

RESULTS OF FINANCIAL AND ECONOMIC ACTIVITIES OF THE COMPANY

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THE KUBANENERGO PROGRAM OF INCREASING OPERATIONAL EFFICIENCY AND REDUCING COSTS FOR 2018–2022 WAS DEVELOPED AND PUT IN PLACE IN 2018. THE PROGRAM HAS THE AIM TO OPTIMIZE COSTS, IMPROVE THE MANAGEMENT EFFICIENCY OF PROCUREMENT AND SUPPLY CHAIN, REDUCE THE UNIT COSTS FOR THE OPERATION OF POWER EQUIPMENT, REDUCE ENERGY LOSSES IN THE NETWORK AND INCREASE THE OVERALL ENERGY EFFICIENCY.

ACCORDING TO THE RESULTS OF THE REPORTING PERIOD, THE TARGET PARAMETERS FOR REDUCING OPERATING EXPENSES UNDER THE DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 2303P-P13 OF APRIL 16, 2015, FOR 2018 RELATIVE TO THE LEVEL OF 2017 WERE FULFILLED."

ANALYSIS OF THE RESULTS OF FINANCIAL AND ECONOMIC ACTIVITY

In 2018, the proceeds from the sale of the Company's services amounted to 46,401.1 million rubles, which is 4,148.1 million rubles (9.8%) more than in 2017, including:

- Revenue from electricity transmission was equal to 45,583.5 million rubles (by 4,097.8 million rubles more than in 2017); growth was triggered by:
 - / an increase in the volume of services rendered by 562 million kWh,
 - / with a change in the procedure for reimbursement to the Wholesale Market for Electricity and Power (WMEP) participants of the cost of load losses accounted for in the prices on the WMEP, as a result of which, which set up to calculate the revenue for electricity transmission services without deducting the specified value from August 1, 2017 (Clause 1b of the Resolution of the Russian Federation 07.07.2017 No. 810 "On Amendments to Certain Acts of the Government of the Russian Federation Regarding Payment for Electricity Losses on the Wholesale Electricity and Capacity Market and Retail Electricity Markets, and

Obtaining the Status of a Subject of the Wholesale Electricity and Capacity Market");

- Proceeds from technological connection services amounted to 602.5 million rubles, which is 45.5 million rubles less than in 2017.

The cost price (including management expenses) in 2018 amounted to 41,616.9 million rubles, which is 3,247.9 million rubles (8.5%) more than in 2017. The increased costs are due to the rise in the price of purchased electricity to compensate for losses, expenses for services of PJSC FGC UES, services of distribution grid companies, depreciation of fixed assets and intangible assets.

Profit before tax amounted to 1,279.8 million rubles, which is 112.1 million rubles (9.6%) more than in 2017.

The Company's net profit in 2018 amounted to 151.2 million rubles (by 374.1 million rubles (71.2%) below the level of 2017).

The main factors that influenced the financial result:

- + increase in revenue from sales of services by 4,148.1 million rubles (9.8%), including due to the rise in revenue from electricity transmission services for 2018 by 4,097.8 million rubles (9.9%) relative to the parameters of the previous year, while revenue from technological connection services decreased by 45.5 million rubles (7.0%);
- increase in cost, with account for 3,247.9 million rubles of management expenses (8.5%), relative to the parameters for the same period of 2017;
- deterioration of the balance of other income and expenses from profits by 787.99 million rubles (29%) relative to the parameters of 2017;
- increase in income tax by 486.2 million rubles in comparison with the parameters of the same period in 2017;

Key financial and economic indicators of the Company for 2016–2018, million rubles.

SEQ NO.	INDICATOR	2018	2017	2016
1	Proceeds from sales of products (services), including:	46,401	42,253	41,726
1.1	from power transmission	45,583	41,486	39,262
1.2	from technological connection	602	648	2,381
1.3	from the sale of electricity	0	0	0
1.4	from other activities	215	119	83
2	Cost of products (services)	-41,461	-38,259	-35,830
3	Gross profit	4,940	3,994	5,896
4	Administrative expenses	-155	-110	-98
5	Selling costs	0	0	0
6	Profit (loss) from sales	4,784	3,884	5,798
7	Interest receivable	82	47	90
8	Interest payable	-1,911	-1,907	-1,889
9	Income from participation in other organizations	9	0,3	0
10	Other income (total)	2,575	2,393	2,616
11	Other expenses (total)	-4,259	-3,249	-3,109
12	Profit (loss) before tax	1,280	1,168	3,506
13	Profit tax and other payments	-1,129	-642	-1,366
14	Net profit	151	525	2,141
15	EBITDA¹	7,158	6,847	9,015

IMPLEMENTING AN EFFICIENCY AND COST REDUCTION PROGRAM

The program for enhancement of operating efficiency and reduction of Kubanenergo PJSC costs for 2018–2022, approved by the Board of Directors of the Company on December 27, 2017 (minutes of the meeting of the Board of Directors dated 28.12.2017, No. 294/2017). Implementation of the program's activities is taken into account in the business plan, investment program, energy-saving, and energy efficiency improvement program, innovative development program and other targeted programs developed by the Company.

The performance indicators of the program take into account the targets set by the Strategy for the Development of the Electric Grid Complex of the Russian Federation, approved by the decree of the Government of the Russian Federation of 03.04.2013 No. 511-p, and also by the directive of the Government of the Russian Federation of 16.04.2015 No. 2303p-P13.

The reduction in operating expenses following the directive of the Government of the Russian Federation No. 2303p-P13 dated April 16, 2015, for 2018 relative to the level of 2017 was 2%, which corresponds to the target value.

1. Regulation for payment of remuneration and compensation to members of the Auditing Commission of Kubanenergo PJSC is published on the website www.kubanenergo.ru – section 'About Us/ Constituent and internal documents.