



PUBLIC JOINT-STOCK COMPANY  
OF POWER ENERGY AND  
ELECTRIFICATION OF KUBAN

**Kubanenergo PJSC**



**Notes to Financial Statements for 2017**

Krasnodar

2018

## 1. General Provisions

Kubanenergo PJSC is the largest power grid company in the Krasnodar Region and the Republic of Adygea. It transfers and distributes electricity via 110 kV electrical grids and lower across populated areas, in the rural settlements, certain cities and towns as well as district centres of the Krasnodar Region and the Republic of Adygea, including Sochi.

**Full name:** Public Joint-Stock Company of Power industry and Electrification of Kuban.

**Abbreviated name:** Kubanenergo PJSC.

The company was registered on February 10, 1993.

The name was entered into the Unified State Register of Legal Entities by Russian Federal Tax Service Inspection No. 3 for Krasnodar under No. 1022301427268 on September 17, 2002. Certificate 23 No. 001806938.

**Taxpayer Identification Number (tax registration reason code):** 2309001660 (997450001);

**Form of incorporation/type of ownership of Kubanenergo PJSC:** Public Joint-Stock Company (code under the Russian Classifier of Forms of Incorporation: 47) / private ownership (code under the Russian Classifier of Types of Ownership: 16).

**Location/registered address of Kubanenergo PJSC:** 2A Stavropolskaya str., 350033, Krasnodar, Russian Federation.

**The Company's main activities are:**

- Services related to transmission and distribution of electricity in electrical grids;
- Services related to technological connection to electrical grids.

Table 1 - Licenses

Type of Activity	Issuing Authority	Details	License Validity Period
1	2	3	4
The right to use mineral resources (to extract fresh groundwater for utility and drinking water supply and process water supply in Krasnodar)	The Russian Ministry of Natural Resources	КРД (KRD) No. 03378 БЭ	17.07.2007 – 20.07.2034

To execute works with the use of information constituting a state secret	Department of the Russian Federal Security Service (FSB) for the Krasnodar Region	GT 0062143, registration # 1223	06.08.2013 – 06.08.2018
Permit to works related to construction, reconstruction and overhaul	Self-regulatory Organization Energostroy, NP (non-for-profit partnership)	0212.03-2012-2309001660-S-060	16.12.2013, with no expiration date
Permit to works related to preparation of design documentation for external networks of 35kV and their installation	Self-regulatory organization Energostroy, NP (non-for-profit partnership)	P-0263-01-2010-0274	03.02.2014, with no expiration date
For the right to use mineral resources (to extract fresh groundwater for utility and drinking water supply and process water supply in the Tverskaya village)	The Russian Ministry of Natural Resources	КРД (KRD) No. 03813 БЭ	17.12.2009 – 01.01.2035
To operate fire explosive production facilities	The Russian Federal Service for Environmental, Technological and Nuclear Supervision	BP-30-003995 series AB No. 087343	11.11.2011, with no expiration date

The financial statements of Kubanenergo PJSC include performance indicators of all the branches, representative offices and other subdivisions as stated below:

Table 2 – **branches of Kubanenergo PJSC**

#	Name	Location
1	Krasnodarskiye Elektricheskiye Seti (Krasnodar Electric Grids)	131 Pashkovskaya str., Krasnodar 350000
2	Sochinskiye Elektricheskiye Seti (Sochi Electric Grids)	42 Konstitutsii str., Sochi 354000
3	Armavirskiy Elektricheskiy Set (Armavir Electric Grids)	54 Vorovskogo str., Armavir 352900
4	Adygeyskiye Elektricheskiye Seti (Adygeya Electric Grids)	358 Shovgenova str., Maykop 385000
5	Timashevskiy Elektricheskiy Set (Timashevsk Electric Grids)	176 Lenina str., Timashevsk 353760
6	Tikhoretskiye Elektricheskiye Seti (Tikhoretsk Electric Grids)	62 Dzerzhinskogo str., Tikhoretsk 352100
7	Leningradskiy Elektricheskiy Set (Leningradskaya Electric Grids)	6bld., 302-y Divizii str., Leningradskaya village 353740

8	Slavyanskiye Elektricheskiye Seti (Slavyansk Electric Grids)	49 Stroiteley str., Slavyansk-na-Kubani 353840
9	Yugo-Zapadnye Elektricheskiye Seti (South-West Electric Grids)	1 Vostochny Mol, Novorossiysk 353902
10	Labinskiye Elektricheskiye Seti (Labinsk Electric Grids)	334 Mira str., Labinsk 352510
11	Ust-Labinskiye Elektricheskiye Seti (Ust-Labinsk Electric Grids)	4 Krasnodarskaya str., Ust-Labinsk 352300

**Average annual number of employees** in Kubanenergo PJSC for the reporting period was 8 494 employees, and 8 428 in the previous year, in the year preceding the previous year (in 2015) there were 8 326 employees.

**Company's Auditor:**

Name: RSM RUS

Legal address: 4, Pudovkina Str., Moscow, Russia 119285

Location address: 4, Pudovkina Str., Moscow, Russia 119285

Individual Taxpayer

Number (INN): **7722020834**

Primary State Registration

Number (OGRN): **1027700257540**

Telephone/fax: **(495) 363-2848 / (495) 981-4121**

**The Company's management bodies** are as follows: the General Meeting of Shareholders, the Company's Board of Directors, the Company's Management Board (collective executive body), General Director of the Company (sole executive body).

**General Director of the Company:** Gavrilov Alexander Ilyich

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

**Table 3 – Members of the Board of Directors (31.12.2017)**

#	Name	Place of employment and position	Status at the Board of Directors
1.	Fadeev Alexander Nikolaevich	Chief Advisor, Rosseti PJSC, Chairperson of the BoD	Chairperson of the Board of Directors
2.	Balayeva Svetlana Alexandrovna	Chief Advisor and a part-time First Deputy – Head of the branch of Rosseti PJSC – Centre for Engineering Supervision	member of the Board of Directors
3.	Varvarin Aleksandr Viktorovich	Vice-president - Managing Director in charge of Corporate Relations and Legal Support, Russian Union of Industrialists and	member of the Board of Directors

		Entrepreneurs	
4.	Gavrilov Alexander Ilyich	Director General of Kubanenergo PJSC	member of the Board of Directors
5.	Gritsenko Vladimir Fyodorovich	Director in charge of Business Development, Unitel Engineering LLC	member of the Board of Directors
6.	Yefimov Alexander Leonidovich	Head of Administrative Department, Rosseti PJSC	member of the Board of Directors
7.	Medvedev Mikhail Vladimirovich	Deputy Director General, Holding Intra Tool LLC	member of the Board of Directors
8.	Osipova Yelena Nikolayevna	Head of Financial Analysis and Liquidity Management Sector of the Treasury Department, Rosseti PJSC	member of the Board of Directors
9.	Tyurkin Konstantin Vladimirovich	Deputy Head of Communications and Public Relations Sector of the Information Policy and Public Relations Department, Rosseti PJSC	member of the Board of Directors
10.	Khokholkova Kseniya Valerievna	Deputy Head of Directorate of Share Capital Issues, Department of Corporate Governance and Interaction with Shareholders, Rosseti PJSC	member of the Board of Directors
11.	Shagina Irina Alexandrovna	Head of Tariff Policy Sector of Tariff Policy Department, Rosseti PJSC	member of the Board of Directors

**Table 4 – Members of the Management Board (31.12.2017)**

#	Name	Place of employment and position	Status at the Management Board
1.	Gavrilov Alexander Ilyich	General director of Kubanenergo PJSC	Chairperson of the Management Board
2.	Shishigin Igor Nikolaevich	Deputy Director General for Technical Issues - Chief Engineer, Kubanenergo PJSC	Deputy Chairperson of the Management Board
3.	Armaganyan Edgar Garrievich	First Deputy Director General – Director of Sochi electric grids, branch of Kubanenergo PJSC	Member of the Management Board
4.	Golov Andrey Valerievich	Deputy Director General for Investment Activity, Kubanenergo PJSC	Member of the Management Board
5.	Golovakha Lyudmila Alekseevna	Deputy Director General, Chief of Staff, Kubanenergo PJSC	Member of the Management Board
6.	Golovakha Dmitriy Nikolaevich	Director of Southwestern electric grids - branch of Kubanenergo PJSC	Member of the Management Board
7.	Ivanova Irina Viktorovna	Deputy Director General in charge of Corporate Governance, Kubanenergo PJSC	Member of the Management Board
8.	Kostetskiy Vyacheslav Yurievich	Deputy Director General in charge of Development and Grid Connection, Kubanenergo PJSC	Member of the Management Board
9.	Mikhailov Vladimir Alexandrovich	Director of Krasnodarskiye electric grids - branch of Kubanenergo PJSC	Member of the Management Board
10.	Ocheredko Olga Vyacheslavovna	Deputy Director General for Economic and Financial Affairs, Kubanenergo PJSC	Member of the Management Board
11.	Statuyev Vladislav Andreyevich	Deputy Director General in charge of Security, Kubanenergo PJSC	Member of the Management Board

The Company's Auditing Commission controls financial and business operations of the Company.

**Table 5 – Members of the Auditing Commission (31.12.2017)**

#	Name	Place of employment and position	Status at the Auditing Commission
1.	Zadorozhnaya Anzhelika Alexandrovna	Head of Administration for Control and Analysis at Department of Control and Audit Activity, Rosseti PJSC	Chairperson of the Commission
2.	Kirillov Artyom Nikolayevich	Deputy Head of Administration for Auditing Activity at Department of Control and Audit Activity, Rosseti PJSC	Member of the Commission
3.	Kabizskina Yelena Alexandrovna	Deputy Head of Administration for Auditing Activity at Department of Control and Audit Activity, Rosseti PJSC	Member of the Commission
4.	Malyshev Sergey Vladimirovich	Leading Expert of Administration for Auditing Activity at Department of Control and Audit Activity, Rosseti PJSC	Member of the Commission
5.	Slesareva Yelena Yurievna	Chief Expert at Internal Audit Administration, Rosseti PJSC	Member of the Commission

**Table 6 – Company's Subsidiaries and Affiliates**

Name	Share in the charter capital (%)	Location	Type of activities
"Energetik" Recreation Centre" JSC	100	4 Pionerskaya str., village of Divnomorskoye, Gelendzik, the Krasnodar Region, 353490	Provision of healthcare services, health and fitness services, services related to accommodation (temporary accommodation), catering and servicing to population
"Energoservis Kuban" JSC	100	47 Novorossiyskaya str., Krasnodar, the Krasnodar Region, 350080	Implementation of the Programs for Energy Saving and Improvement of Energy Efficiency in the Regions of Responsibility by Implementing the Multilevel System of Energy Services
"Plamya" Recreation Centre" JSC	100	Novomikhaylovsky-2 settlement, Tuapse district, the Krasnodar Region, 352856	Provision of healthcare services, health and fitness services, services related to accommodation (temporary accommodation), catering and servicing to population

## **2. General Provisions of the Accounting Policy**

Kubanenergo PJSC maintains its accounting records in accordance with the Federal Law dated 06.12.2011 No.402-FZ "On Accounting", as well as in accordance with the Corporate Standard of Rosseti PJSC "Unified Corporate Accounting Principles".

The figures in the financial statements are given in thousands of rubles (unless otherwise stated).

### **2.1. Assets and Liabilities in Foreign Currencies**

At the beginning and the end of the reporting year, no assets and liabilities expressed in foreign currency were recorded in the Company's accounting records.

## **2.2. Expenses on research-and-development activities (R&D)**

Accounting of expenses on research-and-development activities is carried out in accordance with Regulations of Accounting 17/02 approved by order of RF ministry of Finance No.115H on 19.11.2002, as subsequently amended. Expenses on each particular R&D activity are written off using straight-line method.

## **2.3. Intangible Assets**

The Company accounts intangible assets in accordance with Accounting Standard 14/2007 "Accounting for Intangible Assets" approved by Order of the Russian Ministry of Finance dated December 27, 2007 No. 153H.

The intangible assets with definite useful life are amortized using the straight-line method.

## **2.4. Fixed Assets and Construction in Progress**

The Company accounts fixed assets in accordance with Accounting Standard 6/01 "Accounting for Fixed Assets" approved by Order of the Russian Ministry of Finance dated March 30, 2001 No. 26n and Guidelines for Accounting for Fixed Assets approved by Order of the Russian Ministry of Finance dated October 13, 2003 No. 91H.

The Company accounts construction work in progress in accordance with the Russian Accounting Standard approved by Order of the Russian Ministry of Finance dated July 29, 1998 No. 34n as well as in accordance with the Regulation on Accounting for Long-Term Investments (Letter of the Russian Ministry of Finance dated December 30, 1993 No. 160) insofar as it does not conflict with any subsequent law or regulation in relation to accounting.

The fixed assets recorded in the accounting records based on their initial value, which is to be determined based on the method of receipt/acquisition: for a fee, creation with the use of the company's own resources, construction, receipt free of charge, etc.

Assets that meet conditions to described as the fixed assets, including those costing at least 40 000 rubles per unit, are recorded in accounting records and statements as a part of inventory and supplies and are written off to manufacturing expenses in the course of their commissioning.

The following assets are regarded as fixed assets irrespective of their cost:

- power lines
- land plots
- buildings
- constructions
- vehicles

Expenses on loans and credits related to formation of an investment asset (fixed assets, property and other similar assets that require a lot of time and cost to purchase and/or build) shall be included in the value of the asset being depreciated.

The fixed assets were depreciated using the straight-line method based on their useful life.

Depreciation expense in relation to fully depreciated / worn-out fixed assets was not charged.

The result from write-off, retirement and gratuitous transfer of fixed assets is included in P&L statements as part of miscellaneous expenses and profit.

The value of the fixed assets was not subject to changes except as the objects were renovated, reconstructed or their construction was completed. Costs of the recovery of fixed assets shall be recorded in the accounting records of the reporting period to which they relate.

Property received under financial lease agreements shall be recorded in accounting records in accordance with the Federal Law dated October 29, 1998 No. 164-FZ “On Financial Lease”.

## **2.5. Inventory**

The Company accounts its inventories in accordance with the Accounting Standard 5/01 “Accounting for Inventories” approved by Order of the Russian Ministry of Finance dated June 9, 2001 No. 44n and Guidelines for Accounting for Inventories approved by Order of the Ministry of Finance dated December 28, 2001 No. 119n.

When entering inventory into the books of account, the Company evaluates them as follows:

- if the inventories are purchased for a fee – as the amount of actual costs of their purchase, except for value-added tax and other taxes to be recovered from the budget



(par. 6, 11 of Accounting Standard 5/01);

- if the inventories are produced with the use of the company's own resources – based on actual costs related to the production of such inventories. Costs of the inventories production shall be recorded and formed in the books of account in the manner set forth to determine the prime cost of the relevant types of products (par.7 of Accounting Standard 5/01);

- if the inventories are received as a contribution to the charter capital – based on their estimated money value approved by the founders / participants except as otherwise required by the law of the Russian Federation; for these purposes, the actual expenses for delivery of the inventories and making them suitable for use shall be taken into account (par. 8, 11 of Accounting Standard 5/01);

- if the inventories are received as a gratuitous transfer or under a gift agreement as well as those remained after the retirement of fixed assets and other property, entering the inventories, which have been found as overstock based on the results of stock-taking, into the books of account – based on the current market value of the inventories as at the date of their entering into the books of account; the actual expenses for delivery of the inventories and making them suitable for use shall be taken into account (par. 9, 11 of Accounting Standard 5/01);

- if the inventories are received under the agreements, which stipulate that the obligations (payment) shall be performed without use of money, – based on the price of the values passed or to be passed to the Company; such price shall be determined based on the price, under which the Company typically determines the price of similar values under comparable circumstances. If it is impossible to determine the value of the assets passed or to be passed to the Company, the value of the inventories received by the company under the agreements, which stipulate that the obligations (payment) shall be performed without use of money, shall be determined based on the price, by which similar inventories are normally purchased under comparable circumstances. The actual cost price of such inventories also includes the actual expenses for delivery of the inventories and making them suitable for use, according to par. 6, 10, 11 of Accounting Standard 5/01;

- the fixed price specified in the contract is considered to be the value of the

inventories received under the contracts of exchange, in which the agreed price of the property being exchanged is stated.

According to par. 16 of Accounting Standard 5/01 “Accounting for Inventories”, if inventories are commissioned or are otherwise retired, they shall be evaluated based on the average cost price of each type of the inventories.

Special clothing before it is put into use shall be recorded in the accounting records on account 10 “Materials”, separate sub-account “Special Gear and Special Clothing in Stock”. The value of special clothing with useful life over 12 months shall be amortized using the straight-line method based on the useful life of the special clothing stated in the standard industry norms for provision of special clothing, special footwear and other personal protective gear, as well as in the Rules for Provision of Employees with Special Clothing, Special Footwear and Other Personal Protective Gear approved by Decree of the Russian Ministry of Labor and Social Development dated 01.07.2009 No.290n.

The Company makes provision for diminution in value of the inventories out of the financial results. Such provision is to be applied to all inventories that have become obsolete or absolutely lost their original quality.

## **2.6. Prepaid Expenses**

Recognition of costs incurred as a prepaid expense and their reporting on the books of account and financial statement as an asset is a principled approach accepted in the Company. This approach is based on the understanding of the temporary fact that the company is likely to receive economic benefits from this asset in the future and of its value assessment with a sufficient degree of reliability.

The Company has determined that balance of prepaid expenses shall be recorded on the rows “Other Non-Current Assets” and “Other Current Assets”.

For these purposes, distribution between sections I and II of the balance sheet shall be made based on the period of expensing relevant costs, i.e. costs with the period of expensing over 12 months shall be recorded in section I of the balance sheet, the rest of costs shall be recorded in section II.

## **2.7. Financial Investments**

The Company accounts financial investments in accordance with the Accounting Standard 19/02 “Accounting for Financial Investments” approved by Order of the

Russian Ministry of Finance dated December 10, 2002 No. 126n.

Investments into authorized capitals of other companies are recognized as financial investments of the company and shall be recorded in the books of account as actual costs of the investor, i.e. in accordance with the value of the contributed assets, based on which they were reported on the investor's balance sheet.

Financial investments, in relation to which the current market value cannot be determined, shall be reported in the books of account and financial statements as at the reporting date in accordance with the initial value (par. 21 of Accounting Standard 19/02).

Financial investments, in relation to which it is possible to determine the current market value, shall be reported in the financial statements as at the end of the reporting year in accordance with the current market value by adjusting their valuation as at the previous reporting date (par. 20 of Accounting Standard 19/02).

Debt securities shall be recorded in the accounting records in accordance with the purchase price. The difference between the nominal purchase price and nominal value of the securities shall be included in "Other Income and Expenses".

## **2.8. Loans and Credits**

The Company accounts costs of loans and credits in accordance with the Accounting Standard 15/2008 "Accounting for Costs of Loans and Credits" approved by the Order of the Russian Ministry of Finance dated October 6, 2008 No. 107n.

## **2.9. Estimated Liabilities**

The Company accounts estimated and contingent liabilities in accordance with the Accounting Standard "Estimated Liabilities, Contingent Liabilities and Contingent Assets" PBU 8/2010, approved by Order of the Russian Ministry of Finance dated December 13, 2010 No. 167n.

## **2.10. Deferred Taxes**

The Company accounts for deferred taxes in accordance with the Accounting Standard 18/02 "Accounting for Settlements in relation to Corporate Income Tax" approved by the Order of the Russian Ministry of Finance dated November 19, 2002 No. 114n.

When preparing its financial statements company shall report on the amounts of deferred tax assets and deferred tax liabilities on the balance sheet in expanded form.

## **2.11. Revenue and other income**

The Company records<sup>0</sup> its revenue and other income in accordance with the Accounting Standard 9/99 “Income of Company” approved by Order of the Russian Ministry of Finance dated May 6, 1999 No. 32n.

Revenue shall be recognized in the Company’s books of account if the following conditions are met:

- 1) the company has the right to receive this revenue, which follows from a particular agreement or is otherwise confirmed;
- 2) the amount of the revenue can be determined;
- 3) there is certainty that as a result of a particular transaction the company’s economic benefits will increase. Confidence that as a result of a particular transaction the number of the company’s economic benefits will increase is in case where the company has received the asset in return or there is no uncertainty with regard to the receipt of the asset;
- 4) the title (including right, title and interest) to products / goods has passed from the company to the buyer or the work has been accepted by the client (the service has been rendered);
- 5) costs that has been incurred or will be incurred in connection with this transaction can be determined.

The Company’s other income includes receipts related to the participation in charter capitals of other companies; receipts from the sale of fixed assets and other assets; fines, penalties (including interest-based penalties) for breach of contract conditions; receipt of assets without consideration; profit of previous years; accounts payable, in relation to which the limitation period has expired; foreign exchange differences and other income, according to par. 7 of the Accounting Standard 9/99.

Other income is indicated in the profit and loss statement minus the expenditures related to this income, when:

- certain accounting rules presuppose or do not prohibit such indication of income
- income and related expenditures that occur in the result of one and the same or similar fact of production activity (e.g. provision of own assets for temporal use (use and ownership)) are not considered as material when defining the

Company's financial state.

## **2.12. Cost of Sold Goods, Products, Work, Services, Selling and Administrative Expenses, Other Expenses**

The Company accounts the expenses in accordance with the Accounting Standard 10/99 "Expenses of Company" approved by the Order of the Russian Ministry of Finance dated May 6, 1999 No. 33n. Management and administrative expenses are included in the cost of goods of the products sold and services of the reporting period; then they are distributed by the types of activity proportionally to the revenue.

Management expenses are recorded on account 26 "General business expenses" by cost centers and list of general business expenses. Management expenses are indicated in the profit and loss statement in line "Management expenses".

## **2.13. Government Assistance**

The Company accounts the funds received as government assistance in accordance with Accounting Standard 13/2000 "Accounting for Government Assistance" approved by Order of the Russian Ministry of Finance dated October 16, 2000 No. 92n.

## **2.14. Related Parties**

The Company discloses information on related parties in accordance with the Accounting Standard 11/2008 "Information on Related Parties" approved by the Order of the Russian Ministry of Finance dated 08.11.2012 No.143n.

## **2.15. Segment Information**

The Company discloses segment information in accordance with the Accounting Standard 12/2010 "Segment Information" approved by the Order of the Russian Ministry of Finance dated November 8, 2010 No. 143n.

## **2.16. Information on Cash Flows**

Information on cash flow is disclosed by the Company in accordance with the Accounting Standard "Report on cash flow" 23/2011, approved by order of RF Ministry of Finance No.11n dated 02.02.2011.

## **3. Changes in Accounting Policy in 2017**

In 2017, Kubanenergo PJSC did not introduce any changes to its Accounting Policy.

## **4. Changes in Accounting Policy in 2018**

Substantial changes were not introduced in the Company's Accounting Policy in 2018.

## **5. Adjustments and Other Changes in Accounting Related to Prior Periods**

Changes were introduced in the Form #4 “Cash Flow Statement” for 2016 in part related to cash flow from settlement account to deposit in line 4329 and return to settlement account in line 4319 in the amount of 1 695 836 thousand rubles.

## **6. Disclosure of Individual Figures in the Accounting Statements for 2017**

### **6.1. Fixed Assets**

As of 31.12.2017 a revaluation of fixed assets (code 110 “Production buildings”, code 420 “Equipment for power conversion”) was carried out by “LAIR” LLC under the contract No.407/30-830 dated 11.09.2017. The Company management bodies decided not to include the results of revaluation of homogeneous groups of assets in accounting statements for 2017, because after revaluation the cost of fixed assets does not exceed the materiality level specified by the Company’s Accounting Policy.

The properties commissioned and actually used that are currently in the process of state registration were accounted on the balance account 01.06 “Real estate with unregistered ownership”. As of 31.12.2017 the cost of real estate taken into operation and actually used that is the process of state registration amounted to 3 305 621 thousand rubles.

There aren’t any fixed assets received under contracts providing for implementation of obligations using non-monetary assets for the period from 1 January till 31 December 2017.

There aren’t any fixed assets acquired through loans and credits for the period from 1 January to 31 December 2017.

Information about the presence and movement of fixed assets is disclosed in annexes 5.3.1; 5.3.2; 5.3.3; 5.3.4; 5.3.6.

#### **6.1.1. Capital Investments in Progress (Construction in Progress; CIP)**

The investment programme of Kubanenergo PSC for 2017 is formed in accordance with:

- Regulations for preparation and amendment of investment programme and preparation of report on implementation of the programme, enhancement of its efficiency and reduction of losses, introduced by the order of Kubanenergo PJSC No.440 on 05.05.2017;
- Technical Policy in the Distribution Grid

Parameters of investment programme 2017 approved by Order of the RF Ministry of Energy No.21@ dd. 01.12.2017.

In 2017, Kubanenergo PJSC constructed, upgraded and commissioned 836.3 km of power lines, namely:

- 110kV overhead lines – 5.0 km;
- 35 kV overhead lines – 3.6 km
- 1-20kV overhead lines – 128.3 km;
- 0.4kV overhead lines – 647.1 km;
- 110kV cable lines – 13.7 km;
- 3-10kV cable lines – 38.3 km
- 30-35kV cable lines – 0.3 km

Kubanenergo constructed, upgraded and then commissioned facilities on the territory of the Krasnodar region and the Republic of Adygea for 364.1MVA, including:

- upgrade of 35/10kV substation “Pionerskaya”, its transfer to 110kV and installation of two transformers of 40MVA (110/35/10 voltage)
- upgrade of 110/35/10kV substation “Khadzhokh 25MVA”
- upgrade of 110/35/10/6kV substation “Severnaya”; replacement of two transformers of 31.5MVA and 25MVA with 40MVA

The amount of advances and pre-payment for services related to the construction and acquisition of fixed assets as well as purchase of raw materials and materials, excluding VAT, are recorded in the Company's balance sheet as the capital investments in progress. As of December 31, 2017, the amount of advances and pre-payment for services related to the construction and acquisition of fixed assets, amounted to 1 054 174 thousand rubles; VAT on advances and pre-payment for services related to the construction and acquisition of fixed assets is recorded in line 1260 “Other Current Assets” and amounts to 189 443 thousand rubles. As of December 31, 2017 the sum of purchase of raw materials intended for construction of fixed assets amounted to 655 136 thousand rubles.

Information on stocks and transactions of construction in progress is disclosed in Annex 5.3.5.

### **6.1.2. Leased Fixed Assets**

As of 31.12.2017 that are no leased fixed assets. Lease payments are not planned in the nearest future.

### **6.2. Other Non-Current and Current Assets**

As of December 31, 2017, the deferred expenses amounted to 134 805 thousand rubles; these expenses are recorded in the balance sheet depending on the writing-off period fixed as of the date of entry in the accounting records, as follows:

1) non-exclusive rights to software programmes:

- useful life is more than 12 months (line 1190)

83 192 thousand rubles;

- useful life is within 12 months (line 1263)

48 550 thousand rubles;

2) licenses:

- useful life is more than 12 months (line 1190)

404 thousand rubles;

- useful life is within 12 months (line 1263)

279 thousand rubles;

3) other:

- useful life is more than 12 months (line 1190)

1 385 thousand rubles;

- useful life is within 12 months (line 1263)

995 thousand rubles.

### **6.3. Financial Investments**

The Commission for Inspection of Available Devaluation of Financial Investments of Kubanenergo PJSC performed an inspection of presence of devaluation of financial investments as of 31 December 2017. According to the inspection results, the Commission ordered: reserve for possible losses from other financial interments is proposed to be increased by 9 584 thousand rubles. Information on stocks and transactions of financial investments is disclosed in Annexes 5.4.1, 5.4.2.

### **6.4. Government Aid**

In 2017 local bodies of the Social Insurance Fund of RF adopted resolutions on financial



support of preventive measures for reduction of injuries with the total amount of support – 2 260 thousand rubles.

Information is disclosed in Annex 5.9.

## 6.5. Accounts Receivable

Table 9 – **Budget settlements**

(in thousand rubles)

Indicator	Liability as of 31.12.2016		Accrued	Paid	Liability as of 31.12.2017	
	Debit	Credit	2017	2017	Debit	Credit
Value-Added Tax	-	473 891	1 636 601	2 050 988	-	59 494
Property tax	2	133 729	629 116	610 470	2	152 375
Income tax	364 907	-	630 429	582 651	317 129	-
Land fee	1 939	2 169	7 412	8 090	1 583	1 135
Individual income tax	-	42 793	583 958	583 288	-	43 463
Transport tax	-	1 849	7 494	7 804	-	1 539
<b>Total taxes:</b>	<b>366 848</b>	<b>654 431</b>	<b>3 495 010</b>	<b>3 843 301</b>	<b>318 714</b>	<b>258 006</b>
Fines	2	-	2 795	2 794	1	-
Penalties	1 950	-	872	(304)	774	-
<b>Total:</b>	<b>368 800</b>	<b>654 431</b>	<b>3 495 677</b>	<b>3 845 791</b>	<b>319 489</b>	<b>258 006</b>

In 2017, accounts receivable for taxes and dues have decreased by 49 311 thousand rubles.

Income tax receivable decreased by 47 778 thousand rubles. Income tax receivable accrued in amount of 317 129 thousand in the result of excess of advanced payments over income tax accrued by the results of the year.

Table 10 – **Insurance contributions for compulsory social insurance**

(in thousand rubles)

	Liability as of 31.12.2016		Accrued for 2017	Paid for 2017	Liability as of 31.12.2017	
	Debit	Credit			Debit	Credit
Insurance contributions - total:	2 121	93 935	1 297 360	1 286 420	6 020	108 774
including:						
Contributions to the Pension Fund	-	72 232	934 107	923 515	1	82 825
Compulsory Medical Insurance	-	19 483	229 625	226 767	-	22 341
Social Insurance	2 121	2 220	133 628	136 138	6 019	3 608
<b>Fines - total:</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>7</b>	<b>-</b>	<b>-</b>
<b>Penalties - total:</b>	<b>-</b>	<b>-</b>	<b>97</b>	<b>89</b>	<b>-</b>	<b>8</b>
<b>TOTAL:</b>	<b>2 121</b>	<b>93 935</b>	<b>1 298 464</b>	<b>1 286 516</b>	<b>6 020</b>	<b>108 782</b>

There were not any significant changes in compulsory medical insurance receivables and payables in 2017.

**Table 11 – Allocation of taxes, fines and penalties over the budget levels**

(in thousand rubles)

Indicator	Liability as of 31.12.2016		Accrued for 2017	Paid for 2017	Liability as of 31.12.2017	
	Debit	Credit			Debit	Credit
<b>Taxes - total:</b>	<b>366 848</b>	<b>354 431</b>	<b>3 494 705</b>	<b>3 742 996</b>	<b>318 714</b>	<b>258 006</b>
Federal budget	36 209	516 685	2 314 676	2 739 763	47 569	102 958
Regional budget	328 699	135 578	1 172 590	1 095 116	269 561	153 914
Local budget	1 940	2 168	7 439	8 117	1 584	1 134
<b>Fines - total:</b>	<b>2</b>	<b>-</b>	<b>2 795</b>	<b>2 794</b>	<b>1</b>	<b>-</b>
Federal budget	-	-	2 794	2 794	-	-
Regional budget	-	-	-	-	-	-
Local budget	2	-	1	-	1	-
<b>Penalties - total:</b>	<b>1 950</b>	<b>-</b>	<b>1 177</b>	<b>1</b>	<b>774</b>	<b>-</b>
Federal budget	1 587	-	1 004	91	978	-
Regional budget	89	-	(39)	(91)	37	-
Local budget	274	-	212	1	59	-
<b>Total:</b>	<b>359 800</b>	<b>654 431</b>	<b>3 498 677</b>	<b>3 845 791</b>	<b>319 489</b>	<b>258 006</b>

Accounts receivable from customers and clients and other accounts receivable are disclosed in Annexes 5.6.1 - 5.6.3.

## **6.6. Capital and Reserves**

No changes occurred in the authorized capital and as of 31.12.2017 it amounts to 28 286 813 thousand rubles. The amount of the authorized capital before the changes to the Company's Charter amounted 2 092 522 thousand rubles.

Additional paid-in capital of the Company was formed due to increase in the fixed assets value as determined by revaluation and due to share premium.

The Company generates the reserve capital for covering losses that, although not specifically identified, but may be incurred during the economic operations. The reserve capital is created from net income of the Company.

## **6.7. Accounts Payable, Loans and Borrowings**

In 2017 taxes payable to federal and local budgets greatly reduced. Taxes payable reduced by 396 425 thousand rubles.

Significant reduction occurred in income tax payable. VAT payable reduced by 414 394 thousand rubles in the result of excess payment of VAT in the 4<sup>th</sup> quarter of 2016 in amount of 464 933 thousand rubles, while the VAT for the 4<sup>th</sup> quarter of 2017 was 40 613 thousand rubles.

Tax liabilities on property tax increased by 18 646 thousand rubles as a result of increase of the tax base due to increase of rate applicable to electricity transmission activity, as well as the facilities that are their integral part from 1.3% in 2016 to 1.6% in 2017.

**Table 12 – Sums and maturities of loans and borrowings of Kubanenergo PJSC**

in thousand rubles

Bank	# of credit contract	Date of provision of loan/credit	Date of discharge of credit/loan	Sum of actual debt as of 31 December 2017	Interest accrued, 31.12.2017
1	2	3	4	5	6
Sberbank of Russia PJSC	5400/307	12.09.2016	11.09.2019	0.00	744.84
Sberbank of Russia PJSC	5400/343	03.05.2017	30.04.2020	0.00	3 660.69
Sberbank of Russia PJSC	5400/344	03.05.2017	30.04.2020	0.00	2 567.84
Sberbank of Russia PJSC	5400/345	03.05.2017	30.04.2020	0.00	2 028.54
Sberbank of Russia PJSC	5400/380	25.09.2017	23.09.2022	0.00	4 117.81
funded loan	4B02-02-00063-A001P	24.11.2015	19.11.2019	0.00	47 056.00
funded loan	4B02-01-00063-A001P	04.12.2015	21.11.2025	0.00	30 888.00
<b>Total for short-term credits</b>	-	-	-	0.00	91 063.72
Gazprombank JSC	0716-061	01.11.2016	30.10.2019	214 650.42	0.00
Gazprombank JSC	0716-062	01.11.2016	30.10.2019	1 462 022.46	0.00
Gazprombank JSC	0716-063	01.11.2016	30.10.2019	1 994 135.00	0.00
Gazprombank JSC	0717-005	31.03.2017	30.03.2020	2 233 651.46	0.00
Sberbank of Russia PJSC	5400/307	12.09.2016	11.09.2019	539 414.95	0.00
Sberbank of Russia PJSC	5400/343	03.05.2017	30.04.2020	2 000 000.00	0.00
Sberbank of Russia PJSC	5400/344	03.05.2017	30.04.2020	1 873 921.38	0.00
Sberbank of Russia PJSC	5400/345	03.05.2017	30.04.2020	1 500 000.00	0.00
Sberbank of Russia PJSC	5400/380	25.09.2017	23.09.2022	3 000 000.00	0.00
Russian Regional Development Bank (RRDB JSC)	341ю	29.12.2016	27.12.2019	800 000.00	0.00
funded loan	4B02-02-00063-A-001P	24.11.2015	19.11.2019	3 400 000	0.00
funded loan	4B02-01-00063-A-001P	04.12.2015	21.11.2025	3 600 000	0.00
Total for long-term credits	-	-	-	22 617 795.67	0.00
<b>Total for credits and loans:</b>	-	-	-	<b>22 617 795.67</b>	<b>0.00</b>

Information is disclosed in Annexes 5.6.5. – 5.6.8.

### **6.7.1. Collateral for obligations**

As of December 31, 2017, bank guarantees sums received for securing performance of obligations under EPC contracts and return of advance (refund) on the off balance sheet account 008 “Securities for Obligations and Payments Received” amounted to 1 923 434 thousand rubles.

Property pledged under purchase contract – 107 thousand rubles. (Annex 5.8.)

### **6.7.2. Information on the Company's Capabilities to Raise Additional Funds as of the Reporting Date**

**Table13 – Unutilized credit lines of the Company**

thousand rubles)

<b>Creditor Bank</b>	<b>Agreement</b>	<b>unutilized limits</b>
Gazprombank JSC	No.0716-029 dd 30.09.2016	720 000
Gazprombank JSC	No.0716-061 dd 01.11.2016	785 350
Gazprombank JSC	No.0716-063 dd 01.11.2016	537 978
Gazprombank JSC	No.0716-063 dd 01.11.2016	38 033
Sberbank of Russia PJSC	No.5400/307 dd 12.09.2016	1 460 585
Gazprombank JSC	No.0117-055 dd 31.03.2017	766 349
Sberbank of Russia PJSC	3	126 079
Sberbank of Russia PJSC	4	2 000 000
Sberbank of Russia PJSC	0	
Sberbank of Russia PJSC	No.5400/407 dd 29.12.2017	2 000 000

### **6.8. Information on Business Risks**

The Board of Directors of Rosseti PJSC approved the Strategy of development and improvement of internal control system of Rosseti JSC and subsidiaries and affiliates of Rosseti JSC (Minutes No. 143 dd. 13.02.2014), that determines current and target condition of internal control and risks management system of Rosseti PJSC and its subsidiaries and affiliates.

To implement this Strategy, the Issuer's Board of Directors approved the Internal Control Policy and Risks Management Policy (Minutes No. 233/2016 dd. 18.03.2016) that are aimed at timely finding and providing of preventive actions on minimization of risk (control procedures) to decrease the possibility of financial and other losses that influence at reaching the goals of the Company.

Principals of the risks management:

1) creation and protection of values of the Company (the risk management system promotes achievement of the purposes and productivity improvement, provision of health and safety of the person, safety of all types of activity of the Company, observance of legal and standard requirements, preservation of the environment,

improvement of quality of services, efficiency of operations, management and reputation).

2) management of risks is an integral part of all organizational processes (management of risks is not an isolated activity which is separated from the core activity and processes in the organization; it is a part of obligations of the management and an integral part of all organizational processes, including strategic planning and all processes to manage projects and changes)

3) management of risks is a part of the decision-making process

4) management of risks is regular, structured and timely

5) management of risks is based on the best available information.

6) management of risks is transparent and considers interests of interested parties.

7) management of risks is dynamical, iterative (repeating) and reacting to changes.

8) management of risks promotes constant improvement of the organization.

9) responsibility for management of risks: all participants of the risk management system bear responsibility for revealing, estimation, analysis and continuous monitoring of risks within the limits of their activity, development and implementation of necessary events for management of risks, continuous monitoring of efficiency of events for management of risks.

10) the optimality principle (the ratio of costs for implementation of events for management of risks and effect from realization of these events, including conformity between the level of complexity of the Risk Management System at the level of complexity and degree of importance of the object subject to the analysis from the point of view of risks, is analyzed)

11) the unity of methodological base. Management of risks (revealing, analysis, estimation and monitoring of risks, development and monitoring of efficiency of events for management of risks) is performed on the basis of approaches and standards, uniform for all structural units of the Company.

Every quarter the Issuer collects and analyses information on internal and external factors that can negatively affect at Issuer's goals achieving. For minimization of consequences from risks implementation the Issuer developed and carried out the events on prevention of negative consequences; at the same time there are political and

economic factors that influence the activity of “Kubanenergo” PJSC in respect of which the Issuer cannot guarantee that events aimed to overriding of possible negative situations can change the situation for the better because these risks factors are beyond the Issuer’s control.

## **Industry Risks**

### **Tariff risks**

In connection with the restriction of growth of tariffs for transmission services for end-users at the level of the RF Government, the likelihood of establishing a tariff lower than the economically justified level is estimated as high.

To prevent and mitigate the impacts from implementation of this risk the Company provides supporting materials to regulatory authorities, that confirm level of economically feasible expenses of the Issuer, upholds the position on necessity of outrunning growth of expenditures, as strategic Company, collective fund holder of Krasnodar region and Republic of Adygea, forms and send disputes to Federal Antimonopoly Service of the Russian Federation.

The Issuer is exposed to risks of reducing of revenues amount in connection with changing of structure of electric energy transmission relating to accepted one while tariffs were approved, and risks of changing of legislation in sphere of tariffs setting.

The following events are implemented to minimize risks:

- 1) cooperation with tariff regulatory authorities concerning questions related to accounting of losses that were caused by determining at the federal level the sums of falling out income from applying non-regulated price at necessary gross revenue of the Issuer in the next period of tariff regulation;
- 2) preparation and submission to authorities of state regulating of tariffs the propositions on technological electric energy/power consumption taking into account dynamics of productive supply for purposes of forming of consolidated balance forecast for production and delivery of electricity for the next year;
- 3) development and implementation of the Programme of increasing of electric energy efficiency and its coordination with administration of the regions;
- 4) development and implementation of the Programme of cost management.

The issuer's sphere of influence in decision-making the bodies of tariff regulation is

limited, and the issuer cannot guarantee that the measures aimed at minimizing the consequences will be as effective as possible.

The Issuer is exposed to risk of scarcities of source of funding of events on agreements on implementation of technological connection (hereafter – technological connection) due to approving by regulating authority of paying rate for technological connection lower of economically feasible level. One of the factors of this risks arising is introduction of amendments to legislation of the Russian Federation (Federal Law No. 35-FZ dd. 26.03.2003 “On power industry”) on excluding of power receivers of maximum capacity 150 kW from paying for technological connection of investment component for covering of charges for construction of power supply network facilities (from 1 October of 2015 – no more than 50% from amount of specified expenditures, from 1 October of 2017 – excluding this expenditures from paying for technological connection).

To minimize risk, the Company cooperates with tariffs regulatory authorities, forms correct scope of obligation on technological connection agreements, develops project documents on scope of obligations on technological connection agreements, submits in regulatory authorities the additional supporting materials, and adopts economic feasibility of paying rate for technological connection.

Risk of antimonopoly legislation is evaluated by Company as medium.

The reason of risk implementation is non-fulfillment of obligations of the Issuer on technological connection on concluded agreement on technological connection (because of scarcity of funds and large number of agreements on technological connection), it may lead to paying of forfeit by the Company. To avoid the risk, the Issuer plans to implement its obligations on technological connection agreement in full.

### **Risk of reducing the amount of services on electric energy transmission.**

Risk of reducing the amount of services on electric energy transmission is industry risk.

The reducing of electric energy consumption can be the consequence of external factors influence such as economy crisis and production decline, construction of electrical generation facilities by customers, extreme weather events, industrial accidents, and industrial disasters. Potential influence of these factors may influence on changing of revenue of the Issuer.

In connection with economic development of the region where the Issuer operates, there is a dynamic of increasing of amounts of electric energy consumption for the last few years. This risk is evaluated as medium. The Issuer implements monitoring of current and expected economic situation in region and in country, fulfills preparation works for appropriate work of power equipment in all seasons, carries out maintenance and repair of power facilities.

### **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 upgrade, 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.

Issuer 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 and services used by the Company increases.

In order to minimize these risks, the issuer uses the position of a large consumer and



purchases the material and technical resources, and selects the service providers through competitive and regulated procurements.

### **Country and regional risks**

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

The worsening of economic and political situation in the country and the region caused by external factors (including international sanctions) is main risk for the Company.

Because of the fact that the Issuer operates only on internal market, government of the Russian Federation develops programmes on import substitution including in regions where the Issuer 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.

#### **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
- detriment to the Issuer's properties that may negatively affect one's ability to timely and fully fulfil one's liabilities to consumers and counterparties.

The Company operates in the Krasnodar Territory and the Republic of Adygea. The regions where the Issuer carries out its activity are politically stable with the risk of a military conflict or a state of emergency occurrence there due to internal causes being the minimum. The Issuer has elaborated and is carrying out target arrangements for protection of the Issuers' 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. To compensate for damage of the effect of emergency circumstances associated, inter alia, with natural disasters, the Issuer concludes property insurance contracts.

Sharp regional scale changes (environmental, political, demographic, social) are unlikely, but their emergence will doubtlessly affect the Company's activity.

Taking into account the region transport infrastructure development level, the risks of interruption of transport communication due to difficulty of access or remoteness of location are minimal.

In the Issuer's opinion, the situation in the region will have a favourable effect on the Issuer's activity; there existing no reasons to expect that a change of the situation in the region will entail the Issuer's failure to fulfil its liabilities.

## **Financial risks**

### **Risk of interest rates change:**

The Issuer attracts short- and long-term borrowings from the Russian financial market. A substantial increase of interest rates on credits and loans may entail appreciation of the Issuer's debt servicing. For optimization of the debt portfolio structure and reduction of its servicing costs, the Issuer strains after use of credits and loans with the fixed interest rate which results in significant reduction of the above risk. Issuer's supposed actions in the event of negative effect of interest rates change on one's activity: Attraction of longer-term credits 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 Issuer has neither investments into foreign companies value of net assets whereof 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 Issuer, but may lead to augmentation of prices for energy equipment. Due to strengthening of the national currency, this risk is assessed as medium. In order to reduce the risk, the Company is implementing a program of import substitution. 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 Issuer'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 Issuer'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 Issuer's expenses associated with inflation. However, during high inflation periods, risks of reduction of the tariff compensatory component amount and of solvency of the Issuer's major consumers grow up.

Taking into account the abovementioned information, there are no guarantees that possible increase of consumer prices will not lead to a drop of the Issuer's rate of return in future.

### **Inflation risks**

The current inflation level cannot have a material effect on the Issuer's financial status. Nevertheless, for minimization of financial risks associated with inflation processes and affecting the financial results of activity, the Issuer is implementing an integrated program for analysis of financial risks, planning and appraisal of actual profitability of activity; one identifies return rate indices that are indicative of the Issuer's level of cost-efficiency, normative values of financial coefficients characterizing the Issuer's solvency and liquidity, which enable one to promptly detect drawbacks in the Issuer's work and take measures for their elimination. As well as in accordance with RF Government Regulation No. 1178 dd. 29.12.2011 "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 Issuer considers these risks as moderate.

The Issuer's financial reporting indices are most badly subject to changes resulting from the effect of the abovementioned financial risks including risks, the possibility of occurrence and character of changes in the report: The index of accounts receivable accruing due to counterparties' incapability to pay for the Issuer's services is most badly subject to change in the Issuer's reporting resulting from the abovementioned risks occurrence. This risk occurrence probability is not high and is related to situation in the country in general, inflation and changes of currency exchange rates and their effect on the Russian economy as a whole. Deterioration of the economic situation in Russia may

affect growth of costs of electric energy transmission across the Issuer's electric power grids, which will lead to profit reduction if the established tariffs remain in effect. In order to reduce this risk, the issuer carries out the work on receivables management aimed at optimization of its amount and repayment of debts.

### **Legal risks**

The Issuer carries out one's activity only in the domestic market; consequently, the legal risks are considered only from the corresponding point of view.

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

Since no special taxation mode is applicable to the Issuer's activity and the Issuer has no overdue tax and levy indebtedness to budgets of all levels, the Issuer's tax risks are considered as the minimum within the framework of a conscientious taxpayer's activity. In the shorter term, the Issuer does foresee emergence of any significant risks in one's 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 Issuer's activity and, consequently, do not entail emergence of legal risks.

In case of changes and/or launch of requirements for licensing the Issuer's core activity the Issuer will take all necessary measures for obtaining the licenses and permissions required.

The Issuer has licenses for carrying out other activity data whereon is given in chapter 3.2.5 of this report. The Issuer carries out regular work for prolongation of the licenses necessary for conduction of its business activity. The Issuer's exposure to the above risk may be considered insignificant. In case of change of requirements on licensing of the basic kinds of activity, the Issuer will take necessary steps to obtain the appropriate licenses and permits. Risks connected with absence of possibility to extend the license of the Issuer are minimal and cannot influence on Issuer's fulfillment of obligations on the placed securities.

### **Reputational risks**

The risk that the issuer of 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 Issuer is a natural monopoly, there is an annual increase in the number of electricity consumers. In addition, the Issuer developed good practice for long-term cooperation with its partners.

### **Strategy risks**

The Issuer, being a part of the single distribution grid complex of Russia, seeks to achieve the objectives defines at the national level. On 3 April 2013, the Russian Government approved the development strategy for the electric grid complex of the Russian Federation. Because the Issuer is a subsidiary of Rosseti, the largest Russian backbone grid company, the Issuer is a participant in implementation of policies and programmes on activities (business processes) of Rosseti PJSC.

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

The probability of the risk of the Issuer losses arising from errors (defects) made in management decisions, defining the strategy and activities of the Issuer, 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 Issuer;
- 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 Issuer of the information for decision-making (including, by definition, the quantity and quality of resources)

### **Risks connected with Issuer's activity**

#### **Risks connected with current legal trials where the Issuer participates**

The Issuer participates in legal trials the results of which can influence at financial and operational activities of the Issuer. The Issuer carries out monitoring of judicial practice that allows to use this information for reaching positive judicial decision for the Issuer.

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 Issuer.**

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

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

The Company cooperates with main customers for a long time and is a monopolist in the 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 Issuer:

- 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 32144-2013 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 in time;
- 5) emergency situations in related networks, that can breakdown the equipment of the Issuer;
- 6) excessive losses of electric energy.

To reduce these risks, the Issuer pays much attention to 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 Issuer, 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.

### **Investment risk**

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

One of the investment risks is risk of reduction of sources of financing of Company’s investment programme. Currently this risk is rated as minimal and is determined by influence of the following factors: decline in the ruble, upturn in inflation, and rise in cost of debt capital.

To decrease the investment risk, the investment programmes of the Issuer are planned taking into account following key criterions of efficiency:

- increasing of reliability and availability of network infrastructure;
- decreasing of amortization and modernization of facilities of power supply network system;
- reaching of high load of commissioned capacity;
- optimization of engineering solutions out of necessity of excluding the usage of imported equipment and materials, cost of which has high dependence from rate of exchange.

To minimize risk of untimely and low-quality implementation of the investment programme, the Issuer controls the terms and quality of investment projects.

### **6.9. Deferred taxes**

In order to account income and expense 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.

Current income is recognized as obligation to budget equal to non-paid sum of income

tax.

Provisional profits tax expense (income) is accounted as multiplication of accounting income (loss) with rate of the income tax set by the RF legislation on taxes and levies. In 2017, the Company defined the following components of income tax, in thousand rubles:

Table 14 – **Income tax**

thousand rubles

Indicators	Sum	Tax rate	Sum	Tax component
<b>Profit/loss before the taxation</b>	<b>1 167 674</b>	<b>20%</b>	<b>233 535</b>	<b>Provisional profits tax income</b>
<b>Taxable temporary difference</b>	<b>(253 896)</b>	<b>20%</b>	<b>(50 779)</b>	<b>Deferred tax obligations</b>
including				
- difference appeared	(356 288)	20%	(71 257)	Deferred tax obligations were accrued
- difference was discharged	102 392	20%	20 478	Deferred tax obligations were discharged
<b>Deductible temporary difference</b>	<b>54 809</b>	<b>20%</b>	<b>10 962</b>	<b>Deferred tax asset</b>
Including				
- difference appeared	1 422 830	20%	284 566	Deferred tax assets were accrued
- difference was discharged	(1 368 021)	20%	(273 604)	Deferred tax assets were discharged
<b>Taxable (deductible) permanent difference</b>	<b>2 183 553</b>	<b>20%</b>	<b>436 710</b>	<b>Permanent tax obligation</b>
<b>Tax base</b>	<b>3 152 140</b>	<b>20%</b>	<b>630 428</b>	<b>Current tax</b>

Таблица –16 **Flow of permanent and temporary differences**

(thousand rubles)

<b>Permanent tax liabilities (assets), resulting in adjustment of contingent income for income tax, total thousand rubles</b>	<b>436 710</b>
including:	
permanent tax asset arising from the revealed revenue of previous years	(35 718)
permanent tax asset arising from the revealed loss of previous years	130 445
permanent tax liabilities resulting from differences in accounting for depreciation of fixed assets for tax purposes and financial reporting	61 352
permanent tax liabilities resulting from the creation of the provision for estimated liabilities	245 134
permanent tax asset arising from the recovery of provision for estimated liabilities	(212 672)
miscellaneous permanent tax liabilities (assets)	248 268
<b>Recognition of deferred tax assets for the amount of deductible temporary differences, total in thousand rubles</b>	<b>360 518</b>



including:	
recognition of a deferred tax asset for the amount of the difference in accounting for allowance for doubtful accounts	115 868
recognition of a deferred tax asset for the amount of the difference in accounting for the provision for unused vacation	76 835
recognition of a deferred tax asset for the amount of the difference in accounting for depreciation of fixed assets for tax purposes and financial reporting	37 279
recognition of a deferred tax asset for the amount of the difference in accounting of donated property	3 271
the recognition of deferred tax assets for the amount of adjusted tax liabilities of previous periods	47 609
recognition of deferred tax assets for the amount of difference in accounting of reserve for estimated liabilities	75 952
the recognition of deferred tax assets for the amount of other deductible temporary differences	3 704
<b>Repayment of deferred tax assets for the amount of deductible temporary differences, total in thousand rubles</b>	<b>318 338</b>
including:	
repayment of the deferred tax asset for the amount of the difference in accounting for allowance for doubtful accounts	134 819
repayment of the deferred tax asset for the amount of the difference in accounting for the provision for unused vacation	73 202
repayment of the deferred tax asset for the amount of the difference in accounting for depreciation of fixed assets for tax purposes and financial reporting	9 503
repayment of the deferred tax asset for the amount of the difference in accounting for losses to be carried forward	3 955
disposal of deferred tax assets, asset retirement	44 734
recognition of deferred tax assets for the amount of difference in accounting of reserve for estimated liabilities	48 776
repayment of the deferred tax asset in the amount of other deductible temporary differences	3 349
<b>Recognition of deferred tax liabilities in the amount of taxable temporary differences, total in thousand rubles</b>	<b>71 257</b>
including:	
recognition of a deferred tax liability for the amount of the difference in accounting for depreciation of fixed assets	24 228
recognition of a deferred tax liability for the amount of the difference in accounting for interest payable	36 916
recognition of a deferred tax liability for the amount of the difference in accounting for other taxable temporary differences	10 113
<b>Repayment of deferred tax liabilities in the amount of taxable temporary differences that resulted in adjustment of contingent income for income tax, total in thousand rubles</b>	<b>20 768</b>
including:	
repayment of the deferred tax liability for the amount of the difference in accounting for depreciation of fixed assets	19 185

disposal of deferred tax liabilities related to asset retirement	290
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There were no grounds to change the tax rate in comparison to the previous period. During the reporting period due to disposal of assets (sale, transfer on free of charge basis, dissolution) the deferred tax obligation in amount of 290 thousand rubles, deferred tax assets in amount of 44 734 thousand rubles were written-off on account of profit and losses.

Information on taxation of profit, cash flow is disclosed in annexes 2.3 and 5.7.2.

#### **6.10. Cost of goods sold, commercial expenses, administrative expenses and other expenses**

Expenses (expenditures) are accounted for the reporting period in which they occurred regardless the time of actual payment of monetary assets (the accrual principle assumption).

Table 16 – “Miscellaneous costs” as part of the prime cost

(thousand rubles)

<b>Indicator</b>		<b>2017</b>	<b>2016</b>
<b>Name</b>	<b>Code</b>		
Cost of goods sold,	6510	38 258 835	35 829 877
including			
Other expenses	6515	20 672 301	18 920 684
Including			
Services of electricity distribution companies		10 940 261	9 950 476
“FSK UES” PJSC (GFC UES) services		6 156 017	4 904 589
Other expenses		3 576 023	4 065 619

##### **6.10.1 Information on the expenses on energy resources usage**

Table 17 – Information on the expenses on energy resources usage

No.	Approved target indicators	Measurement unit	2016 (fact)	2017 (fact)
1	2	3		
1.1.	<b>Electric energy losses, Including</b>	<b>mln rubles, including VAT</b>	<b>8 786.145</b>	<b>8966.093</b>
		<b>mln kilowatt-hour</b>	<b>2 947.589</b>	<b>2 728.984</b>
1.1.1.	Energy for own needs	mln rubles, including VAT	49.995	58.746
		mln kilowatt- hour	16.603	17.821
1.2.	<b>Energy purchased for operational and household needs, by resource types</b>	<b>mln rubles, including VAT</b>	<b>134.233</b>	<b>136.272</b>
1.2.1.	Fuel and energy, including	mln rubles, including VAT	128.811	132.803
		tons of fuel	4 944	4 690
1.2.1.1.	Electric energy	mln rubles, including VAT	117.327	122.149
		thousands kilowatt-hour	33 538.640	32 287.897
		thousands kilowatt-hour per square meter of premises	0.227	0.275

1.2.1.2.	Thermal energy	mln rubles, including VAT	10.538	9.686
		gCal	5 088.892	4 400.286
		gCal per square meter of premises	0.134	0.117
1.2.2.	Hot water supply	thousands of cubic meters	0	0
		mln rubles, including VAT	0	0
1.2.3.	Cold water supply	Thousands of cubic meters	131.629	94.891
		mln rubles, including VAT	5.422	3.469
1.2.4.	Natural gas	thousands of cubic meters	141.385	161.509
		mln rubles, including VAT	0.946	0.968
1.3.	Presence of metering devices of electric energy consumed for the Company's household needs	%	100	100
1.4.	Electric power metering devices equipment by retail market's consumers	%	67.9	72.2

### 6.11. Cash flow dynamics information

In accordance with Accounting Regulations 23-2011 the Company's Cash Flow Report concludes a brief calculation of a VAT including incomes from customers and receivers, payments to suppliers and payment to a budget system of Russian Federation or reimbursement from it in line 4129 "Other payments" in form "Cash flow dynamics report" in the amount of – (505 932) thousands rubles, including:

VAT included in received amounts	6 362 683 thousands rubles
VAT included in amounts transferred	4 814 786 thousands rubles
VAT paid to a budget	2 053 529 thousands rubles
Result	(505 932) thousands rubles

Highly liquid investments (cash equivalents) that can be readily converted into previously known amounts of cash and which are subject to insignificant risk of changes in value for the period from 01.01.2017 to 31.12.2017 amounted 6 820 000 thousand rubles (deposits). Transfer of money into deposits, recognized as money equivalents, is not a cash flow and is not indicated in the Cash flow statements.

**Table 18 –Sum of minimum permanent balance on current accounts of the Company as of 31.12.2017**

Ground (additional agreement, confirmation of transaction)	Transaction start-date	Transaction end- date	Sum of minimum permanent balance
1	2	3	4
640	29.12.2017	09.01.2018	341 000

641	29.12.2017	09.01.2018	200 000
639	29.12.2018	11.01.2018	350 000
<b>Gazprombank JSC, total</b>			891 000
243	29.12.2017	09.01.2018	18 000
<b>Joint stock bank "Rossiya" JSC, total</b>			18 000
<b>Total</b>			909 000

Kubanenergo doesn't have debt on overdraft loans as of 31 December 2017.

As of December 31, 2017, third-party guarantees received and not used by the Company to raise a credit with specification of the amount of monetary funds that can be raised by the Company are not present.

Money (or money equivalents) that cannot be used by the Company (e.g., letters of credit opened for the benefit of other organizations for transactions in progress as of the reporting sheet date) is not available as of December 31, 2017.

## 6.12. Segment Information

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) electricity transmission;
- 2) grid connection to the power supply networks.

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

**Table 19 – Consumers, the sales revenue from which is not less than 10 % of the total revenue of the Company**

(thousand rubles)

#	Consumer (Customer)	Total Revenue	Including Electricity Transmission	Including Other Services
1	Independent Power Sales Company of the Krasnodar region JSC	15 112 964	15 112 964	-
2	TNS Energo Kuban PJSC	19 406 923	19 379 909	27 014

In addition, information by the reportable segments is presented in Annex 5.13.

## 6.13. Information on the Related Parties

### 6.13.1. List of the Related Parties

The operations of Kubanenergo JSC may be affected by persons/entities, which are affiliated to the Company. Within the legislation of the Russian Federation, Kubanenergo JSC publishes the lists of affiliates on its website at <http://www.kubanenergo.ru> in Section For Shareholders and Investors/Lists of Affiliates, as well as at <http://www.e-disclosure.ru/portal/company.aspx?id=2827>.

Entities/ persons that may have major influence on the Company's activity:

- the largest shareholder of the Company – Rosseti JSC (owns 92.78 % of the Company shares);
- persons, that are members of the management bodies of the Company (BoD members, Management Board members, director general of Kubanenergo PJSC).

Kubanenergo JSC supervises the operations of its subsidiaries: “Recreation Centre “Energetik” JSC and “Energoservis Kuban” JSC by methods of corporate management.

### 6.13.2. Transactions Made with the Related Parties and Related-Party Transactions in Progress

Table 20 – Income and related receivables for 2016

thousand rubles

Contractor	As of 31 December 2015	Accrued	Paid	As of 31 December 2016
IDGC of the South PJSC*	14	5 373	(5 387)	-
Recreation Centre Energetik JSC***	1 949	2 473	(4 242)	180
Reserve	(1 000)	-	1000	-
Energoservis Kuban JSC	22	251	(265)	8
Rosseti PJSC***	-	1 398	(1 398)	-
Mobile GTES JSC*	15	180	(165)	30

Table 21 – Income and related receivables for 2016

thousand rubles

Contractor	As of 31 December 2016	Accrued	Paid	As of 31 December 2017
Recreation Centre Energetik JSC***	180	3 077	(3 219)	38
Energoservis Kuban JSC	8	683	(332)	359
Rosseti PJSC***	-	1 398	(1 398)	-

Main computer center of power industry	30	60	(75)	15
MOESK PJSC	-	13 252	-	13 252

**Table 22 – Expenses, other transactions and related payables for 2016**

(thousand rubles)

<b>Contractor</b>	<b>As of 31 December 2015</b>	<b>Accrued</b>	<b>Paid</b>	<b>As of 31 December 2016</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
IDGC of the South PJSC*				
- Trading Transactions	(27 235)	(104 418)	106 792	(24 861)
- Other payables	(137 038)	(19 570)	66 229	(90 379)
IDGC of the Centre and Volga region PJSC				
- Other payables	(51 621)	-	51 621	-
Rosseti PJSC **				
- Other payables	(5 297)	(115 874)	115 874	(5 297)
-Dividends	-	(1 055 978)	1 055 978	-
- Settlements with shareholders	-	(2 072 164)	2 072 164	-
FGC UES PJSC *				
- Trading Transactions	(2 089 559)	(7 034 856)	8 622 147	(502 268)
- Other payables	(143 708)	(149 700)	259 523	(33 885)
- Other payables	237 514	1 716 676	(1 698 270)	255 920
Reserve	(167 116)	-	-	(167 116)
IDGC of North Caucasus PJSC *				
- Other payables	(7 716)	-	7 662	(54)
Recreation Centre Energetik JSC ***				
- Other payables	-	(11 156)	11 156	-
Mobile GTES JSC				
- Other payables	(25 511)	(7 652)	33 163	-
IT Energy Service JSC				
- Other payables	(283)	(2 833)	2 927	(189)
IDGC of Volga PJSC *				
- Other payables	(85 429)	(2 356)	85 429	(2 356)
Energoservis Kuban JSC***				
- Other payables	(1 740)	(61 799)	62 592	(947)
IDGC of Centre PJSC *				
- Other payables	(23 480)	(18 091)	41 571	-
IDGC of Ural JSC*				
- Other payables	(52 265)	-	52 265	-
IDGC of Siberia PJSC *				
- Other payables	(45 302)	-	45 302	-
IDGC of North-West PJSC*				
- Other payables	(18 936)	-	18 936	-
Lenenergo PJSC *				
- Other payables	(25 639)	(2 918)	28 557	-
Tyumenenergo JSC*				
- Other payables	(18 799)	-	18 799	-
Yantarenergo PJSC*				
- Other payables	(5 605)	-	5 605	-
TRK PJSC*				

- Other payables	(7 722)	-	7 722	-
MOESK PJSC*				
- Other payables	(42 239)	-	42 239	-
IDGC of the South PJSC*				
- Trading Transactions	(27 235)	(104 418)	106 792	(24 861)
- Other payables	(137 038)	(19 570)	66 229	(90 379)
IDGC of the Centre and Volga region PJSC				
- Other payables	(51 621)	-	51 621	-
Rosseti PJSC **				
- Other payables	(5 297)	( 115 874)	11 874	(5 297)
FOCL-HV-Lines Directorate JSC				
- Other payables		(15 090)	13 944	(1 146)

**Table 23 – Expenses and other transactions and related to it payables for 2017**

(thousand rubles)

Contractor	As of 31 December 2016	Accrued	Paid	As of 31 December 2017
1	2	3	4	5
IDGC of the South PJSC *				
- Trading Transactions	(24 861)	(610)	25 471	-
- Other payables	(90 379)	(3 268)	93 647	-
IDGC of the Centre and Volga region PJSC *				
- Other payables	-	(7 074)	7 074	-
Rosseti PJSC ***				
- Other payables	(5 297)	(115 874)	115 874	(5 297)
-Dividends	-	(496 441)	496 441	-
- Settlements with shareholders	-	(20 357)	20 357	-
FGC UES PJSC *				
- Trading Transactions	(502 268)	(10 290 048)	8 498 315	(2 294 001)
- Other payables	(33 885)	(211 028)	211 050	(33 863)
- Other payables	255 920	535 612	(594 079)	197 453
Reserve	(167 116)	(1 854)	561	(168 409)
IDGC of North Caucasus PJSC *				
- Other payables	(54)	-	-	(54)
Recreation Centre Energetik JSC***				
- Other payables	-	(12 107)	11 968	(139)
-Dividends	-	(277)	277	-
Technical Supervisor Centre JSC				
- Other payables	-	(2 113)	2 038	(75)
IT Energy Service LLC*				
- Other payables	(189)	(1 611)	1 684	(116)
IDGC of Volga PJSC *				
- Other payables	(2 356)	(2 320)	4 676	-
Energoservis Kuban JSC***				
- Other payables	(947)	(120 807)	63 135	(58 619)
IDGC of Centre PJSC *				
- Other payables	-	(3 657)	3 657	-
IDGC of Siberia PJSC*				
- Other payables	-	(1 249)	1 249	-
MOESK PJSC*				
- Other payables	-	(4 673)	4 673	-
Scientific and Research Centre of FGC				

UES PJSC *				
- Other payables	-	(90)	90	-
FOCL-HV-Lines Directorate JSC				
- Other payables	(1 146)	(18 140)	17 294	(1 992)

\* - entity belongs to the same group as the Company

\*\* - entity has the right to dispose of more than 20 % of the Company's shares

\*\*\* - company has the right to dispose of more than 50 % of the total votes of the shares in the Authorized Capital of the entity

Write-off of accounts receivable, the limitation period of which has expired, of other bad debts, including out of provision for doubtful debts, was not made.

### 16.13.3. Compensations Payable to Key Management Personnel

**Table 24 – Information on the compensations payable to key management personnel**

thousand rubles

Payments	Members of the Board of Directors		Members of Auditing Committee		Members of Management Board	
	2016	2017	2016	2017	2016	2017
<b>Short-term compensations, incl.:</b>	<b>17 130</b>	<b>8 771</b>	<b>1 172</b>	<b>1 020</b>	<b>2 211</b>	<b>2 211</b>
<b>1.1. Salaries for the reporting period (vacation bonus excl.)</b>	<b>14 026</b>	<b>6 829</b>	<b>899</b>	<b>782</b>	<b>1 696</b>	<b>1 703</b>
a) premiums	0	0	0	0	0	0
b) bonuses	0	0	0	0	0	0
c) other incentive payments, the bases for which are the indices of labour or performance	0	0	0	0	0	0
<b>1.2. Annual paid holidays for operations in the reporting period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>1.3. Total other payments for the benefit of key management personnel (not depending on the respective terms in the labour contract), incl.:</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
a) the Company's payment for public services	0	0	0	0	0	0
b) the Company's payment for medical care, incl. treatment	0	0	0	0	0	0
c) one-off pecuniary aid payments for vacation	0	0	0	0	0	0
d) full or partial vacation bonus	0	0	0	0	0	0
e) full or partial payment for education in the private interests	0	0	0	0	0	0
f) others (please, specify), incl.:	0	0	0	0	0	0
compensation for residential premises lease	0	0	0	0	0	0
material aid for mortgage repayment	0	0	0	0	0	0
<b>1.4. Taxes payable and other compulsory payments into the respective budgets and extrabudgetary funds</b>	<b>3 104</b>	<b>1 942</b>	<b>273</b>	<b>238</b>	<b>515</b>	<b>518</b>
<b>2. Long-term compensations, incl.:</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>2.1. Compensations upon withdrawal, incl.:</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
a) payments under the voluntary insurance contracts concluded with the insurance companies	0	0	0	0	0	0
b) payments under the non-governmental retirement insurance contracts concluded with the non-governmental pension funds	0	0	0	0	0	0
c) other pension and social safety net payments upon withdrawal	0	0	0	0	0	0
<b>2.2. Other long-term compensations</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>2.3. Long-term compensation charges</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>3. TOTAL (short-term and long-term) compensations, charges excl.</b>	<b>14 026</b>	<b>6 829</b>	<b>899</b>	<b>782</b>	<b>1 696</b>	<b>1 703</b>
<b>4. TOTAL (short-term and long-term) compensation charges</b>	<b>3 104</b>	<b>1 942</b>	<b>273</b>	<b>238</b>	<b>515</b>	<b>518</b>



#### **6.14. Going Concern Principle**

Financial statements of Kubanenergo PJSC for 2017 were prepared on a going concern basis, which assumes that the Company is able to sell its assets and discharge its liabilities in the normal course of business in the foreseeable future. As indicated in the accounting (financial) statements, the Company's net profit in 2017 amounted to 525 276 thousand rubles (in 2016 net profit was 2 140 500 thousand rubles) and a working capital deficit (excess of current liabilities over current assets) as of December 31, 2017 amounted to 1 569 959 thousand rubles. Short-term liabilities of the Company as of 31 December 2017 amounted to 12 661 702 thousand rubles, including obligations on borrowed funds in amount of 91 064 thousand rubles. Loan payable in 2018 is absent. Short-term obligations on borrowed funds as of December 31, 2017 are formed due to the interest accrued on bonded loan and the credit of Sberbank PJSC. Payment under the credit contract and conditions of placement of bonded loans is due in 2018.

As of December 31, 2017, the Company established credit limit for the amount of 8 402 204 thousand rubles, among which there are Gazprombank JSC for the amount of 2 815 541 thousand rubles and Sberbank PJSC for the amount of 5 586 664 thousand rubles. It also has overdraft lending limits at Sberbank PJSC and Gazprombank JSC for the total sum of 1 000 000 thousand rubles.

We assume that the cash flow from business activity in 2018 will be enough to cover our obligations that are due in 2018.

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 2018.

#### **6.15. Estimated Liabilities, Contingent Assets and Liabilities**

In 2017, the Company recognized in the accounting the estimated liabilities related to possible compensation for unused vacation in the amount of 398 376 thousand rubles, partly the written off previously formed a provision in the amount of 380 415 thousand rubles, the balance as of the end of the reporting period amounted 258 085 thousand rubles. As of 31.12.2017, a provision related to the possible payment of remuneration for the year was recognized in the amount of 258 008 thousand rubles.

The amount of liabilities on outstanding claims at the beginning of reporting period is reflected in the financial statements in the amount of 2 207 726 thousand rubles,

including 589 623 thousand rubles in part of inconsistent volume of losses, 1 618 103 thousand rubles in terms of electricity transmission services. Charges totaled 1 206 897 thousand rubles, including 251 294 thousand rubles in part of inconsistent volume of losses, 955 603 thousand rubles in terms of electricity transmission services. The amount of the estimated liability for outstanding claims providers at end of period is 824 373 thousand rubles, including 647 742 thousand rubles in part of inconsistent volume of losses, 176 631 thousand rubles in part of electricity transmission services. The amount of the provision for judicial disputes is 58 806 thousand rubles (annex 5.7.1).

Discounting of the recognized by the Company estimated liabilities was not made because the expected period of performance is less than 12 months after the balance sheet date.

The expected amount of counter-claims or amounts to a third party claims as reimbursement of costs which the Company will incur to perform its obligations, and assets recognized by such requirements in accordance with paragraph 19 of PBU 8/2010 at the balance sheet date are absent.

There are no formed contingent liabilities and contingent assets as of December 31, 2017.

#### **6.16. Events After the Reporting Date**

The Company maintains accounting of the events occurring after the reporting date and makes disclosure thereof in the statements in accordance with the Accounting Regulations “Events Occurring after the Reporting Date” PBU 7/98 approved by Decree of the Ministry of Finance of the Russian Federation No. 56H dd. 25.11.1998.

Resulting from the end of the bankruptcy procedure, on 31.01.2018 an entry was made in the register of companies on termination of business activity of “Recreation Centre “Plamya” JSC. This fact of was qualified by Kubanenergo PJSC as immaterial event and was not indicated in the accounting statements for 2017.

On 07.02.2018 the Board of Directors of Kubanenergo PJSC approved an interested-party transaction: an agreement on payment of debt of Kubanenergo PJSC for electricity transmission services between Kubanenergo PJSC and FGC UES PJSC. As of the date of signing the accounting statements, the agreement on payment of debt of Kubanenergo

PJSC to FGC UES PJSC had not been signed, therefore, it is not possible to qualify the period of the debt payment accurately.

There are no other facts of business operations that have, or may have in the future, an impact on the financial condition or the performance of the Company and that occur from the reporting date (December 31, 2017) till the date of signing of the accounting statements of Kubanenergo PJSC for 2017.

Deputy Director General in charge of  
Economics and Finances of  
Kubanenergo PJSC

Ocheredko O.V.

Chief Accountant - Head of Department  
for Accounting, Tax Accounting and  
Reports, Kubanenergo PJSC

Skiba I.V.

21 February 2018

## **Annexes to the Balance Sheet and to the Income Statement**

Annex 5.1.1 "Stocks and Transactions of Intangible Assets"

Annex 5.2.1 "R&D Stocks and Transactions"

Annex 5.2.2 "R&D in Progress, Unexecuted R&D and Intangible Assets Acquisition Transactions in Progress"

Annex 5.3.1 "Stocks and Transactions of Fixed Assets"

Annex 5.3.2 "Useful Lives and Depreciation Methods"

Annex 5.3.3 "Changes in the Fixed Assets Value as a Result of Completion of Construction, Extra Fitting, Reconstruction and Partial Liquidation"

Annex 5.3.4 "Other Use of Fixed Assets"

Annex 5.3.5 "Capital Investments in Progress"

Annex 5.3.6 "Advances for Capital Construction and Fixed Assets Acquisition"

Annex 5.4.1 "Stocks and Transactions of Financial Investments"

Annex 5.4.2 "Adjustments of Financial Investment Estimates"

Annex 5.5.1 "Stocks and Transactions of Inventories"

Annex 5.6.1 "Stocks and Transactions of Accounts Receivable"

Annex 5.6.2 "Provision for Doubtful Debts"

Annex 5.6.3 "Overdue Accounts Receivable"

Annex 5.6.4 "Disagreements with the Sales Companies"

Annex 5.6.5 "Stocks and Transactions of Accounts Payable"

Annex 5.6.6 "Overdue Accounts Payable"

Annex 5.6.7 "Loans and Borrowings"

Annex 5.6.8 "Cost of Loans and Borrowings"

Annex 5.7.1 "Estimated Liabilities"

Annex 5.7.2 "Deferred Taxes"

Annex 5.8 "Provisions"

Annex 5.9 "Government Aid"

Annex 5.11 "Other Income and Expenses"

Annex 5.12 "Statement on Valuables on Off-Balance-Sheet Accounts"

Annex 5.13 "Information by the Reportable Segments"

Annex 5.14 Detailed form for line 1220 of "Value added tax on acquired assets"

Annex 2.1. Cost of goods, services and works sold

Annex 2.2 Profit per share, diluted profit per share

Annex 2.3. Profit taxation