

As a part of improving operational efficiency and generating additional revenues, the Company in 2018 implemented the following measures:

- improving the efficiency of the process of managing the maintenance and repair of equipment, buildings and structures (the implementation of a set of measures aimed at the redistribution of the method of performing work in the technological areas: OTL 35–220 kV, SS 35–110 kV; distribution networks 0.4–10 kV (OTL, transformer substation); optimization of the distribution of works between contracting and business methods);
- improving working capital management (optimization of receivables (reduction of overdue debts for electricity transmission services), destocking of the emergency reserve, including through adjustments in the direction of reducing the volume of reserve stocks, and transferring a part of the inventories for repair and operation of equipment in 2018);
- improving the management of fixed assets, including:
 - / consolidation of power grid assets
 - / implementation of the event "Development of Price Expertise",
 - / reducing the cost of purchasing raw materials and materials, procuring contractor services for new construction, technical re-equipment and reconstruction as a result of regulated procedures in the framework of investment activities;
- improving energy efficiency (implementation of measures to reduce the level of electricity losses under the Kubanenergo PJSC Electricity Loss Reduction Program for 2018–2022 and the Energy Saving and Energy Efficiency Improvement

Program of Kubanenergo PJSC; organizational and technical measures to ensure the rational use of fuel and energy resources and water for the production and economic needs of the Company);

- increase in operating efficiency (reduction in unit operating expenses), including:
 - / reuse of previously used (post-consumer) materials
 - / reduction of maintenance materials, consumables for office equipment maintenance, reduction of costs for communication services, IT services, write-off of software products,
 - / optimization of costs associated with the decommissioning of vehicles, the further management of which is impractical, including reducing the cost of fuel, optimizing the fleet of cars to be insured by Compulsory Civil Liability Insurance for Vehicle Owners (CCLIVO),
 - / reducing the cost of purchasing raw materials and materials, production and non-production services in terms of operating activities as a result of regulated procedures;
- other activities (implementation of measures aimed at reducing non-contractual electricity consumption).

The program to improve operational efficiency and reduce costs creates a useful tool to improve in-process efficiency and ensure profitability through the productive use of the Company's private reserves to implement the main strategic directions of the Company's activities.

ACCOUNTS RECEIVABLE

Analysis of changes in receivables, mln rub.

	ON 31.12.2018	ON 31.12.2017	ON 31.12.2016
Accounts receivable, including:	7,057.41	6,847.39	7,119.42
Customers and Buyers of electricity transmission	6,206.67	6,155.95	6,410.58
Notes receivable	6,091.36	6,104.65	6,381.93
Advances issued	34.49	32.12	13.37
Other receivables	816.26	659.32	695.47

The total amount of receivables of Kubanenergo PJSC at the beginning of the reporting year amounted to 6,847.39 million rubles, and as of December 31, 2018 – 7,057.41 million rubles.

Accounts receivable from buyers and customers amounted to 6,206.67 million rubles, which is 50.72 million rubles (0.82%) above the level as of December 31, 2017, the increase was due to a rise in the debt on other buyers and customers by 59.45 million rubles.

Accounts receivable on advances issued amounted to 34.49 million rubles, which is 2.37 million rubles (7.38%) above the level as of December 31, 2017.

Accounts receivable for other debts amounted to 816.26 million rubles, which is 156.93 million rubles. (23.80%) below the level as of December 31, 2017.

The main share (86.31%) of accounts receivable of the Company was formed in settlements for the services rendered for the transmission of electricity.

Cost accounts receivable reduction efforts for electricity transmission services

Accounts receivable for services rendered for the transmission of electricity to counterparties of Kubanenergo PJSC as of December 31, 2018 (net of allowance for doubtful debts) 6,091.36 million rubles in total. Disputable receivables at the end of the reporting year amounted to 829.79 million rubles.

Compared to 2017, accounts receivable (based on debt before deducting allowance for doubtful debts) were reduced by 226.71 million rubles. (3.07%).

PJSC "TNS Energo Kuban" is one of the largest debtors for electricity transmission services rendered, whose debt as of December 31, 2018, was 3,456.47 million rubles, including the disputed part - 506.45 million rubles, with the average monthly volume of services provided by the Company in the amount of 2,079.57 million rubles is 1.7 of a settlement period.

To reduce accounts receivable, the Company conducts claim-related work, including settlement of disputes in the pre-trial and court proceedings.

The results of the Company's work on reducing accounts receivable for services rendered for the transmission of electricity to counterparties of Kubanenergo PJSC in 2017–2018

2017				
TOTAL RECEIVED POSITIVE COURT DECISIONS, CASES/SUMS OF CLAIMS	TOTAL RECEIVED WRITS OF EXECUTION FOR THE AMOUNT OF	EXTINGUISHED DEBT ACCORDING TO THE WRITS OF EXECUTION	DENIED IN RECOVERY, CASES/ AMOUNT OF CLAIMS	SHARE OF CLAIMS SATISFIED IN FAVOR OF THE COMPANY
62 cases/ 911.15 million rubles	913.63 million rubles	544.38 million rubles/ 59.58%	2 cases / 50.320 million rubles	99.7%
2018				
TOTAL RECEIVED POSITIVE COURT DECISIONS, CASES/SUMS OF CLAIMS	TOTAL RECEIVED WRITS OF EXECUTION FOR THE AMOUNT OF	EXTINGUISHED DEBT ACCORDING TO THE WRITS OF EXECUTION	DENIED IN RECOVERY, CASES/ AMOUNT OF CLAIMS	SHARE OF CLAIMS SATISFIED IN FAVOR OF THE COMPANY
127 cases/ 1,070.5 million rubles	995.06 million rubles	780.47 million rubles/ 78.43%	3 cases/ 22.95 million rubles	97.9%

The coverage of overdue receivables for electricity transmission services measures aimed at its reduction is at a consistently high level and December 31, 2018, is 99.16%.

ACCOUNTS PAYABLE

Analysis of changes in short-term payables, mln rub.

	ON 31.12.2018	ON 31.12.2017	ON 31.12.2016
Short-term payables, including	12,833.09	11,044.75	8,280.20
Suppliers and contractors	5,238.56	6,198.14	4,837.35
Promissory notes payable			
Taxes and fees	606.53	258.01	654.43
Advances received	5,164.80	2,889.10	1,922.41
Other accounts payable	1,823.20	1,699.51	866.01

Short-term payables for 2018 are higher by 1,788.34 million rubles, compared with 2017 and as of December 31, 2018, amounted to 12,833.09 million rubles.

The following changes occurred during the reporting year:

- the indebtedness to suppliers and contractors became lower by 959.58 million rubles due to a decrease in the debt on settlements for electricity transit services by 809.44 million rubles, and a reduction in debt for electricity purchased in order to compensate for losses by 253.46 million rubles;
- the debt on advances received was higher by 2,257.71 million rubles, advances for technological connection make up the bulk of the debt on advances received – 5,144.42 million rubles;
- wage arrears to staff is higher by 103.65 million rubles;
- arrears of taxes and duties are higher by 348.52 million rubles.

Overdue payables in Kubanenergo PJSC based on the results of activities in 2018 is 3,058.04 million rubles.

According to the results of 2018, long-term payables amounted to 1,248.68 million rubles.

BONDED LOANS AND CREDIT RATINGS OF THE COMPANY

September 20, 2016 the Board of Directors of Kubanenergo PJSC approved the Program for the exchange of Kubanenergo PJSC bonds of the 002P series (minutes No. 251/2016). On October 24, 2016, the program of bonds exchange had received the identification number 4-00063-A-002P-02E. The program provided for the possibility of placing documentary interest non-convertible exchange bearer obligations with mandatory centralized storage and total nominal value of all issues of exchange bonds, placed under the program of exchange of obligations of the 002P series is up to 25 billion rubles, with a maturity date that comes no later than 10 920th day from the date of commencement of placement of issuance of exchange-traded bonds under the program of exchange-traded obligations placed by open subscription. In 2017, the placement of bonds under this program was not carried out.

Also, documentary interest-bearing non-convertible exchange-traded bearer bonds with mandatory centralized storage of the 001P-01 and 001P-02 series, which were placed in 2015 under the Program of exchange bonds with the identification number 4-00063-A-001P-02E from 26.08, are in circulation. 2015, in the amounts of 3.6 and 3.4 billion rubles respectively. Payments of coupon income were made in full within the prescribed period.

In 2018, based on the results of the open request for proposals of Kubanenergo PJSC, an agreement dated August 15, 2018, No. 293D/18-28 was concluded with the rating agency Expert RA JSC for three years. In the framework of this contract, in 2018 the rating was not assigned to the Company.