 194 391 thousand rubles).

As at December 31, 2020 the cash balance and cash equivalents placed on government-related banks accounts are amounting to 751 889 thousand rubles (as at December 31, 2019 are amounting to 1 707 051 thousand rubles).

Information on credit and loans received from government-related banks is disclosed in Note 26.

As at December 31, 2020 the lease liabilities of government-related entities are amounting to 5 716 635 thousand rubles (as at December 31, 2019 are amounting to 472 171 thousand rubles).

36 Events after the reporting period

On January 21, 2021 (Minutes № 418/2021 of January 22, 2021), the Board of Directors of PJSC «Rosseti Kuban» decided to convene an extraordinary General Meeting of Shareholders of the Company on February 24, 2021. The agenda includes the issue of increasing the authorized capital of PJSC «Rosseti Kuban» by placing additional shares.

On February 24, 2021 (Minutes № 44 of February 26, 2021) The Extraordinary General Meeting of Shareholders of PJSC «Rosseti Kuban» decided to increase the authorized capital of the Company by placing additional ordinary shares in the amount of 69 583 132 with a par value of 100 rubles each, for a total amount of 6 958 313 200 rubles at a par value.

On February 26, 2021, an overdraft loan agreement was signed with JSC JSCB «AK BARS» №6931/4/2021/0102 with the amount of the loan limit of 500 000 thousand rubles and the term of the agreement until February 25, 2024. Purpose-financing is for financial and economic activities.

On February 26, 2021, an overdraft loan agreement was signed with JSC JSCB «AK BARS» № 6931/4/2021/0307 with the amount of the loan limit of 500 000 thousand rubles and the term of the agreement until February 25, 2024. Purpose-financing is for financial and economic activities.

On February 1, 2021, an overdraft loan agreement was signed with JSC «SMP Bank» №08-03-2021/OB with the amount of the loan limit of 500 000 thousand rubles and the term of the agreement until February 1, 2024. Purpose-financing is for financial and economic activities.