Independent Auditor’s Report

on Accounting (Financial) Statements of

**Public Joint Stock Company**

**Rosseti Kuban**

for 2020

February 2021

Independent Auditor’s Report

on Accounting (Financial) Statements of

**Public Joint Stock Company**

**Rosseti Kuban \_**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Contents page**

Independent Auditor’s Report 3

Appendices

Accounting (Financial) Statements of Public Joint Stock Company Rosseti Kuban for 2020:

Balance Sheet 8

Statement of Financial Result 10

Appendices to the Balance Sheet and Statement of Financial Results 11

Ernst&Young LLC

Sadovnicheskaya Nab., 77, bid. 1

Moscow, 115035, Russia

Tel: +7 (495) 705 9700

+7(495) 755 9700

Fax: +7(495) 755 9701

[www.ey.com/ru](http://www.ey.com/ru)

**Independent Auditor’s Report**

To: the shareholders and the Board of Directors

of Public Joint Stock Company

Rosseti Kuban

**Opinion**

We have audited the accompanying accounting (financial) statements of Public Joint-Stock Company Rosseti Kuban (hereinafter – the Company) which comprise the balance sheet as of December 31, 2020, Statement of Financial Results for 2020, and appendixes thereto.

In our opinion, the accompanying accounting (financial) statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its accounting performance and cash flows for 2020 in accordance with the accounting (financial) statements preparation rules established by the Russian Federation.

**Basics for Opinion**

We conducted our audit in accordance with the International Standards of Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Accounting Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) accepted by the International Ethics Standards Board for Accountants (IESBA) and with the ethical requirements that are relevant to our audit of the accounting (financial) statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of the most significance in our audit of the accounting (financial) statements of the current period. These matters were addressed in the context of our audit of the accounting (financial) statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the accounting (financial) statements section of our report, including in relation to these matters. Accordingly, our audit included procedures designed to respond to our assessment of the risks of material misstatement of the accounting (financial) statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying accounting (financial) statements.

|  |  |
| --- | --- |
| **Key audit matter** | **How the matter was addressed in our audit.** |
| **Recognition and measurement of revenue from electricity transmission services** | |
| Recognition and measurement of revenue from electricity transmission services was one of the most significance in our audit due to certain mechanisms of operation of retail electricity market that stipulate presence of disagreements between network, energy supply and other companies pertaining to the volume and cost of transmitted electricity. The sum of the disputable revenue is considered as material for the accounting (financial) statements of the Company. The assessment by the Company’s management of favorable outcome of the dispute resolution is, to a large extent, subjective. The revenue is recognized when, with regard of assumptions, disputes are resolved in favor of the Company.  Information on the revenue from electricity transmission services is disclosed in Clause 6.12 of Notes to the Accounting Statements and Statement of Financial Results. | We have review the Company's policy on recognizing revenue from electricity transmission services; evaluated the system of internal control over revenue recognition; reviewed the accuracy of determined revenue amounts based on concluded electricity transmission contracts; on a sample basis obtained confirmations of accounts receivable balances from the counterparties; analyzed outcomes of litigations in respect of disputed amounts for the provided services, if any; and evaluated exiting procedures for confirming the volume of transmitted electricity. |
| **Impairment of accounts receivable** | |
| In our opinion, the matter of impairment of accounts receivable was one of the most significance in our audit due to significant balances of the Company’s accounts receivable as of December 31, 2020 as well as due to the fact that the management estimate of collectability of the receivables is based on the assumptions, in particular, forecasting financial solvency of the Company’s customers.  Information on impairment of accounts receivable is disclosed in Clause 6.6 of Notes to the Accounting Statements and Statement of Financial Results. | We have analyzed the adequacy of the Company's policy on reviewing accounts receivable and determining whether accounts receivables impairment allowance should be established, as well as procedures of confirming the reasonableness of the estimates made by the management of the Company, including review of accounts receivable payments, review of maturity dates and overdue debts, review of customers’ financial solvency.  We have performed audit procedures in respect of information used by the Company for determining the impairment of accounts receivable, in respect of classification of accounts receivable by their maturity dates; tested accuracy of calculating the allowance on the basis of the management estimates. |
| |  |  | | --- | --- | | **Key audit matter** | **How the matter was addressed in our audit.** |   **Recognition, measurement and disclosure of provisions and contingent liabilities** | |
| Recognition, measurement and disclosure of provisions and contingent liabilities in respect of   |  | | --- | | litigations and claims of counterparties (including territorial electric grid companies and energy supply companies) were matters of the most significance in our audit because they require a lot of management judgments in respect of significant amounts of balance of payments between counterparties being in dispute in the course of litigations or in the process of pre-trial procedures.  Information on provisions and contingent liabilities are disclosed in Clause 6.15 of Notes to the Accounting Statements and Statement of Financial Results. | | The audit procedures included review of court rulings made by courts of different levels, and review of adequacy of management judgments in respect of the assessment of possibility of outflow of economic resources following dispute resolutions, review of conformity of the prepared documentation with the existing contracts and compliance with the law. |

**Other information included in the annual report for 2020**

Other information includes information contained in the annual report for 2020 but does not include accounting (financial) statements and our audit report on it. The Management is responsible for other information. The annual report for 2020 is expected to be provided after the date of this audit report.

Our opinion on the accounting (financial) statements does not apply to other information, and we do not provide a conclusion that provides in any form confidence in this information.

Since we are conducting our audit of the accounting (financial) statements, our responsibility to study other above-mentioned information when it is provided to us, and, in doing so, consider whether the other information is materially inconsistent with the accounting (financial) statements our knowledge obtained in the course of audit or otherwise appears to be materially misstated.

**Responsibilities of Management and the Audit Committee of the Board of Directors for the Accounting (Financial) Statements**

The Management is responsible for the preparation and fair presentation of the accounting (financial) statements in accordance with the Russian Federation accounting (financial) statements preparation rules, and for such internal control as management determines is necessary to enable the preparation of accounting statements that are free from material misstatement, whether due to fraud or error.

In preparing the accounting (financial) statements, the Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors is responsible for overseeing the preparation of the accounting (financial) statements of the Company.

**Auditor’s responsibility for the Audit of the Accounting (Financial) Statements**

Our objectives are to obtain reasonable assurance on whether the accounting (financial) statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these accounting (financial) statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

► Identify and assess the risks of material misstatement of the accounting (financial) statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

► Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

► Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

► Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the accounting statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

►Evaluate the overall presentation, structure and content of the accounting (financial) statements, including the disclosures, and whether the accounting (financial) statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee of the Board of Directors of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Board of Directors of the Company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Board of Directors of the Company, we determine those matters that were of most significance in the audit of the accounting (financial) statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Manager in charge of the audit resulting in this independent auditor’s report is Kalmykova A.B.

Kalmykova A.B.

Partner

Ernst & Young LLC

Krasnodar

24 February 2021

**Details of the audited entity**

Name: Public Joint-Stock Company Rosseti Kuban

Record made in the State Register of Legal Entities on 17 September 2002; Primary state registration number 1022301427268

Address: 2A Stavropolskaya Street, Krasnodar 350033, Russia

**Details of the auditor**

Name: Ernst & Young LLC

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.

Address: 77/1 Sadovnicheskaya naberezhnaya, Moscow 115035, Russia

Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

A member firm of Ernst & Young Global Limited















































































|  |  |
| --- | --- |
|  | PUBLIC JOINT STOCK  COMPANY ROSSETI KUBAN  (PJSC ROSSETI KUBAN) |

**NOTES TO THE ACCOUNTING STATEMENTS**

**FOR 2020**

Krasnodar

2021

CONTENTS

1. background informaion 4

2. fundamental principles of accounting policies 9

2.1. Assets and liabilities in foreign currencies 9

2.2. Expenses for research, development and technological works (R&D) 9

2.3. Intangible assets 9

2.4. Fixed assets and construction in progress 9

2.5. Inventories 11

2.6. Deferred expenses 13

2.7. Financial investments 13

2.8. Borrowings and loans 14

2.9. Estimated liabilities 14

2.10. Deferred taxes 14

2.11. Revenue and other income 15

2.12. Cost of goods sold, products, works, services, selling costs, administrative expenses and other expenses 16

2.13. Government assistance 16

2.14. Associates and affiliates 16

2.15. Information on segments 16

2.16. Cash flow information 16

3. Changes in accounting policies in 2020 17

4. CHANGES IN ACCOUTING POLICIES IN 2021 17

5. ADJUSTMENTS AND OTHER CHANGES IN ACCOUNTING RELATED TO THE PRIOR PERIODS 17

6. INFORMATION DISCLOSURE ON SPECIFIC INDICATIONS OF ACCOUNTING STATEMENTS FOR 2020 19

6.1. Fixed assets 19

6.1.1. Capital investments in progress 20

6.1.2. Fixed assets received for lease 20

6.2. Other non-current assets and current assets 20

6.3. Financial investments 21

6.4. Goverment assistance 21

6.5. Equity and reserves 21

6.6. Accounts receivable 21

6.7. Accounts payable, loans and borrowings 23

6.7.1. Securing obligations 24

6.7.2. Information on opportunities of the company to raise additional cash as of reporting date 25

6.8. Information on risks of business activity 26

6.9. Deferred taxes 40

6.10. Cost of goods sold, products, works, services, selling costs, administrative expenses and other expenses 41

6.10.1. Information on costs of energy resources use 42

6.11. Information on cash flows 43

6.12. Information on segments 44

6.13. Related party disclosure 44

6.13.1. List of related parties 44

6.13.2. Operations carried out with related parties and transactions in progress with related parties where the settlements are executed through the bank under the terms of the contracts 45

6.13.3. Benefits payable to key management personnel 48

6.14. The going concern principle 49

6.15. Estimated liabilities, contingent liabilities and assets 49

6.16. Events after the reporting period 50

# BACKGROUND INFORMATION

PJSC Rosseti Kuban (hereinafter referred to as the “Company) is the largest electric grid company in the territory of Krasnodar Region and the Republic of Adygeya that transmits and distributes electricity to the distribution grid with a voltage of 110 kV and lower located in populated areas, village settlements, separate cities and neighborhood centre of Krasnodar Region and the Republic of Adygeya, including Sochi.

**Full name:** Public Joint Stock Company Rosseti Kuban.

**Short name:** PJSC Rosseti Kuban Rosseti Kuban.

Registered on February 10, 1993.

Entered in the Single State Register of Legal Entities by Inspection of the Federal Tax Service of Russia No. 3 in Krasnodar under No. 1022301427268 of September 17, 2002. Certificate 23 No. 001806938.

**TIN (KPP)**: 2309001660 (997650001).

**Legal form / form of property PJSC Rosseti Kuban** − Public Joint Stock Company (Code OKOPF 47) / private ownership (Code OKFS 16).

**Registered office (legal address) PJSC Rosseti Kuban** − 350033, the Russian Federation, Krasnodar, 2А Stavropolskaya Street.

**The core activities of the Company are:**

* providing services for distribution and transmission of energy that is transferred out of the electrical system;
* services for technological connection of consumers to electric networks.

Table 1 – **Permits (licences) for certain types of work**

| **Branch of activities** | **Issuing authority** | **Details** | **Validity period** |
| --- | --- | --- | --- |
| **1** | **2** | **3** | **4** |
| For extraction licence (fresh groundwater mining for household drinking process water supply in Krasnodar) | Ministry of Natural Resources of Krasnodar Region | КРД No. 80383 ВЭ | From November 30, 2015 to July 20,2034 |
| For extraction licence (fresh groundwater mining for household drinking process water supply Tverskaya village of Apsheronsk district of Krasnodar Region) | Ministry of Natural Resources of Krasnodar Region | КРД No. 80380ВЭ | From October 26, 2015 to  January 1, 2035 |
| Execution of works related to the usage of information classified as state secret | Federal Security Service of the Russian Federation (FSB) in Krasnodar Region | ГТ 0084635, registration number 2050 | From August 31, 2020 – July 13, 2023 |
| Transportation by buses of other persons of licensee for own requirements | Federal Transportation Inspection Service (Rostransnadzor) of The Ministry of Transport of the Russian Federation | АН-23-000047 | From April 8, 2019 – unlimited |

Accounting Statements of PJSC Rosseti Kuban contain operational performance of all branch offices, representative offices and other business units, as follows:

Table 2 – **Branches of PJSC Rosseti Kuban**

|  |  |  |
| --- | --- | --- |
| **№** | **Name** | **Registered office** |
| 1. | Krasnodar Electrical Networks | 350000, Krasnodar, 131 Pashkovskaya Str. |
| 2. | Sochi Electrical Networks | 354000, Sochi, 42 Konstitutsii USSR Str. |
| 3. | Armavir Electrical Networks | 352900, Armavir, 54 Vorovskogo Str. |
| 4. | Adygeya Electrical Networks | 385000, Maykop, 358 Shovgenova Str. |
| 5. | Timashevsk Electrical Networks | 352700, Timashevsk, 176 Lenina Str. |
| 6. | Tikhoretsk Electrical Networks | 352122, Tikhoretsk, 62 Dzerzhinskogo Str. |
| 7. | Leningrad Electrical Networks | 353745, Leningradskaya village, 6 Divizii 302 Str. |
| 8. | Slavyansk Electrical Networks | 353560, Slavyansk-na-Kubani, 49 Stroitelei Str. |
| 9. | South-West Electrical Networks | 353902, Novorossiysk, 1 Vostochnyy Mol |
| 10. | Labinsk Electrical Networks | 352503, Labinsk, 334 Mira Str. |
| 11. | Ust-Labinsk Electrical Networks | 352232, Ust-Labinsk, 4 Krasnodarskaya Str. |

**The average annual number of employees** in PJSC Rosseti Kuban for the reporting period amounted to 8,959, in 2019 amounted to 8,644, prior to preceding 2018 amounted to 8,611.

**Company’s auditor:**

|  |  |
| --- | --- |
| Full name: | Limited Liability Company Ernst & Young |
| Legal address: | 115035, Moscow, 77 Sadovnicheskaya naberezhnaya, building 1 |
| Current address: | 115035, Moscow, 77 Sadovnicheskaya naberezhnaya, building 1 |
| TIN: | 7709383532 |
| PSRN: | 1027739707203 |
| Phone/fax: | 8 (495) 755-97-00/8; (495) 755-97-01 |

**Management Board of the Company** is the General Meeting of Shareholders, the Board of Directors of the Company, Management Board (Collegial Executive Body of the Company), General Director (Chief Executive Officer of the Company).

**Chief Executive Officer of the Company**: Sergeev Sergey Vladimirovich.

**Chief Accountant of the Company**: Skiba Inna Viktorovna.

Table 3 – **Members of the Board of Directors of the Company (as of December 31, 2020):**

|  |  |  |  |
| --- | --- | --- | --- |
| **No.** | **Full name** | **Principal place of employment and official capacity** | **Position on the Board of Directors of Rosseti Kuban** |
| 1. | Gavrilov Aleksandr Ilich Chairman of the Board of Directors | Member of Krasnodar Regional Association “Regional Scientific and Technological Union of Energy Workers and Electricians” | Chairman of the Board of Directors |
| 2. | Logatkin Andrey Vyacheslavovich | Director – Head of the Department of International Cooperation of PJSC Rosseti | Member of the Board of Directors |
| 3. | Sergeev Sergey Vladimirovich | CEO of PJSC Rosseti Kuban | Member of the Board of Directors |
| 4. | Shagina Irina Aleksandrovna | Head of the Department of Tariff Policy of PJSC Rosseti | Member of the Board of Directors |
| 5. | Terekhov Ivan Andreevich | Head of Department of Insurance in the Strategy Department of PJSC Rosseti | Member of the Board of Directors |
| 6. | Guryanov Denis  Lvovich | Member of the Board of Directors of PJSC Rosseti Kuban | Member of the Board of Directors |
| 7. | Alyushenko Igor Dmitrievich | Deputy Chief Engineer – Chief Controller of PJSC Rosseti | Member of the Board of Directors |
| 8. | Varseev Vasiliy Valerevich | Member of the Board of Directors of PJSC Rosseti Kuban | Member of the Board of Directors |
| 9. | Varvarin Aleksandr Viktorovich | Vice-president for Legal Regulation and Law Enforcement of the Russian Union of Industrialists and Entrepreneurs (RSPP) | Member of the Board of Directors |
| 10. | Medvedev Mikhail Vladimirovich | Adviser to the Director-General of JSC “Avangard” | Member of the Board of Directors |
| 11. | Yavorskiy Viktor Korneevich | Member of the Presidium of the Board of "OPORA RUSSIA" | Member of the Board of Directors |

Table 4– **Composition of Management of the Company (as of December 31, 2020):**

|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **Full name** | **Principal place of employment and official capacity** | **Status in the Management of  PJSC Rosseti Kuban** |
| 1. | Sergeev Sergey Vladimirovich | CEO of PJSC Rosseti Kuban | Chairman of the Board |
| 2. | Armaganyan Edgar Garrievich | First Deputy CEO – Director of the Branch of PJSC Rosseti Kuban Sochi Electrical Networks | Deputy Chairman of the Board |
| 3. | Shchepakin Maksim Mikhailovich | First Deputy CEO of PJSC Rosseti Kuban | Member of the Board |
| 4. | Mishanin Aleksey Aleksandrovich | Deputy CEO for Technical Issues – Chief Engineer of PJSC Rosseti Kuban | Member of the Board |
| 5. | Korzhanevskiy Viktor Anatolevich | Deputy CEO for Investment Operations of PJSC Rosseti Kuban | Member of the Board |
| 6. | Ocheredko Olga Vyacheslavovna | Deputy CEO for Economics and Finance of PJSC Rosseti Kuban | Member of the Board |
| 7. | Nishchuk Oleg Fedorovich | Deputy CEO for Implementation of Services of PJSC Rosseti Kuban | Member of the Board |
| 8. | Skiba Inna Viktorovna | Chief Accountant – Head of Department of Financial Records, Accounts and Tax Returns of Rosseti Kuban | Member of the Board |

The Auditing Committee of the Company is the supervisory authority for financial and operational activities of the Company.

Table 5 – **Composition of the Company's Audit Committee (as of December 31,  2020)**:

| **No** | **Full name** | **Principal place of employment and official capacity** | **Status in the Audit Committee** |
| --- | --- | --- | --- |
| 1. | Lelekova Marina Alekseevna | Director of the Internal Control and Risk Management Department of PJSC Rosseti | Chairman of the Audit Committee |
| 2. | Skrunnikova Ludmila Stanislavovna | Chief Expert of Supervisory Activities Department of the Internal Control and Risk Management Department of PJSC Rosseti | Member of the Audit Committee |
| 3. | Malyshev Sergey Vladimirovich | Lead Expert of Supervisory Activities Department of the Internal Control and Risk Management Department of PJSC Rosseti | Member of the Audit Committee |
| 4. | Kim Svetlana  Anatolevna | Head of Supervisory Activities Department of the Internal Control and Risk Management Department of PJSC Rosseti | Member of the Audit Committee |
| 5. | Kabizskina Elena Aleksandrovna | Chief Expert of Supervisory Activities Department of the Internal Control and Risk Management Department of PJSC Rosseti | Member of the Audit Committee |

Table 6 – **The Main Subsidiaries and Affiliates**

|  |  |  |  |
| --- | --- | --- | --- |
| **Name of the subsidiary** | **Participatory interest (%)** | **Registered office** | **Line of business** |
| **1** | **2** | **3** | **4** |
| Joint-Stock Company  Energetik Holiday Facility | 100 | 353490,  Krasnodar Region,  Gelendzhik,  Divnomorskoye village, 4 Pionerskaya Str. | Provision of medical, sanatorium and health-resort, health and fitness services, accommodation services (temporary accommodation services), food and nutrition services and services to the population |
| Joint-Stock Company  Kuban Energoservis | 100 | 350080,  Krasnodar Region, Krasnodar, 47 Novorossiyskaya Str. | Implementation of programs on energy conservation and increasing the energy efficiency of final consumers in the regions by means of implementation of the multilevel system of energy services. |

# FUNDAMENTAL PRINCIPLES OF ACCOUNTING POLICIES

PJSC Rosseti Kuban keeps accounting records in accordance with the requirements for Russian Accounting Standards and Federal Law of December 6, 2011 No. 402-FZ “On Accounting” and also in accordance with Corporate Standard of PJSC Rosseti “Uniform Corporate Accounting Principles for accounting purposes”.

Data from Accounting Statements are presented in thousands Russian Rubles (if not otherwise mentioned).

## Assets and liabilities in foreign currencies

The Company does not have assets and liabilities denominated in foreign currency at the beginning and the end of the reporting period.

## Expenses for research, development and technological works (R&D)

Accounting of expenses for research, development and technological works is incurred in accordance with Accounting Regulation 17/02, approved by Order of the Ministry of Finance of the Russian Federation No. 115n of November 19, 2002 and subsequent changes. Writing off the expenses for each facility of R&D is made using the straight-line method.

## Intangible assets

Accounting for intangible assets is kept by the Company in accordance with the Accounting Regulation 14/2007 “Intangible asset accounting”, approved by Order of the Ministry of Finance of the Russian Federation No. 153n of December 27, 2007.

Straight-line method is used for the amortization of the cost of the intangible assets with definite useful lives.

## Fixed assets and construction in progress

Accounting for fixed assets is kept by the Company in accordance with the Accounting Regulation 6/01*“Accounting for fixed assets”*, approved by Order of the Ministry of Finance of the Russian Federation No. 26н of March 30, 2001 and Accounting Guidelines on fixed assets, approved by Order of the Ministry of Finance of the Russian Federation No. 91n of October 13, 2003.

Accounting for construction in progress is kept by the Company in accordance with the Regulation of Accounting and Reporting in the Russian Federation, approved by Order of the Ministry of Finance of the Russian Federation No. 34н of July 29, 1998 and in accordance with the Accounting Regulation of long-term investments (letter of the Russian Ministry of Finance No. 160 of December 30, 1993), if not at variance with subsequent regulatory legal acts on accounting.

Items of fixed assets are accepted for recording at original cost, determined according to the method of receipt-purchase for a fee, implementation by own efforts, construction, receiving without compensation and so on.

Assets are recognized as a part of inventories and written-off as manufacturing expenses in accounting and accounting statements as far as they release to production or into operation and to relation of which the terms for attribution of assets to the fixed assets (with the value less than 40,000 rubles inclusive) are fulfilled. The following items are included in the fixed assets regardless of their value:

* transmission lines;
* lands;
* buildings;
* constructions;
* vehicles

Costs on borrowings and loans related to investment asset formation (items of fixed assets, asset groups and other similar assets demanding much time and purchasing costs and (or) construction) are included in the cost of the depreciable asset.

Amortization of the items of fixed assets is calculated using the straight-line method on the basis of their useful lives.

Useful life is regulated by the Committee of the Company on receipt of fixed assets in accordance with the final report of the technical employees taking into consideration the information specified in technical documentation of the construction site.

The following useful lives are determined for accounting purposes in accordance with the technical rules and regulations and instructions for the operation of equipment of manufacturing plants and newly introduced items of fixed assets related to the groups such as “Transmission lines and transmission facilities” and “Vehicles and machinery”.

| **Item of fixed assets** | **Useful life, years** |
| --- | --- |
| ***Material-working machinery and equipment*** | |
| Power transformer | 30 |
| Shunt reactor | 30 |
| Сurrent limiting reactor | 30 |
| Cell of gas-insulated switchgear | 30 |
| Cell of the complete distribution device | 25 |
| Current transformer (CT) | 30 |
| Voltage transformer (VT) | 30 |
| Switch | 30 |
| Disconnector, isolating switch and short-circuiting device | 30 |
| ***Constructions and transfer mechanisms (transmission lines)*** | |
| Overhead transmission lines (OTL) | 35 |
| Cable transmission lines | 30 |
| Overhead and cable transmission lines | 30 |

Fully amortizing (depreciated) fixed assets are not measured at amortized cost.

The result due to retirement, write-off and donation of fixed asset is reflected in the Statement of financial results and as a part of other revenues and expenses.

Fixed asset value has not changed, except for further construction, modernization and reconstruction of fixed assets. Expenses for reconstruction of fixed assets are reflected on the balance sheet of the reporting period to which the expenses relate.

Accounting for the property acquired under leasing is carried out in accordance with the Federal Law No. 164-FZ of October 29, 1998 “On financial lease (leasing)”.

## Inventories

Inventory accounting is kept by the Company in accordance with the Accounting Regulation 5/01 *“Inventory accounting”*, approved by Order of the Ministry of Finance of the Russian Federation No. 44n of June 9, 2001 and Accounting guidelines on inventory accounting, approved by Order of the Ministry of Finance of the Russian Federation No. 119n of December 28, 2001.

When inventories are included in the accounting, inventory valuation is made by the following ways:

* when purchase for a charge – in the amount of actual expenses for purchasing except for VAT and other recoverable taxes from the budget (Clause 6, Accounting Regulation 5/01);
* during production by own efforts – on the basis of actual expenses related to the production of the current expenses. Accounting and formation of expenses for production of inventories are carried out in accordance with the procedure established for the determination of prime cost of the appropriate types of production (Clause 7, Accounting Regulation 5/01);
* entered against contribution to the charter capital – on the basis of monetary value agreed upon with shareholders (participants), unless otherwise required by the legislation of the Russian Federation in accordance with the actual expenses for delivery of inventories and bring them up to an acceptable standard for use (Clause 8, 11, Accounting Regulation 5/01);
* donation or received under the donation agreement and also remaining after disposal of fixed assets and other property, recognition of inventories that were recognized as the surplus on the results of the inventory count – on the basis of current market value for delivery of inventories and bring them up to an acceptable standard for use (Clause 9, 11, Accounting Regulation 5/01);
* received under the agreements providing for fulfilment of obligations (payment) by non-monetary assets – according to the value of assets transferred or subject to transfer to the Company, established on the basis of the price for which the Company usually identifies the value for the similar assets under comparable circumstances. When it is not possible to establish the value of assets that are transferred or subject to transfer to the Company, the inventory cost according to the agreements providing for fulfilment of obligations (payment) by non-monetary assets is identified on the basis of the price for which the Company usually purchases the similar inventories under comparable circumstances. The actual expenses for delivery of inventories and bring them up to an acceptable standard for use are included in the actual cost of these inventories (Clause 6, 10, 11, Accounting Regulation 5/01);
* cost of inventories received under the barter contracts where the contractual value of barterable property is established, official contractual value is recognized.

Inventories are measured at average cost of every type of inventory when the inventories release to production or their disposal in accordance with Clause 16 and Accounting Regulation 5/01 “Inventory accounting”.

Special clothes before putting into operation are recognized according to the account 10 "Materials" on the separate sub-account “Dedicated tooling and special clothes at stock”. The cost of special clothes that have useful lives more than 12 months is repaid using the straight-line method on the basis of their useful lives according to the industry standards requiring free issue of work clothes, special shoes and other personal protective equipment and in accordance with the Rules of Provision of Employees with special clothes, special shoes and other personal protective equipment, approved by Decree of the Ministry of Health and Social Development of July 1, 2009 No. 290n. Special clothes that have useful lives more than 12 months are reflected on the balance sheet as a part of other non-current assets.

The Company creates the reserve for depreciation of inventories for the account of financial results.

## Deferred expenses

The principled approach established in the Company is to recognize incurred expense in the balance sheet and accounting as a part of deferred expense and its equating to the asset. This approach is based on the fact that the future economic benefits (temporary benefits) related to the asset and appraisal of the asset value is probable.

The Company has established that the balance of deferred expenses is recorded in the lines “Other non-current assets” and “Other current assets”.

For this purpose the distribution between section [I](consultantplus://offline/ref=F5A6540AE332EE6105F7A1F0C006A5B27AC953EA102D03F001128670428EC11AB951191D640680C7O3OEG) and section [II](consultantplus://offline/ref=F5A6540AE332EE6105F7A1F0C006A5B27AC953EA102D03F001128670428EC11AB951191D640680C0O3O1G) of the balance sheet occurs on the basis of repayment period of the relevant expenses, i.e. the expenses where the repayment period is more than 12 months are to be recorded in the section I of the balance sheet and the other expenses are to be recorded in the section II.

## Financial investments

Accounting for financial investments is kept by the Company in accordance with the Accounting Regulation 19/02 *“Accounting for financial investments”,* approved by Order of the Ministry of Finance of the Russian Federation No. 126n of December 10, 2002.

Contributions to charter capitals of other organizations are recognized by the financial investments of the organization and recorded in accounting in the amount of actual expenses of the investor, i.e. according to the cost of assets entered against contribution in which the assets were recorded on the balance sheet.

Financial investments in which the current market value is not determined are subject to reflection in accounting and accounting statements at original cost as of reporting date (Clause 21, Accounting Regulation 19/02).

Financial investments in which the current market value is determined are subject to reflection in the accounting statements at the current market value at the end of the reporting period by means of adjustment of evaluation of investments for the previous reporting date (Clause 20, Accounting Regulation 19/02).

Debt securities are reflected at historical cost. Difference between nominal value of acquisition and nominal value of the securities is to be included in other revenues and expenses.

## Borrowings and loans

Accounting for borrowings and loans is kept by the Company in accordance with the Accounting Regulation 15/2008 *“Accounting for borrowings and loans”,* approved by Order of the Ministry of Finance of the Russian Federation No. 107n of October 6, 2008.

## Estimated liabilities

Accounting for estimated liabilities is kept by the Company in accordance with the Accounting Regulation 8/2010 *“Estimated liabilities, contingent liabilities and contingent assets”,* approved by Order of the Ministry of Finance of the Russian Federation No. 167n of December 13, 2010.

## Deferred taxes

Accounting for deferred taxes is kept by the Company in accordance with the Accounting Regulation 18/02 *“Accounting for corporate income tax”,* approved by Order of the Ministry of Finance of the Russian Federation No. 114n of November 19, 2002.

The amounts of deferred tax asset and liability are to be reflected in expanded form on the balance sheet during the preparation of the accounting statements.

## Revenue and other income

Accounting for revenue and other income is kept by the Company in accordance with the Accounting Regulation 9/99 *“Organization's income”,* approved by Order of the Ministry of Finance of the Russian Federation No. 32n of May 6, 1999.

Revenue is recognized in accounting of the Company, provided that the following conditions are met:

1. The organization has the right to receive revenue under the specific contract or it should be confirmed by other appropriate means;
2. The amount of revenue is to be defined;
3. There is confidence that there will be increase in economic benefits of the organization as a result of the concrete operation. There is confidence that there will be increase in economic benefits of the organization as a result of the concrete operation when the organization receives an asset in payment or there is no uncertainty about receipt of an asset;
4. If the ownership (possession, use and control) of production (goods) was transferred from the organization to the buyer or the work was accepted by the client (the service was provided);
5. Expenses that were incurred or will be incurred due to this operation may be identified.

Receipts related to the equity interest in other organizations; receipts from sale of fixed assets and other assets; fines, penalties and forfeitures for the breach of contract terms and conditions; receiving of assets without compensation; profit for past years; amounts of accounts payable for which the statute of limitations has expired; exchange differences and other income are the other income of the Company in accordance with the Clause 7, Accounting Regulation 9/99.

Other revenues are recorded in the statement of financial results less the expenses related to these revenues, in case that:

* Corresponding rules of accounting require and do not prohibit such recognition of revenues;
* Revenues and expenses related to them, as a result of one and the same or similar business activity (such as assignment for temporary use (temporary possession and use) of own assets) are not essential for financial characteristics of the Company.

## Cost of goods sold, production, works, services, selling costs, administrative expenses and other expenses

Accounting for expenses is kept by the Company in accordance with the Accounting Regulation 10/99 *“Organization's expenses”,* approved by Order of the Ministry of Finance of the Russian Federation No. 33n of May 6, 1999. General business expenses are fully recognized in the cost of goods sold and services in the reporting period and distribution by types of activities is carried out in proportion to the revenue.

Administrative expenses are recorded in the account 26 “General business expenses” showing individual cost centers and nomenclature. Administrative expenses are recorded in the statement of financial results in the line “Administrative expenses”.

## Government assistance

Accounting for funds received under government assistance is kept by the Company in accordance with the Accounting Regulation 13/2000 *“Accounting for government assistance”*, approved by Order of the Ministry of Finance of the Russian Federation No. 92n of December 16, 2000.

## Associates and affiliates

Information on associates and affiliates is disclosed by the Company in accordance with the Accounting Regulation 11/2008 *“Information on associates and affiliates”*, approved by Order of the Ministry of Finance of the Russian Federation No. 48n of April 29, 2008.

## Information on segments

Information on segments is disclosed by the Company in accordance with the Accounting Regulation 12/2010 *“Information on segments”,* approved by Order of the Ministry of Finance of the Russian Federation No. 143n of November 8, 2010.

## Cash flow information

Cash flow information is disclosed by the Company in accordance with the Accounting Regulation 23/2011 *“Statement of cash flows”,* approved by Order of the Ministry of Finance of the Russian Federation No. 11n of February 2, 2011.

# CHANGES IN ACCOUNTING POLICIES IN 2020

In 2020, some amendments were introduced to the Accounting Policies by the Company on accounting of deferred taxes due to the entry into force of the new RAS 18/02 “Accounting for Corporate Income Tax” as amended since January 1, 2020, namely the Company has reflected the corresponding differences arising from revaluation of fixed assets and reserves for estimated liabilities as a part of temporary differences resulting in formation of deferred tax. In accordance with the Clause 14,15 of RAS 1/2008, recalculation was performed retrospectively out of balance sheet line code 1370 “Accumulated Profit” and 1340 “Revaluation of Non-Current Assets”.

Changes in comparative indicators as a result of this change in the accounting policy are presented in Clause 5 of the present Notes.

# CHANGES IN ACCOUNTING POLICIES IN 2021

The accounting policy for 2021 is amended related to the entry into force of the Order of the Ministry of Finance of Russia dated November 15, 2019 No. 180n Federal Accounting Standard FAS 5/2019 *"Inventories".*

The Company is in the phase of final evaluation of the amounts that have an impact on indications of Accounting (Financial) Statements as of January 1, 2021.

This change of RAS will be recorded in the accounting (financial) statements for the first quarter of 2021 and will lead to the changes in comparative indicators for the periods prior to reporting period if appropriate.

# ADJUSTMENTS AND OTHER CHANGES IN ACCOUNTING RELATED TO THE PRIOR PERIODS

As a result of the introduction of the new RAS 18/02 “Accounting for Corporate Income Tax” as amended, the following adjustments have been introduced by the Company to the Balance Sheet as of December 31, 2019 and December 31, 2018 and the Statement of Financial Results for 2019:

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance Sheet line code as of December 31, 2019** | **Before adjustment** | **Adjustment** | **After adjustment** |
| 1180 Deferred tax assets | 792,989 | 95,368 | 888,357 |
| 1100 Total section I | 64,635,283 | 95,368 | 64,730,651 |
| 1600 Balance | 76,231,919 | 95,368 | 76,327,287 |
| 1370 Retained Earnings (uncovered losses) | 359,366 | (642,745) | (283,379) |
| 1371 Retained Earnings (uncovered losses) for past years | (2,068,645) | (718,417) | (2,787,062) |
| 1372 Retained Earnings (uncovered losses) of the reporting period | 2,428,011 | 75,672 | 2,503,683 |
| 1300 Total section III | 40,609,886 | (642,745) | 39,967,141 |
| 1420 Deferred tax liabilities | 1,133,763 | 738,113 | 1,871,876 |
| 1400 Total section IV | 21,728,257 | 738,113 | 22,466,370 |
| 1700 Balance | 76,231,919 | 95,368 | 76,327,287 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance Sheet line code as of December 31, 2018** | **Before adjustment** | **Adjustment** | **After adjustment** |
| 1180 Deferred tax assets | 764,948 | 92,980 | 857,928 |
| 1100 Total section I | 63,613,935 | 92,980 | 63,706,915 |
| 1600 Balance | 75,908,815 | 92,980 | 76,001,795 |
| 1340 Revaluation of non-current assets | 10,736,476 | (862,562) | 9,873,914 |
| 1370 Retained Earnings (uncovered losses) | (12,654,441) | 144,145 | (12,510,296) |
| 1371 Retained Earnings (uncovered losses) for past years | (12,805,639) | 89,236 | (12,716,403) |
| 1372 Retained Earnings (uncovered losses) of the reporting period | 151,198 | 54,909 | 206,107 |
| 1300 Total Section III | 35,238,546 | (718,417) | 34,520,129 |
| 1420 Deferred tax liabilities | 438,719 | 811,397 | 1,250,116 |
| 1400 Total section IV | 14,970,633 | 811,397 | 15,782,030 |
| 1700 Balance | 75,908,815 | 92,980 | 76,001,795 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Line code of Statements of financial results for 2019** | **Before adjustment** | **Adjustment** | **After adjustment** |
| 2410 Income tax | (1,381,791) | 75,672 | (1,306,119) |
| 2412 Deferred income tax | (654,559) | 75,672 | (578,887) |
| 2400 Net profit (loss) | 2,428,011 | 75,672 | 2,503,683 |
| 2500 Сomprehensive financial result for the period | 2,428,011 | 75,672 | 2,503,683 |

The adjustments have been introduced to the expalnations of the Notes to compare data in accordance with the above-mentioned information.

Due to the reflected changes, the amount of basic and diluted earnings per share for 2019 was 8,0373 thousand rubles.

# INFORMATION DISCLOSURE ON SPECIFIC INDICATIONS OF ACCOUNTING STATEMENTS FOR 2020

## Fixed assets

Real estate assets accepted for operation and in use undergoing the state registration are recorded in the account 01.06 “Real estate assets the ownership of which is not registered”. As of December 31, 2020 the original value of the real estate assets accepted for operation and in use undergoing the state registration amounted to 3,385,515 thousand rubles

Fixed assets under the agreements providing for fulfilment of obligations by non-monetary assets were missing for the period from January 1 to December 31, 2020.

Information on fixed asset groups, change in value and usage are specified in Appendices 5.3.1; 5.3.3; 5.3.4.

### Capital investments in progress

Amount of advances and advance payment of services related to the construction and purchase of fixed assets without VAT; raw materials intended to be used for the purpose of creation of fixed assets are recorded on the balance sheet of the Company as capital investments in-progress. As of December 31, 2020 the amount of advances and advance payment of services related to the construction and purchase of fixed assets amounted to 96,451 thousand rubles, VAT from advances and advance payment of services related to the construction and purchase of fixed assets is recorded in the line 1260 “Other current assets” in the amount of 18,955 thousand rubles. As of December 31, 2020 the amount of raw materials intended to be used for the purpose of creation of fixed assets amounted to 802,561 thousand rubles.

Information on the presence and flow of construction in progress assets is disclosed in Appendix 5.3.5.

### Fixed assets received for lease

There are no fixed assets received for lease in the current reporting period. In the coming period lease payments are not planned.

## Other non-current and current assets

As of December 31, 2020, deferred expenses amounted to 262,634 thousand rubles depending of the date of write-off, fixed as of the date of acceptance for recording. These expenses are recorded on the balance sheet:

1. Non-exclusive rights for computer software:

* Useful life more than 12 months (line 1190) amounted to 149,362 thousand rubles;
* Useful life during 12 months (line 1260) amounted to 112,341 thousand rubles.

1. Other:

* Useful life more than 12 months (line 1190) amounted to 728 thousand rubles;
* Useful life during 12 months (line 1260) amounted to 203 thousand rubles.

Cost of special clothes with useful lives more than 12 months in the amount of 103,885 thousand rubles is recorded in the line 1190 as a part of non-current assets.

The amount of VAT from advances received amounted to 721,071 thousand rubles is recorded in the line 1260 as a part other current assets.

## Financial investments

The analysis of financial investments of PJSC Rosseti Kuban for the presence of impairment indicators was conducted as of December 31, 2020.

As a result of reserve for decrease in financial investments was restored in the amount of 100 thousand rubles and accrued in the amount of 7,571 thousand rubles. Information on the presence and flow of financial investments is disclosed in Appendices 5.4.1 and 5.4.2.

## Government assistance

The decision was made by the Territorial authorities of Social Insurance Fund of the Russian Federation (SIF RF) concerning the funding for preventive measures to reduce occupational injuries.

Information is disclosed in Appendix 5.9

## Equity and reserves

At the beginning of 2020 the charter capital of the Company amounted to 30,379,335,000 rubles and consist of 303,793,350 ordinary shares at par value of 100 (one hundred) rubles per share.

On July 15, 2020, the official registration of amendments to the Articles of Association of the Company was carried out. After the increase, the amount of charter capital was 33,465,783,700 rubles.

Preferred shares did not issued by the Company.

Additional capital of the Company is formed as a result of paid-in capital in excess of par.

The company creates the capital reserve intended for loss coverage. These losses are not specifically defined but may occur in economic turnover. The capital reserve is created out of net profits of the Company.

## Accounts receivable

Information on the presence and flow of accounts receivable for the reporting period is disclosed in the Table 5.1. Notes to the balance sheet and statement of financial results are represented in a tabular format. Accounts receivable that is arisen and paid off in the one reporting period is not included in the turnover.

Table 7 – **Settlements with the budget**

(thousands of RUB)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Indication** | **Debt as of**  **December 31, 2019** | | **Accrued for**  **2020** | **Paid for 2020** | **Debt as of**  **December 31, 2020** | |
| **Debit** | **Credit** | **Debit** | **Credit** |
| VAT | – | 410,204 | 2,595,009 | 2,463,215 | – | 541,998 |
| Property tax | 721 | 173,812 | 665,807 | 676,544 | 20 | 162,374 |
| Income tax | 224 670 | – | 4,635 | 82,244 | 302,279 | – |
| Land charge | 857 | 1,102 | (22,273) | 5,409 | 28,601 | 1,164 |
| Personal income tax | 3 | 55,677 | 761,971 | 754,208 | 2 | 63,439 |
| Transport tax | – | 2,103 | 8,492 | 8,514 | – | 2,081 |
| Other taxes and dues | 2 | – | 4 | – | – | 2 |
| **Total taxes** | **226,253** | **642,898** | **4,013,645** | **3,990,134** | **330,902** | **771,058** |
| Tax Penalties | 2 | – | (5,595) | 3 | 5,600 | – |
| Fines | 8,376 | – | (10,644) | 432 | 19,452 | – |
| **Total** | **234,631** | **642,898** | **3,997,406** | **3,990,569** | **355, 954** | **771,058** |

The amount of accounts receivable for taxes and dues is increased for 121,323 thousand rubles in 2020.

Accounts receivable related to the income tax was created in the amount of 302,279 thousand rubles due to the fact that advance payments (paid in 2020) had exceeded the amount of income tax, calculated for year results.

Accounts receivable on land value tax was created in the amount of 28,601 thousand rubles due to the reflection in the 4th quarter of 2020 of the judicial decision in favour of the Company which partially canceled the results of the offsite tax inspection for 2011-2012 on land value tax.

The increase of accounts receivable on fines in the amount of 11,076 thousand rubles, penalties in the amount of 5,598 thousand rubles mainly related to the reflection of reduced sanctions in accordance with the judicial decision in favour of the Company.

Table 8 – **Settlements for insurance contributions**

(thousands of RUB)

| **Indication** | **Debt as of**  **December 31, 2019** | | **Accrued for**  **2020** | **Paid for 2020** | **Debt as of**  **December 31, 2020** | |
| --- | --- | --- | --- | --- | --- | --- |
| **Debit** | **Credit** | **Debit** | **Credit** |
| **Insurance contributions − total** | **5,471** | **157,086** | **1,699,033** | **1,737,642** | **22,436** | **135,442** |
| **including:** |  |  |  |  |  |  |
| Pension contribution | 2 | 118,269 | 1,228,401 | 1,241,439 | 6 | 105,235 |
| Compulsory health insurance | 1 | 34,762 | 297,762 | 304,370 | – | 28,153 |
| Social insurance | 5,468 | 4, 055 | 172,870 | 191,833 | 22,430 | 2,054 |
| **Penalties − total** | **−** | **−** | **3** | **3** | **−** | **−** |
| **Fines − total** | **4** | **–** | **1** | **91** | **94** | **−** |
| **Total** | **5,475** | **157,086** | **1,699,037** | **1,737,736** | **22,530** | **135,442** |

Accounts receivable related to the insurance contributions increased by 17,055 thousand rubles in 2020. The growth was mainly driven by increasing in accounts receivable in respect of contributions to the Social Insurance Fund (by 16,962 thousand rubles) owing to the increase in expenses for temporary disability as a result of the spread of a new coronavirus infection in 2020 as well as indexation of allowances in the amount of 1,030 from February 2020.

Table 9 – **Allocation of taxes, penalties and fines according to the levels of budget**

(thousands of RUB)

| **Indication** | **Debt as of**  **December 31, 2019** | | **Accrued for 2020** | **Paid for 2020** | **Debt as of**  **December 31, 2020** | |
| --- | --- | --- | --- | --- | --- | --- |
| **Debit** | **Credit** | **Debit** | **Credit** |
| **Taxes – total** | **226,253** | **642,898** | **4,013,645** | **3,990,134** | **330,902** | **771,058** |
| Federal budget | 18,352 | 465,885 | 3,357,686 | 3,278,943 | 79,163 | 605,439 |
| Regional tax, national tax | 207,040 | 175,912 | 678,230 | 705,785 | 223,138 | 164,455 |
| Local tax | 861 | 1,101 | (22,271) | 5,406 | 28,601 | 1,164 |
| **Penalties – total** | **2** | **−** | **(5,595)** | **3** | **5,600** | **−** |
| Federal budget | 1 | − | 3 | 3 | 1 | − |
| Regional tax, national tax | − | − | − | − | − | − |
| Local tax | 1 | − | (5,598) | − | 5,599 | − |
| **Fines – total** | **8,376** | **–** | **(10,644)** | **432** | **19,452** | **−** |
| Federal budget | 8,106 | – | (1,562) | 20 | 9,688 | − |
| Regional tax, national tax | 258 | – | (2,536) | 408 | 3,202 | − |
| Local tax | 12 | − | (6,546) | 4 | 6,562 | − |
| **Total** | **234,631** | **642,898** | **3,997,406** | **3,990,569** | **355,954** | **771,058** |

Accounts receivable of buyers and clients, other accounts receivable are disclosed in Appendices 5.6.1-5.6.3.

## Accounts payable, loans and borrowings

Information on the presence and flow of accounts payable for the reporting period is disclosed in the Table 5.3. Notes to the balance sheet and statement of financial results are represented in a tabular format. Accounts payable that is arisen and paid off in the one reporting period is not included in the turnover.

The amount of accounts payable for tax payments increased by 128,160 thousand rubles.

There was a considerable increase in accounts payable related to the value added tax. Accounts payable related to the value added tax increased for 131,794 thousand rubles due to the fact that VAT charges for the fourth quarter (Q4) 2020 in the amount of 522,724 thousand rubles had exceeded the VAT charges in the amount of 465,496 thousand rubles for the fourth quarter (Q4) 2019.

In 2020, accounts payable related to the insurance contributions decreased by 21,644 thousand rubles, including the pension contributions by 13,034 thousand rubles, contributions to the compulsory medical insurance funds by 6,609 thousand rubles. This change was driven by a decrease in the amount of accruals in December 2020 versus the amount of accruals in December 2019.

Table 10 – **Amounts and repayment periods of borrowings and loans of PJSC Rosseti Kuban as of December 31, 2020**

(thousands of RUB)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name of the bank** | **No. of loan agreement** | **The amount of the actual debt** | **Interest debt** | **Repayment period** |
| PJSC Rosseti | 5736 | **–** | 17,626 | Less than 1 month |
| PJSC Rosseti | 5781 | 5,400,000 | 136,240 | Less than 7 months |
| **Total line 1510** | **–** | **5,400,000** | **153,866** | **–** |
| Bank GPB (JSC) | No. 0719-030-0000-К | 1,000,000 | **–** | Above 1.5 years |
| Bank GPB (JSC) | No. 0719-031-0000-К | 1,000,000 | **–** | Above 1.5 years |
| Bank GPB (JSC) | No. 0719-120-0000-К | 3,000,000 | **–** | Above 2 years |
| Bank GPB (JSC) | No.0719-048-0000-ГС | 1,500,000 | **–** | Above 2 years |
| Bank GPB (JSC) | No.0719-049-0000-ГС | 1,575,000 | **–** | Above 2 years |
| Bank GPB (JSC) | No 0719-050-0000-ГС | 1,187,500 | **–** | Above 2 years |
| Bank "RRDB"( JSC) | 374ю | 1,000,000 | **–** | Above 2 years |
| Bank "RRDB"( JSC) | 375ю | 1,320,422 | **–** | Above 2 years |
| Bank "RRDB"( JSC) | 376ю | 2,000,000 | **–** | Above 2 years |
| PJSC PS Bank (Promsvyazbank) | No. 0089-20-3-15 | 1,900,000 | **–** | Above 2 years |
| JSC SMP Bank | 08-22-2020/КЛ | 1,000,000 | **–** | Above 2 years |
| PJSC Rosseti | 5736 | 1,400,000 | **–** | Above 4 years |
| **Total line 1410** | **–** | **17,882,922** | **–** | **–** |

Interest rates for debt portfolio of the Company have been formed in the range of 5.68% to 7.07% per annum as of December 31, 2020.

Information is disclosed in Appendices 5.6.5-5.6.8.

### Securing obligations

### 

As of December 31, 2020, the amount of bank guarantees received to insure the fulfilment of obligations under the contractor agreements/supply and repayment (return of advances) amounted to 549,394 thousand rubles on the off-balance sheet item 008 “Fulfilment of obligations and payments received” (Appendix 5.8.). Pledged property under the agreement for purchase and sale of apartments amounted to 107 thousand rubles (Appendix 5.8.).

### Information on opportunities of the Company to raise additional cash as of reporting date

Table 11 – **Unused credit facilities by the Company**

(thousands of RUB)

|  |  |  |  |
| --- | --- | --- | --- |
| **Creditor bank** | **Name and date of the contract** | **Amount of unutilized limit** | **Termination date of drawdown** |
| PAO Sberbank | No. 5400/380 of September 25, 2017 | 3,000,000 | September 23, 2022 |
| PAO Sberbank | No. 5400/449 of July 9, 2018 | 2,000,000 | July 8, 2023 |
| PAO Sberbank | No. 5400/634 of November 18, 2019 | 2,000,000 | November 16, 2024 |
| PAO Sberbank | No. 5400/635 of November 18, 2019 | 2,000,000 | November 16, 2024 |
| PAO Sberbank | No. 5400/695 of September 17, 2020 | 1,500,000 | September 16, 2025 |
| PAO Sberbank | No. 5400/696 of September 17, 2020 | 2,000,000 | September 16, 2025 |
| VTB Bank (PJSC) | No. КС-30750/0001/В-19 of March 29, 2019 | 1,000,000 | March 27, 2021 |
| VTB Bank (PJSC) | No. КС-30750/0002/В-19 of March 29, 2019 | 1,300,000 | March 27, 2021 |
| VTB Bank (PJSC) | No. КС-30750/0003/В-19 of March 29, 2019 | 1,400,000 | March 27, 2021 |
| VTB Bank (PJSC) | No. КС-30750/0004/В-19 of April 22, 2019 | 1,300,000 | April 21, 2021 |
| VTB Bank (PJSC) | No. КС-30750/0007/В-20 of August 20, 2020 | 1,425,000 | July 20, 2025 |
| VTB Bank (PJSC) | No. КС-30750/0008/В-20 of August 20, 2020 | 1,575,000 | July 20, 2025 |
| VTB Bank (PJSC) | No. КС-30750/0009/В-20 of August 20, 2020 | 1,575,000 | July 20, 2025 |
| VTB Bank (PJSC) | No. КС-30750/0013/В-20 of August 31, 2020 | 1,500,000 | July 31, 2025 |
| VTB Bank (PJSC) | No. КС-30750/0010/В-20 of August 31, 2020 | 1,575,000 | July 31, 2025 |
| VTB Bank (PJSC) | No. КС-30750/0014/В-20 of August 31, 2020 | 1,575,000 | July 31, 2025 |
| VTB Bank (PJSC) | No. КС-30750/0012/В-20 of August 31, 2020 | 1,850,000 | July 31, 2025 |
| VTB Bank (PJSC) | No. КС-30750/0011/В-20 of August 31, 2020 | 2,000,000 | July 31, 2025 |
| Bank "RRDB"(JSC) | No. 355ю of November 6, 2018 | 1,261,000 | May 5, 2023 |
| Bank "RRDB"(JSC) | No. 356ю of November 6, 2018 | 1,261,000 | May 5, 2023 |
| Bank "RRDB"(JSC) | No. 357ю of November 6, 2018 | 1,261,000 | May 5, 2023 |
| Bank "RRDB"(JSC) | No. 369ю of December 11, 2019 | 1,000,000 | June 11, 2024 |
| Bank "RRDB"(JSC) | No. 375ю of April 29, 2020 | 179,578 | April 29, 2025 |
| Bank "RRDB"(JSC) | No. 379ю of August 25, 2020 | 1,575,000 | February 25, 2025 |

Available credit limits are opened up by the Company which makes it possible to refund borrowings subject to prompt repayment in 2020. As of December 31, 2020 the total amount of credit limit with termination of drawdown period in 2021-2025 amounted to 37,112,578 thousand rubles, including in the amount of 12,500 000 thousand rubles – in PAO Sberbank, in the amount of 6,537,578 thousand rubles - in Bank “RRDB” (JSC), in the amount of 18,075,000 thousand rubles – in VTB Bank (PJSC).

## Information on risks of business activity

Internal Control Policy and Risk Management Policy are approved by the Board of Directors of the Company (Minutes No. 233/2016 of March 18, 2016), the main objective of which is to recognize and ensure the fulfilment of prevention measures intended to minimize the risks (control procedures) according to the deadlines, with the purpose of reducing the probability of financial and other losses that have an impact on achieving goals of the Company. There are specific core principles in regards to risk management:

1. Creation and protection of values of the Company (risk management contributes to achievement of the goals, performance improvement, maintaining health and human safety, maintaining security for all types of Company’s operations, observation of statutory and regulatory requirements, environment control, improvement of quality of services, operational efficiency, management and company image);
2. Risk management is an integral part of all organizational processes (risk management is not a separate activity that is separated from the core activity and operations of the company; risk management is a part of management commitment including the strategic planning, processes of project management and adjustments);
3. Risk management is a part of decision making procedure;
4. Risk management is a systematic, structured and well timed process;
5. Risk management is based on the best available information;
6. Risk management should be transparent , all-inclusive and respect the interests of concerned parties;
7. Risk management should be dynamic, repeated and adaptable to changes;
8. Risk management contributes to the permanent improvement of the company;
9. Responsibility for risk management – all participants of risk management are responsible for recognition, evaluation, analysis and continuous monitoring of risks as a part of its activities, development and implementation of necessary measures for risk management and continuous monitoring the efficiency of measures for risk management.
10. Principle of optimality is analyzed as relation of costs relating to the implementation of measures for risk management and the impact of the implementation of these measures, including the compliance of degree of complexity of risk management with the importance of the object subject to examination depending of risks.
11. The unity of methodological framework. Risk management (recognition, evaluation, analysis and monitoring of risks, development and monitoring the efficiency of measures for risk management) is carried out on the basis of approaches and standards common to all structural units of the Company.

The Company carries out collection and analysis of information characterizing the external and internal factors that have a negative impact on achieving goals of the Company every three months. The Company has developed and fulfills the measures in order to minimize the consequence of risk realization. These measures are focused on preventing the negative effects. At the same time political and economic factors have an impact on the activity of PJSC Rosseti Kuban. Because of these factors the Company can’t guarantee that the measures intended to prevent the probability of negative effects will be able to remedy the situation, because these risk factors are out of the Company’s control.

**Industry risks**

***Risks in the sphere of tariff setting for electric power transmission***

*Risks of tariff setting that do not cover the full economically justified expenditures*

In connection with the limitation of tariff growth for services for electric power transmission to the ultimate consumers at the Russian Federation government level, there is a high probability that published tariffs will not cover the full economically justified expenditures for electric power transmission. To prevent and mitigate the consequences of realization those risks, the Company shall cooperate with the Regulatory Authorities, justify and confirm the expenditures of its activities. Therefore, the Company maintains its position about necessity of accounting for economically justified expenditures in its entirety, being the power provider for Krasnodar Region and the Republic of Adygeya and also forms and sends the disputes to the Federal Antimonopoly Service of the Russian Federation

*The risk of increased costs for electric power transmission services of other network organizations*

Under the conditions of limited tariff growth, the regional regulator accepts significant revenue growth for individual network organizations by reducing (or unchanged) revenue from some network organizations in favor of an increase in other network organizations

The subjective approach of the regional regulator to the distribution of the network component among network organizations in the regions where it operates, the absence of revision of tariff decisions for individual network organizations during several regulatory periods, the inclusion of the investment component for individual network organizations, or as a result of enforcement of instructions of the Federal Antimonopoly Service of the Russian Federation (FAS Russia) and court decisions may lead to the realization of risk.

The risk is assessed by the Company as significant with an average level of consequences from implementation. In order to minimize this risk and mitigate the consequences of its implementation, the Company provides the Regional Energy Commission - Prices and Rates Department of Krasnodar Region with supporting materials conforming the level of economically justified expenditures as well as maintaining its position about necessity of breakthrough growth of the Company’s expenditures, being the power provider for Krasnodar Region and the Republic of Adygeya.

*The risk of an increase in the price of electricity purchased with the purpose of compensation for losses*

Free pricing in the wholesale energy market (capacity), where the purchase of electric energy (capacity) is carried out in order to compensate for the technological expenses (losses) for electric power during the electric power transmission through the networks is a factor for the realization of this risk. If the risk is realized, there may be a change in the value of net profit, the total volume of uncontrolled expenses, the debt load, cost value of servicing raised funds. In order to minimize this risk and mitigate the consequences of its implementation, the shortfall in revenue in excess of the weighted average uncontrolled price of the wholesale electricity and capacity market on actual basis in relation to the accepted in the tariff balance decisions is claimed by the regulator for compensation in the future period of regulation.

***Risks in the sphere of electric power transmission***

*Risk of reducing the volume of services for transmission of energy*

Volume reduction of electrical energy consumption may be driven by the impact of such external factor as economic crises and the decline in output of goods, the construction by consumers of their own generation, weather anomalies, industrial accidents, man-made disasters, a pandemic and the observance of quarantine regime by both individuals and legal entities. Potential influence of these factors may influence on reducing the volume of services for transmission of energy, and therefore, revenue reduction of the Company. At present, the risk is assessed as significant.

However, in connection with the economic development of the region in which the Company operates, in recent years there has been a dynamic of increase in volume of electrical energy consumption. The Company monitors the current and predictive economic situation in the region and in the whole country, conducts preparatory works for proper power equipment functioning in the appropriate seasons of the year, performs maintenance and repair of power facilities.

***Risks of tariff setting on implementation of services for technological connection***

The Company is subject to the risk of scarcity of source of funding of events under the contracts on implementation of technological connection due to approving by regulating authority of rates of the charge for technological connection below the economically justified level. One of the factors of this risks arising is introduction of amendments to legislation of the Russian Federation (Federal Law of March 26, 2003 No. 35-FZ “On Electric Power Industry”) on excluding of power receivers of maximum capacity 150 kW from paying for technological connection, investment component to pay off expenses for construction of electric grid facilities (from October 1, 2015 – no more than 50% from amount of specified expenditures, from October 1, 2017 – excluding this expenditures from paying for technological connection).

To minimize the risk, the Company cooperates with tariffs regulatory authorities, forms correct scope of obligations under the technological connection agreements, elaborates design documentation on scope of obligations on technological connection agreements, provides the Regulatory Authorities with supporting materials conforming economic justification of the level of rates of the charge for technological connection.

Risk of antimonopoly legislation is estimated by Company as moderate. The reason of the risk implementation may become nonfulfillment of the Company’s obligations on technological connection on the signed agreements (because of scarcity of funds and a considerable number of agreements on technological connection).

***Operational risks***

In the process of its activity the Issuer is exposed to risks associated with physical deterioration, abuse and critical changes in the parameters of the equipment.

The main ones are:

1) deterioration of performance and economic indicators of electric equipment;

2) threat of failures with partial or full undersupply of electricity with corresponding negative social consequences;

3) failure to comply with the obligations under the contracts for the provision of electricity transmission services;

4) negative environmental effects.

In order to decrease the risk of the group the issuer takes the following steps:

1) scheduled repair and maintenance of equipment

2) technical re-equipment, reconstruction and new construction

3) regular optimization of structure and amount of components and spare parts in reserve and other

4) providing of industrial security and manufacturing control.

The company assesses the level of risk above the average and believes that the negative factors will not materially affect its activities and performance of obligations on its securities.

***Price risks***

Provision of electricity transmission services includes as well the purchase of raw materials, services, equipment and other materials used by the Company in its operations. The price increase is mainly explained by inflationary pressures and the impact of macroeconomic factors. During the economic instability the risk of augmentation of cost for goods, works and services used by the Company increases. However, macroeconomic factors, including inflation, are now stabilizing. Thus, price risks are assessed as low.

In order to minimize these risks, the Company uses the position of a large consumer and purchases the material and technical resources, and selects the service providers through competitive and regulated procurements.

**Risks of financial loss owing to external and political situations and regional risks**

Risks associated with adverse weather conditions which may lead to technological disturbances.

Sudden changes of regional scale (ecological, political, demographic, social) are unlikely, but their emergence will certainly affect the Issuer's activities. Taking into consideration the sufficient level of development of the transport infrastructure of the region, the risks of termination of transport communication due to inaccessibility and farness are minimal.

In the Company’s opinion, the situation in the region will have a favorable effect on the Issuer’s activity; there is no reason to expect that a change of the situation in the region will entail the Issuer’s failure to fulfil its liabilities.

The actual value for achieving the reliability indicator of electric power transmission services in indicative terms did not exceed the planned values. The risk is assessed as "moderate." To identify the causes of major technological disturbances (accidents), accident investigations are organized in accordance with the requirements of the Decree of the Government of the Russian Federation of October 28, 2009 No. 846 "On Approval of the Rules for Investigating the Causes of Accidents in the Electric Power Industry ". Based on the results of investigations, emergency prevention measures are being developed in order to minimize the consequences of the realization of the risk and henceforth prevent the occurrence of similar cases and cover the above mentioned factors..

***Risks associated with the political and economic situation in the country and region***

The indicators of economic progress in the regions where the Company operates (Krasnodar Region and the Republic of Adygeya) are stable for several years; these regions are attractive for investments.

The worsening of economic and political situation in the country and the region under the influence of external factors (including sanctions) are main risks for the Company. Since the Company operates only on internal market, government of the Russian Federation develops programmes on import substitution including in regions where the Company operates, it leads to increasing of amount of electric energy consumption. Increasing of energy efficiency and adoption of energy-efficient technologies are development priorities of economics.

In the event of significant political instability, which can negatively affect the operations and earnings, the Issuer takes measures of crisis management, reduces as much as possible the expenses, and investment plans.

Additionally, there are risks associated with military conflicts, introduction of a state of emergency, natural disasters that may have consequences as follows:

* deterioration of the whole national economy status and, consequently, of the Issuer’s financial status;
* damage to Company property that may negatively affect its ability to timely and fully fulfil its liabilities to consumers and counterparties.

The regions where the Company operates are politically stable with the risk of a military conflict or a state of emergency occurrence there due to internal causes being minimal. The Company has elaborated and is carrying out target arrangements for protection of the Company’s energy facilities against subversive or terrorist acts. The Company established a permanent working group on combating terrorism in the power distribution facilities in the region. Besides, cooperation with law enforcement authorities is carried out. To compensate for damage of the effect of emergency circumstances associated, inter alia, with natural disasters, the Company concludes property insurance contracts.

**Financial risks**

***Risk of an increase in inflation***

The current inflation level cannot have a significant effect on the financial status of the Company. The Ministry of Economic Development of the Russian Federation has reviewed the Macroeconomic forecast related to the inflation rate for 2019-2022 in favor of its reduction against the background of forthcoming deceleration of consumer demand level, caused by the loan cycle. According to the data of the Federal State Statistics Service, the rate of the annual inflation amounted to 3 percent based on the results of 2020. However, because of pandemic and observance of quarantine by economic entities, according to the Bank of Russia’s forecast, inflation will reach 4,9 percent according to the results of 2020 and will stand close to 4 percent later on. Nevertheless, for minimization of financial risks associated with inflation processes and affecting the financial results of activity, the Company is implementing an integrated programme for analysis of financial risks, planning and appraisal of actual profitability of activity; one identifies return rate indices that are indicative of the Company’s level of cost-efficiency, normative values of financial coefficients characterizing the Company’s solvency and liquidity, which enable one to promptly detect drawbacks in the Company’s work and take measures for their elimination. As well as in accordance with Decree of the Government of the Russian Federation of December 29, 2011 No. 1178 “On price formation in sphere of regulated prices (tariffs) in power industry” when regulating electricity tariffs inflation level should be taken into consideration (consumer price index), that was defined in the prognosis of social and economic development of the Russian Federation. Thus, the Company considers these risks as moderate.

***The risk of an increase in interest rates on credits and loans***

The Company attracts short-term and long-term borrowings from the Russian financial market. Since Company operates in the Russian Federation, inflation growth in the Russian Federation is one of the factors of overall growth of interest rates. Significant increase in interest rates on loans and borrowings can lead to debt service increase. But nowadays because of low level of inflation and regular decline in key rate, the risk of rising interest rates on loans is estimated as low (there has been a consistent decline in the interest rate from 11 percent per annum to 4.25 percent per annum versus the similar period of 2016). To manage this risk, the Company optimizes the debt portfolio structure and reduces its servicing costs. Thus, the average interest rate of the Company amounted to 6.2 percent at planned value of 8 percent based on the results of 2020. Besides, the Company strains after use of loans and borrowings with the fixed interest rate. The Company’s supposed actions in the event of negative effect of interest rates change on one’s activity: attraction of longer-term loans to avoid negative effect of interest rates short-term fluctuations and diversify funding sources.

***Risk of changes of foreign currencies exchange rates***

Carrying out its core business activity within the territory of the Russian Federation, the Company has neither investment into foreign companies which value of net assets is exposed to the risk of currency exchange rates fluctuations, nor revenues or expenses expressed in terms of foreign currency. Risks connected with exchange rate fluctuations, are not factors of direct impact on the financial and economic activities of the Company, but may lead to augmentation of prices for energy equipment. In spite of volatility and weakening of a national currency in the 1st-3rd quarters of 2020 and ruble appreciation in the 4th quarter of 2020, the Company estimates the risk as moderate. In order to mitigate the Company’s risk, the macroeconomic situation is monitored and procurement planning and import substitution are carried out. In case of a further weakening of the national currency the issuer plans to analyse the risks and make appropriate decisions in each particular situation.

***Risk of reducing the customer prices***

Changes in the consumer price index to some extent affect the Company’s rate of return and one’s financial and business activity results, but their effect is not a direct dependence factor. Indirect dependence of the Company’s rate of return on changes of the consumer price index is mainly conditioned by the fact that tariffs for services for transmission of electric energy cross electric power grids are established by state tariff bodies on the basis of justified expenses on their provision and fully or partially compensate for growth of the Company’s expenses associated with inflation. Due to the decreasing of inflation rate, the risk is evaluated as moderate.

The occurrence of these financial risks can have an impact on the Company’s financial statements. The indicator which is most affected in the Company’s statements is the index of accounts receivable arising from the inability of counterparties to pay for services of the Company. The deterioration of the economic situation in Russia may affect the growth of the cost of electricity transmission through electric grids of the Company, which, while maintaining the established tariffs will reduce the profits. To reduce this risk, the Company carries out the work on the management of debt receivable directed to optimization of its amount and repayment of debts.

**Legal risks**

***Risks associated with tax and environmental legislation and customs and currency regulation***

Since no special taxation mode is applicable to the Company’s activity and the Company has no overdue tax and levy indebtedness to budgets of all levels, the Company’s tax risks are considered as the minimum within the framework of a conscientious taxpayer’s activity.

In the shorter term, the Company does not foresee emergence of any significant risks in its financial and business activity associated with changes in tax and civil legislation.

Changes of currency and customs legislation of the Russian Federation are of no relevance for the Company’s activity and, consequently, do not entail emergence of legal risks.

The Company holds licenсes for certain activities. The Company carries out regular work for prolongation of the licenses necessary for conduction of its business activity. The Company’s exposure to the above risk may be considered insignificant. In case of change of requirements and/or making of demands on licensing of the basic kinds of activity, the Company will take necessary steps to obtain the appropriate licenses and permits. Risks connected with absence of possibility to extend the license of the Company are minimal and cannot influence on Company’s fulfillment of obligations on outstanding securities.

***The risk of performance of a judicial act (settlement of disputes) on debt collection for power transmission services not in favor of the Company***

The absence of documents conforming actual fulfillment of obligations on behalf of the Company, services and expenses incurred, including insufficient or poor quality of supporting materials, incoherence of activities of business units may lead to negative financial consequences for the Issuer when pronouncing judicial acts (settlement of disputes) on collection of debts for power transmission services not in favor of the Company, collection of court costs. The risk is estimated as moderate.

The Company participates in legal proceedings, the results of which may significantly affect its financial and economic activities. The Company continuously monitors litigation practice, which allows this information to be used to achieve positive judicial decisions in its favor. At present, changes in litigation practice that may negatively affect the results of the current legal processes involving the Issuer, and as a consequence, the results of the Company's economic activities, are not assumed.

***Impossibility of timely land registration (on high interest objects)***

The Company’s exposure to the risk of untimely land registration should be considered as inessential. The Company implements cooperation with government authorities of regional/republican/local significance, with rightholders of plots of land, as well as controlling the activities of contract organizations performing works on land registration.

In the event of change and/or presentation of claims, deliberate obstructiveness of registration of proprietary rights by the relevant agencies, incoherence of activities of the Company's employees, the Company will take the necessary measures to execute the relevant documentation. The risks of untimely land registration are minimal and cannot significantly affect the Company’s activities.

***Deliberate illegal acts on behalf of both legal entities and individuals, as well as on behalf of employees, causing economic damage and threat to the good name***

The Company monitors changes in the legislation of the Russian Federation, and cooperation has been established with law enforcement agencies. Preventive maintenance is performed with employees of the Company. The risk is assessed as significant.

***Engaging of employees in corrupt practices***

Violation and failure to comply with the requirements of the legislation of the Russian Federation, local regulatory legal acts and regulatory and administrative documents may lead to negative reputational consequences, as well as financial damage to the company. The Company maintains a high level of corporate culture and implementation of the Corruption Control Plan allows to form a negative attitude towards corruption behavior among the Company's management/employees.

**Reputational risk**

The risk that the Company incurs losses due to such factors as a reduction in the number of customers (counterparties) because of the formation of negative image of financial stability, the financial position of the issuer, the quality of the work, is considered as minimal. The Company is a natural monopoly, there is an annual increase in the number of electricity consumers. In addition, the Company developed good practice for long-term cooperation with its partners.

**Strategy risk**

The Company, being a part of the unified integrated distribution power grid of Russia, seeks to achieve the objectives defines at the national level. The Strategy for development of integrated power grid of the Russian Federation was approved by the Decree of the Government of the Russian Federation of April 3, 2013 No.511-p. Since the Company is a subsidiary of PJSC Rosseti, the largest Russian systemically important electric grid company, the Company is a participant in implementation of policies and programmes on activities (business processes) of PJSC Rosseti.

The decision to start the implementation of a specific strategy (programme) in the activities of the Company shall be accepted by the Board of Directors.

The probability of the risk of losses arising from errors (defects) made in management decisions, defining the strategy and activities of the Company, is assessed as low.

Measures to prevent the occurrence of this risk are:

* elaboration of proposals and scenarios to improve the implementation of specific policies and programmes;
* analysis of effectiveness of particular strategy, adoption of managerial solutions by the results of analysis;
* development and implementation of key performance indicators to achieve policies, linking them with bonuses of managers of the Company;
* continuous monitoring by the structural units of the Issuer's the ratio of the cost of implementing a specific strategy to the received profit and submission to the Board of Directors of the Company of the information for decision-making (including, by definition, the quantity and quality of resources).

**Risks connected with Company’s activity**

***Operational risks***

*Risks connected with the current legal trials*

The Company participates in legal trials the results of which can materially affect its financial and operational activities. PJSC Rosseti Kuban regularly monitors the judicial practice that allows to use this information for reaching positive judicial decision in its favor.

Currently there are no changes in judicial practice that can negatively affect at results of current trials and thus on the results of business activity of the Company.

*Risks connected with potential liability of the Issuer on debts of third parties including affiliates of the Company*

The Company has affiliate joint stock companies with owning of 100% shares in the authorized capital. As the parent Company for subsidiaries and affiliates, the Company can be responsible for their debts. These liabilities can negatively effect on results of financial and operational activities of the Issuer. The possibility of specified risks is evaluated as moderate.

*Risks connected with possibility of loss of customers that constitute at least 10% of total revenue from sales of products (work, services) of the Company*

The Company cooperates with main customers and is monopolist in sphere of services rendering on electric energy transmission in the regions of the Issuer’s activity. The possibility of loss of main customers is minimal.

Risks in manufacturing activity of the Company:

1. systematic interruption of power supply of customers in the result of accidents and disturbances at grid sections and substation equipment;
2. violation of requirements of GOST 31144-2013 on providing the quality of electric energy;
3. disturbance of regime of electric energy transmission and reducing of quality of rendered services;
4. non-implementation of maintenance (including diagnosis) and repair on time;
5. emergency situations in related networks, that can breakdown the equipment of the Company;
6. excessive losses of electric power.

To reduce these risks, the Company focuses on development of electric grid complex with using of science based engineering decisions and technologies, tested in operation, modern electric equipment.

Increasing of tariffs on rendered services by the Company, due to increasing of “external” expenses influence on risks: purchased electric energy on losses compensation, changing of amount of payment of services for electric energy transmission of “FGC UES” PJSC and other factors.

The risk of occupational injuries is measured as critical with high level of consequences from implementation and smoothed by ensuring occupational safety by way of:

* issuing certified, high-quality protective equipment, detergents and disinfectants, serviceable tools, devices and control of their correct use;
* implementing and using technologies ensuring safe performance of works and safe working conditions;
* compliance with the requirements of regulatory legal acts on maintenance, in the field of labor protection, fire, industrial and environmental safety, including in the design, construction, upgrading and retooling;
* control of execution/implementation of programs containing requirements for labor protection and aimed at prevention of injuries (programs for elimination of places most likely to cause injury, etc.);
* timely providing workplace training on labor protection with quality control of their understanding.

*Investment risks*

Implementation of investment programme of the Company demands fund raising both owned and loaned, on conditions satisfying the requirements of tariff system.

The main of the investment risks is the risk of increasing the volume of financing of the investment program in general and/or in accordance with the Project Brief (in relation to the established limits), the untimely inclusion of projects in the investment program, the absence of a contractor, accessible equipment compliant with the necessary requirements for the implementation of innovation projects. At present, the current risks are assessed as moderate. To minimize risk of untimely and incorrect implementation of investment programme, the Company approved several local document aimed to fulfillment of control of terms and quality of investment projects.

## Deferred taxes

In order to recognize revenues and expenses when calculating the income tax, the Company applies accrual method of accounting. The company accounts and includes in the report deferred tax assets and obligations on income tax. Deferred tax assets and obligations are accounted for temporary differences that are incomes and expenditures, which form the profit (loss) in one reporting period and taxable base on income tax in other reporting periods.

Current income tax is tax for taxation purposes defined in accounting on the basis of the amount of conditional tax, adjusted sum of permanent tax assets and liabilities as well as deferred tax assets and liabilities of reporting period. The future (deferred) component of income tax expense is reflected in the Statement of Financial Results.

Current income tax is recognized as obligation to budget equal to the amount of tax payable to the budget for the reporting period.

Income tax expense (qualified income tax) is calculated by multiplying accounting income (loss) by income tax rate, established in accordance with the legislation of the Russian Federation on taxes and dues.

The Company determined the following components of income tax in 2020, thousands of RUB:

Table 12 – **Income tax**

(thousands of RUB)

| **Line item** | **Amount** | **Tax rate** | **Amount** | **Income tax component** |
| --- | --- | --- | --- | --- |
| Profit/(loss) before tax | (1,384,286) | 20% | (276,857) | Income tax expense (qualified income tax) |
| Change of taxable temporary difference | (1,304,700) | 20% | (260,940) | Changes in deferred tax liabilities |
| including: |  |  |  | including: |
| - differences appeared | (1,872,505) | 20% | (374,501) | accrued deferred tax liabilities |
| - differences are repaid | 567,805 | 20% | 113,561 | deferred tax liabilities are repaid |
| Changes in deductible  temporary differences | 660,534 | 20% | 132,107 | Changes in deferred tax liabilities |
| including: |  |  |  | including: |
| - differences appeared | 1,050,360 | 20% | 210,072 | accrued deferred tax liabilities |
| - differences are repaid | (389,826) | 20% | (77,965) | deferred tax liabilities are repaid |
| Taxable (deductible) permanent differences | 2,713,257 | 20% | 542,651 | Temporary tax asset (liability) |
| Taxable base | (684,805) | 20% | (136,961) | Current tax |

There are no reasons for changes in used tax rates versus the prior reporting period.

Information on profit taxation, deferred taxes flow is disclosed in Appendices 2.3 and 5.7.2.

## Cost of goods sold, production, works, services, selling costs, administrative expenses and other expenses

Expenses (costs) are recognized in that reporting period where they occurred, regardless the time of the actual cash payment or another implementation (accrual principle assumption).

Table 13 – **Explanation of the balance item “Miscellaneous expenditures” as a part of prime cost**

(thousands of RUB)

|  |  |  |  |
| --- | --- | --- | --- |
| **Indication** | | **2019** | **2020** |
| **Line item** | **Line code** |
| Cost of goods sold | 6510 | 43,773,854 | 46,800,254 |
| including |  |  |  |
| Miscellaneous expenditures | 6515 | 24,000,216 | 25,562,435 |
| Including |  |  |  |
| Services of distribution grid companies |  | 12,371,771 | 12,876,119 |
| Services of “FGC UES” PJSC |  | 7,647,277 | 7,627,903 |
| Other expenses |  | 3,981,168 | 5,058,413 |

### Information on costs of energy resources use

### 

Table 14 – **Information on costs of energy resources use**

| **Ser. No.** | **Accepted target indicators/indicators** | **Measurement unit** | **2019  (fact)** | **2020  (fact)** |
| --- | --- | --- | --- | --- |
| **1.** | **2** | **3** | **5** | **5** |
| **1.1.** | **Electric power losses, including** | **Million rubles with VAT** | **9 433,909** | **9 940,924** |
| **million kWh** | **2 426,390** | **2 340,764** |
| 1.1.1. | Expenditure for electrical substation own needs | Million rubles with VAT | 64,496 | 68,744 |
| million kWh | 16,590 | 17,278 |
| **1.2.** | **Consumption of resources for business needs including according to the type of resources** | **Million rubles with VAT** | **140,730** | **147,902** |
| 1.2.1. | fuel and energy, including | Million rubles with VAT | 137,690 | 144,892 |
| tonne of oil equivalent | 4 166 | 4 142 |
| 1.2.1.1. | electric power | Million rubles with VAT | 128,818 | 136,858 |
| thousand kWh | 29 914,193 | 30 288,726 |
| thousand kWh for sqm of floor area | 0,201 | 0,193 |
| 1.2.1.2. | heat energy | Million rubles with VAT | 8,137 | 6,776 |
| Gcal | 3 214,236 | 2 737,995 |
| Gcal for sqm of floor area | 0,131 | 0,125 |
| 1.2.1.3. | natural gas | thousand m3 | 101,577 | 100,379 |
| Million rubles with VAT | 0,735 | 1,259 |
| 1.2.2. | hot-water supply | thousand m3 | − | − |
|  |  | Million rubles with VAT | − | − |
| 1.2.3. | cold-water supply | thousand m3 | 73,191 | 68,698 |
|  |  | Million rubles with VAT | 3,040 | 3,009 |
| **1.3.** | **Equipped with devices for energy resources accounting, consumed for housekeeping needs of the Company** | **%** | **100** | **100** |
| **1.4.** | **Equipped with smart devices for energy accounting of consumers at the retail market in accordance with the Intellectual Energy Accounting Development Program \*** | **%** | **73.25** | **23.7** |

\* Equipped with smart devices for energy accounting is determined in accordance with the requirements of Decree of the Government of the Russian Federation of June 19, 2020 No. 890 *“On procedure for granting an access to the minimum set of functions of smart energy meters (capacity)”.*

## Information on cash flows

In accordance with the Accounting Regulation 23/2011, the cash flows of organizations in the form of receipts and payments of value added tax (receipts from the buyers and clients, payments to suppliers and contractors and payments to the budget system of the Russian Federation and reimbursement from it) are recorded as compressed in the line 4129 “Other payments” of the form of balance sheet “Statement of Cash Flows” in the amount of 63,236 thousand rubles including:

* VAT as part of amounts received 7,885,069 thousand rubles;
* VAT as a part of amounts paid (5,686,100) thousand rubles;
* VAT, paid to the budget (2,135,733) thousand rubles.

The result: 63,236 thousand rubles.

Highly liquid investments (cash equivalents) that can most quickly and easily be converted into previously known cash and subject to low risk of changes in value for the period from January 1, 2020 to December 31, 2020 amounted 11,920,787 thousand rubles (certificate of deposit). Cash transfer into certificate of deposit that is recognized as cash equivalents, is not cash flow and is not reflected in the Statement of Cash Flows.

Table 15 – **The amount of a minimum cash balance on the current accounts of the Company as of December 31, 2020**

(thousand rubles)

| **Foundation (additional agreement,  trade confirmation)** | **Transaction starting date** | **Transaction expiration date** | **Amount of a minimum cash balance** |
| --- | --- | --- | --- |
| **1** | **2** | **3** | **4** |
| Application No.201 of December 30, 2020 to the supplementary agreement No.1-но/407/30-1358 of November 6, 2018 to the contract No. 40702926 of December 26, 2016 | December 30, 2020 | January 11, 2021 | 20,000 |
| **Total Bank "RRDB"( JSC)** | | | **20,000** |

There is no overdraft debt of PJSC Rosseti Kuban as of December 31, 2020.

As of December 31, 2020 there are no guarantees of third-parties received and not used by the Company in order to receive a loan where the amount of cash (raised by the Company) is indicated.

Cash (or cash equivalents) that cannot be used by the Company (for example, letters of credit opened in favour of other organizations related to the transactions in progress as of reporting date) is absent as of December 31, 2020.

## 6.12. Information on segments

According to Accounting Regulations 12/2010, the management and decision-making structure of the organization and the internal reporting system were taken as bases of segmentation in the Company.

The Company determined the structure of the reportable segments:

1. Electric power transmission;
2. Technological connection to electric networks.

The Company discloses information in the Accounting (Financial) Statements only by the reportable segments. The remaining segments are recorded as the other segments in the Accounting Statements. Information on the reportable segments does not contain data on the cash flow from operating, investment and financial operations because of the labour intensity of its presentation in the accounting (financial) statements.

Table 16 – **Customers, revenue from sales which is less than 10% of the total revenue of the Company**

(thousands of RUB)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ser. No.** | **Line item (client)** | **Total amount of revenue** | **Including: electric power transmission** | **Including: other services** |
| 1. | Independent Energy Selling Company of Krasnodar Region JSC | 15,920,732 | 15,920,722 | 10 |
| 2. | TNS Energo Kuban PJSC | 23,392,303 | 23,352,915 | 39,388 |

Besides, information on reportable segments is disclosed in Appendix 5.13.

## 6.13. Related party disclosure

### 6.13.1. List of related parties

The operations of PJSC Rosseti Kuban are strongly affected by following individuals/legal entities, which are affiliated to the Company. In accordance with the legislation of the Russian Federation, PJSC Rosseti Kuban publishes the lists of affiliates of PJSC Rosseti Kuban on its website at <https://rosseti-kuban.ru/aktsioneram-i-investoram/raskrytie-informatsii/spisok-affilirovannykh-lits-obschestva/>

Individuals/legal entities affecting the Company’s activity:

* the largest shareholder of the Company – PJSC Rosseti (owns 93.44% of PJSC Rosseti Kuban shares);
* persons that are members of the management bodies of the Company (members of the Board of Directors, Management Board members, Chief Executive Officer of PJSC Rosseti Kuban).

PJSC Rosseti Kuban supervises the operations of its subsidiaries: Energetik Holiday Facility JSC and Kuban Energoservis JSC by methods of corporate management.

### 6.13.2. Operations carried out with related parties and transactions in progress with related parties where the settlements are executed through the bank under the terms of the contracts

Table 17 – **Revenues and debts related to them for 2019**

(thousands of RUB)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Contractor** | **As of December 31, 2018** | **Accrued** | **Paid** | **As of December 31, 2019** |
| Energetik Holiday Facility JSC \*\*\* | 260 | 2,694 | (2,916) | 38 |
| Kuban Energoservis JSC \*\*\* | − | 181 | (181) | − |
| Rosseti PJSC\*\*\* | − | 1,422 | (1,422) | − |
| JSC Fiber Optic Transmission Systems Management | − | 19,149 | (19,149) | − |
| Main Data Processing Center of Power Engineering JSC | 15 | − | (15) | − |
| PJSC IDGC of the North Caucasus | 42,444 | 43,464 | (1,000) | 84, 908 |

Table 18 – **Revenues and debts related to them for 2020**

(thousands of RUB)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Contractor** | **As of December 31, 2019** | **Accrued** | **Paid** | **As of December 31, 2020** |
| Energetik Holiday Facility JSC \*\*\* | 38 | 2,075 | (2,044) | 69 |
| Kuban Energoservis JSC \*\*\* | − | 2,321 | (2,269) | 52 |
| PJSC Rosseti | − | 1,422 | (1,422) | − |
| JSC Fiber Optic Transmission Systems Management | − | 5,227 | (5,227) | − |
| PJSC Rosseti South \* | − | 4,639 | (4,639) | − |

Table 19 – **Expenses, other transactions and debts related to them for 2019**

(thousands of RUB)

| **Contractor** | **As of December 31, 2018** | **Accrued** | **Paid** | **As of December 31, 2019** |
| --- | --- | --- | --- | --- |
| **1** | **2** | **3** | **4** | **5** |
| PJSC IDGC of the South \* |  |  |  |  |
| - other debts | − | (869) | 869 | − |
| Training Centre PJSC IDGC of Urals, Non-State Privately Owned Educational Institution of Continuing Professional Education \* |  |  |  |  |
| - other debts | − | (150) | 150 | − |
| PJSC IDGC of Urals |  |  |  |  |
| - other debts | − | (2,665) | 2,665 | − |
| PJSC Rosseti\*\*\* |  |  |  |  |
| - other debts | (24,206) | (168,629) | 168,218 | (24,617) |
| - dividends | − | (133,262) | 133,262 | − |
| - settlements with shareholders | − | (3,086,449) | 3,086,449 | − |
| PJSC FGC UES\* |  |  |  |  |
| - trading transactions | (1,238,241) | (10,145,002) | 10,515,684 | (867,559) |
| - other debts | (295,810) | (182,837) | 466,646 | (12,001) |
| - other debts | 184,676 | 7,779 | (181,960) | 10,495 |
| - provision | (167,449) | − | 167,449 | − |
| PJSC IDGC of the North Caucasus\* |  |  |  |  |
| - other debts | (54) | − | − | (54) |
| Energetik Holiday Facility JSC \*\*\* |  |  |  |  |
| - other debts | − | (15,098) | 14,968 | (130) |
| Technical Customer Centre JSC\* |  |  |  |  |
| - other debts | (6,675) | (5,722) | 10,190 | (2,207) |
| JSC Kuban Energoservis \*\*\* |  |  |  |  |
| - other debts | (5,771) | (86,680) | 66,376 | (26,075) |
| - dividends | − | (635) | 635 | − |
| PJSC Research and Development Center of Federal Grid Company of Unified Energy System (FGC UES) \* |  |  |  |  |
| - other debts | − | (50) | 50 | − |
| JSC Fiber Optic Transmission Systems Management \* |  |  |  |  |
| - trading transactions | (22,844) | (121,366) | 43,191 | (101,019) |
| - other debts | (15,722) | (112,729) | 51,755 | (76,696) |
| JSC Electrosetservis Unified National Electricity Grid\* |  |  |  |  |
| - trading transactions | (45,931) | − | 45,931 | − |
| - other debts | (45,834) | (123,167) | 169,001 | − |

Table 20 – **Expenses, other transactions and debts related to them for 2020**

(thousands of RUB)

| **Contractor** | **As of December 31, 2019** | **Accrued** | **Paid** | **As of December 31, 2020** |
| --- | --- | --- | --- | --- |
| **1** | **2** | **3** | **4** | **5** |
| PJSC Rosseti\*\*\* |  |  |  |  |
| - other debts | (24,617) | (168,451) | 153,049 | (40,019) |
| - dividends | − | (595,146) | 595,146 | − |
| PJSC FGC UES\* |  |  |  |  |
| - trading transactions | (867,559) | (9,232,575) | 9,307,647 | (792,487) |
| - other debts | (12,001) | (4) | 11,985 | (20) |
| - other debts | 10,495 | 357,500 | (361,112) | 6,883 |
| provision | − | − | − | − |
| PJSC Rosseti North Caucasus\* |  |  |  |  |
| - other debts | (54) | (14) | 14 | (54) |
| - other debts | 84,908 | 57,307 | (67,946) | 74,269 |
| - provision | − | (66,459) | − | (66,459) |
| Energetik Holiday Facility JSC \*\*\* |  |  |  |  |
| - other debts | (130) | (15,457) | 15,282 | (305) |
| Technical Customer Centre JSC \* |  |  |  |  |
| - other debts | (2,207) | (1,347) | 2,115 | (1,439) |
| JSC Kuban Energoservis \*\*\* |  |  |  |  |
| - other debts | (26,075) | (1,034,298) | 789,977 | (270,396) |
| - other debts | − | 225,881 | (198,339) | 27,542 |
| - dividends | − | (668) | 668 | − |
| PJSC Research and Development Center of Federal Grid Company of Unified Energy System (FGC UES)\* |  |  |  |  |
| - other debts | − | (35) | 35 | − |
| JSC Fiber Optic Transmission Systems Management \* |  |  |  |  |
| - trading transactions | (101,019) | (294, 892) | 119,527 | (276,384) |
| - other debts | (76,696) | (106,691) | 160,222 | (23,165) |

\* The legal entity is a member of the same group of persons to which the Company belongs.

\*\* The legal entity is entitled to manage more than 20% of shares of the Company.

\*\*\* The Company is entitled to manage more than 50% of total votes, attached to the shares that constitute the charter capital, the interest of this legal entity.

Write-off of accounts receivable for which the statute of limitations has expired and other bad debts, including write-off out of provision for doubtful debts, has not been made.

### 6.13.3. Benefits payable to key management personnel

Table 21 – **Information on the amounts of key management personnel benefits**

| **Types of benefits** | **Members of the Board of Directors** | | **Members of the Auditing Committee** | | **Members of the Board** | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2019** | **2020** | **2019** | **2020** | **2019** | **2020** |
| **1. Short-term benefits, including** | **17,557** | **29,493** | **1,030** | **844** | **1,727** | **2,271** |
| **1.1. Employee Remuneration for the reporting period (without vacation pay)** | **13,765** | **23,326** | **790** | **648** | **1,459** | **1,918** |
| а) bonus | **–** | **–** | **–** | **–** | **–** | **–** |
| b) fringe benefits | **–** | **–** | **–** | **–** | **–** | **–** |
| c) other types of compensation given to employees as a result of specific labor indications and bottom line | **–** | **–** | **–** | **–** | **–** | **–** |
| **1.2. Annual paid leave for the work in the reporting period** | **–** | **–** | **–** | **–** | **–** | **–** |
| **1.3. Other benefits in favour of key management personal (regardless terms and conditions of an Employment Contract) total, including** | **–** | **–** | **–** | **–** | **–** | **–** |
| а) compensations for community charges; | **–** | **–** | **–** | **–** | **–** | **–** |
| b) health benefits (insurance); | **–** | **–** | **–** | **–** | **–** | **–** |
| c) lump-sum payments related to financial aid for vacation | **–** | **–** | **–** | **–** | **–** | **–** |
| d) full or partial payment for recreation; | **–** | **–** | **–** | **–** | **–** | **–** |
| e) full or partial payment for education for Company’s personal benefit; | **–** | **–** | **–** | **–** | **–** | **–** |
| f) other (please specify) including: | **–** | **–** | **–** | **–** | **–** | **–** |
| Compensation for residential lease | **–** | **–** | **–** | **–** | **–** | **–** |
| Severance pay | **–** | **–** | **–** | **–** | **–** | **–** |
| **1.4. Accrued taxes and other compulsory payments to the corresponding budgets and extra-budgetary funds** | **3,792** | **6,167** | **240** | **196** | **268** | **353** |
| **2. Long-term benefits, including:** | **–** | **–** | **–** | **–** | **–** | **–** |
| 2.1. Post-employment benefits, including | **–** | **–** | **–** | **–** | **–** | **–** |
| а) payments under the voluntary insurance agreements concluded with the insurance companies | **–** | **–** | **–** | **–** | **–** | **–** |
| b) payments under non-state pension agreements, concluded with non-state pension funds; | **–** | **–** | **–** | **–** | **–** | **–** |
| c) other payments, guaranteeing payment of pension benefits and other social guarantees after  termination of labor activity; | **–** | **–** | **–** | **–** | **–** | **–** |
| 2.2. Other long-term benefits | **–** | **–** | **–** | **–** | **–** | **–** |
| 2.3. Long-term benefits accrual | **–** | **–** | **–** | **–** | **–** | **–** |
| **3. Total benefits (short-term and long-term benefits) excluding accruals on them** | **13,765** | **23,326** | **790** | **648** | **1,459** | **1,918** |
| **4. Total benefits accruals (short-term and long-term benefits)** | **3,792** | **6,167** | **240** | **196** | **268** | **353** |

## 6.14. The going concern principle

Accounting (financial) statements of PJSC Rosseti Kuban for 2020 were drawn up in accordance with the going concern principle, which assumes that the Company is able to sell its assets and fulfil its liabilities in the normal course of business in the foreseeable future. As reflected in the present accounting (financial) statements, the Company’s financial result (loss) in 2020 amounted to 1,501,278 thousand rubles which was mainly driven by the impact of negative consequences associated with the spread of COVID-19 (in 2019 net profit amounted to 2,503,683 thousand rubles as a result of one-time revenue receipts for technological connection from the large declarant of the Federal State Institution “Rostransmodernizatsiya”), short-term liabilities of the Company as of December 31, 2020 amounted to 18,020,846 thousand rubles; including debt obligations in the amount of 5,553,866 thousand rubles. Available credit limits are opened up by the Company which makes it possible to refund borrowings subject to prompt repayment in 2021. As of December 31, 2020, the total amount of credit limit with termination of drawdown period in 2021-2025 amounted to 37,112,578 thousand rubles, including in the amount of 12,500,000 thousand rubles – in PAO Sberbank, in the amount of 6,537,578 thousand rubles - in Bank “RRDB” (JSC), in the amount of 18,075,000 thousand rubles – in VTB Bank (PJSC).

According to the forecasts of the Company Management, the net operating cash flow in 2021 will be sufficient to cover Company’s liabilities payable in 2021.

Thus, despite the shortage of working capital, the Company's management believes that the Company will be able to meet all its current obligations in 2021.

## 6.15. Estimated liabilities, contingent liabilities and assets

In 2020, the Company recognized in the accounting the estimated liabilities related to the possible compensation payments for unused vacations in the amount of 519,632 thousand rubles, previously formed estimated liability in the amount of 465,816 thousand rubles, ending balance of the reporting period amounted to 316,830 thousands rubles. As of December 31, 2020, the estimated liability was formed, related to the possible benefits pay according to the results of the year in the amount of 316,770 rubles.

The amount of the estimated liability according to the unsettled claims of the suppliers at the beginning of the reporting period is recorded in the Accounting (Financial) Statements in the amount of 500,474 thousand rubles, including 208,963 thousand rubles as related to non-consensual amount of loss, 290,650 thousand rubles as related to services for transmission of energy. Charges amounted to 385,006 thousand rubles, including 117,559 thousand rubles as related to non-consensual amount of loss, 257,593 thousand rubles as related to services for transmission of energy. The amount of estimated liability according to the unsettled claims of the suppliers at the end of the reporting period amounted to 683,734 thousand rubles, including 325,464 thousand rubles as related to non-consensual amount of loss, 348,416 thousand rubles as related to services for transmission of energy.

As of December 31, 2020, the on-site tax inspection for 2016-2018 has been completed, but the inspection certificate until the date of signature of the statements has not been submitted by the tax authority. For this purpose, the Company’s Management, acting on the prudence principle, made a decision on reserve for estimated liabilities for tax risks in the amount of 156,967 thousand rubles.

As of December 31, 2020, the amount of provision for lawsuits amounted to 52,860 thousand rubles (Appendix 5.7.1.).

Discounting of the amounts of estimated liabilities, recognized by the Company is not applicable, because the expected deadline for the fulfilment of obligations is less than 12 months after the reporting date.

The expected amounts of counter-claims or amounts of the third party claims in reimbursement of expenses that the Company is going to incur during the fulfilment of obligations, and also the assets recognized on such claims in accordance with the Clause 19 of the Accounting Regulation 8/2010 as of the reporting date are absent.

According to the continuous development of practical application of taxation rules, the property tax may be disputed by the tax authorities and courts related to the movables and immovable, used by the Company. Risk of tax claims, as well as probability of adverse settlement of tax disputes (if they arise) is estimated by the Company as “possible”. The Company’s Management estimates conditional tax risks within 700 million rubles that does not exceed 1 percent of the asset value.

## 6.16. Events after the reporting period

Accounting for events after the reporting date and disclosure of information concerning these events in the statements is kept by the Company in accordance with the Accounting Regulation 7/98 *“Events after the reporting date”*, approved by Order of the Ministry of Finance of the Russian Federation No. 56n of November 25, 1998.

On January 21, 2021 (Minutes No. 418/2021 of January 22, 2021), the Board of Directors of PJSC Rosseti Kuban made a decision on convocation of the extraordinary General Meeting of the Company’s Shareholders on February 24, 2021. The item on increasing the charter capital of PJSC Rosseti Kuban by floating additional shares was included on the agenda.

It is planned to increase the charter capital of PJSC Rosseti Kuban by floating additional ordinary shares in the quantity of 69,583,132 units (sixty nine million five hundred and eighty three thousand one hundred and thirty two) at nominal value of 100 (one hundred) rubles per share for a total amount at nominal value of 6,958,313,200 (six billion nine hundred and fifty eight million three hundred and thirteen thousand two hundred) rubles.

Economic events that have or may have an impact on financial position or operating results of the Company, that occur between the reporting date (December 31, 2020) and the date of signing of the Accounting (Financial) Statements of PJSC Rosseti Kuban for 2020 are absent.

Chief Executive Officer of

PJSC Rosseti Kuban S.V. Sergeev

Chief Accountant-Head of the

Accounting and Tax Accounting

Department of PJSC Rosseti Kuban I.V. Skiba

February 24, 2021

**Appendices to the Balance Sheet and Statement of Financial Results**

Appendix 5.1.1 “The existence of intangible assets and intangible assets turnover”

Appendix 5.2.1 “The existence and turnover of R&D deliverables”

Appendix 5.2.2 “Incomplete and unexecuted R&D and incomplete operations on purchase of intangible assets”

Appendix 5.3.1 “The existence and movement of fixed assets”

Appendix 5.3.3 “Changes in value of fixed assets as a result of further construction, further equipping, reconstruction and partial liquidation”

Appendix 5.3.4 “Other usage of fixed assets”

Appendix 5.3.5 “Capital investments in progress”

Appendix 5.3.6 “Advances issued for investment building and purchase of fixed assets”

Appendix 5.4.1 “The existence and turnover of financial investments”

Appendix 5.4.2 “Adjustments of estimates of financial investments”

Appendix 5.5.1 “The existence of inventory and inventory turnover”

Appendix 5.5.2 “Pledged inventory”

Приложение 5.6.1 “The existence and turnover of accounts receivable”

Приложение 5.6.3 “Overdue accounts receivable”

Appendix 5.6.5 “The existence and turnover of accounts payable”

Appendix 5.6.6 “Overdue accounts payable”

Appendix 5.6.7 “Loans and borrowings”

Appendix 5.6.8 “Expenses for loans and borrowings”

Appendix 5.7.1 “Estimated liabilities”

Appendix 5.7.2 “Deferred taxes”

Appendix 5.8 “Securities”

Appendix 5.9 “Government assistance”

Appendix 5.11 “Other revenues and expenses”

Appendix 5.13 “Information on reportable segments”

Appendix 2.1 “Cost of goods sold, works and services according to elements of costs”

Appendix 2.2 “Profit accrued to one share, diluted earnings per share”

Appendix 2.3 “Profit taxation”