

**PUBLIC JOINT STOCK COMPANY KUBANENERGO
CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016
(UNAUDITED)**

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PJSC Kubanenergo

Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income for the six months ended 30 June 2016 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
Revenue	6	19,059,682	15,378,439
Operating expenses	7	(17,187,186)	(14,145,972)
Other operating income	8	71,275	101,681
Results from operating activities		1,943,771	1,334,148
Finance income		74,711	377,304
Finance costs		(940,213)	(1,170,694)
Net finance (costs)/income		(865,502)	(793,390)
Profit/(loss) before income tax		1,078,269	540,758
Income tax expense		(410,944)	(157,587)
Profit/(loss) for the period		667,325	383,171
Other comprehensive income/(loss)			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability		(11,986)	(2,498)
Related income tax		2,397	500
Other comprehensive (loss)/income for the period, net of income tax		(9,589)	(1,998)
Total comprehensive income/(loss) for the period		657,736	381,173
Profit/(loss) attributable to:			
Shareholders of the Company		667,325	383,171
Total comprehensive income/(loss) attributable to:			
Shareholders of the Company		657,736	381,173
Earnings per share - basic and diluted (in Russian Roubles)	11	2.36	1.35

These consolidated interim condensed financial statements were approved by management on 26 August 2016 and were signed on its behalf by:

General Director
(by the power of attorney of 16 November 2015 No 19/10-2593)

Chief Accountant



(Handwritten signatures in blue ink)

O.V. Ocheredko

I.V. Skiba

PJSC Kubanenergo
Consolidated Interim Statement of Financial Position as at 30 June 2016 (Unaudited)
(in thousands of Russian Roubles, unless otherwise stated)

	Notes	30 June 2016 (Unaudited)	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	9	45,673,804	45,239,211
Intangible assets		75,394	96,065
Investments and other assets		285,114	299,414
Trade and other receivables		19,125	18,110
Deferred tax assets		1,855,607	1,849,757
Total non-current assets		47,909,044	47,502,557
Current assets			
Inventories		1,423,398	1,293,545
Trade and other receivables		6,651,976	4,895,750
Income tax receivable		197,319	753
Cash and cash equivalents		818,342	2,577,751
Total current assets		9,091,035	8,767,799
Assets classified as held for sale		8,492	11,170
TOTAL ASSETS		57,008,571	56,281,526
EQUITY AND LIABILITIES			
Equity			
Share capital	10	28,286,813	28,286,813
Share premium		6,481,916	6,481,916
Reserves		(174,822)	(165,233)
Accumulated losses		(10,588,402)	(10,110,930)
Total equity attributable to owners of the Company		24,005,505	24,492,566
Non-current liabilities			
Loans and borrowings	12	9,560,000	10,000,000
Trade and other payables		632,213	459,189
Employee benefits		502,869	508,576
Government grants		58,930	67,355
Total non-current liabilities		10,754,012	11,035,120
Current liabilities			
Loans and borrowings	12	7,602,471	7,072,418
Trade and other payables		12,127,167	11,182,211
Other provisions		2,504,211	1,907,775
Government grants		15,205	16,025
Income tax liabilities		-	577,996
Total current liabilities		22,249,054	20,753,840
TOTAL LIABILITIES		33,003,066	31,788,960
TOTAL EQUITY AND LIABILITIES		57,008,571	56,281,526

PJSC Kubanenergo

Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2016 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Six months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2015 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the period		667,325	383,171
<i>Adjustments for:</i>			
Depreciation and amortisation	7	1,426,676	1,284,544
Allowance for impairment of accounts receivable	7	(438,842)	(48,654)
Allowance for obsolescence of inventories		(4,266)	(2,605)
Provision for legal processes		1,042,315	(395,274)
Finance costs		940,213	1,170,694
Finance income		(74,711)	(377,304)
Loss on disposal of property, plant and equipment		8,553	13,511
Income tax expense		410,944	157,587
Other non-cash transaction		(9,515)	(71)
Cash flows from operating activities before changes in working capital and provisions		3,968,692	2,185,599
Change in trade and other accounts receivable		(1,314,908)	(842,522)
Change in finance assets related to employee benefits fund		27,069	6,384
Change in inventories		(122,700)	20,293
Change in trade and other accounts payable		97,149	1,131,175
Change in government grants		(6,660)	(7,533)
Change in employee benefit liabilities		(39,081)	12,011
Change in provisions		(445,879)	(283,748)
Cash flows from operations before income tax and interest paid		2,163,681	2,221,659
Income tax (paid)/return		(1,188,958)	1,989
Interest paid (including capitalized interest)		(918,295)	(1,176,571)
Net cash flows from operating activities		56,429	1,047,077
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and intangible assets		(1,967,867)	(2,329,072)
Proceeds from disposal of property, plant and equipment		557	386
Dividends received		-	3
Interest received		61,419	356,033
Net cash flows used in investing activities		(1,905,891)	(1,972,650)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		559,405	1,194,798
Repayment of loans and borrowings		(469,352)	(1,601,698)
Net cash flows from financing activities		90,053	(406,900)
Net (decrease)/ increase in cash and cash equivalents		(1,759,409)	(1,332,473)
Cash and cash equivalents at the beginning of the period		2,577,751	7,071,753
Cash and cash equivalents at the end of the period		818,342	5,739,280

PJSC Kubanenergo

Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2016 (Unaudited)

(in thousands of Russian Rubles, unless otherwise stated)

	Equity attributable to owners of the Company				Total equity
	Share capital	Share premium	Reserves	Accumulated losses	
Balance at 1 January 2015	28,286,813	6,481,916	(262,831)	(12,400,524)	22,105,374
Loss for the period	-	-	-	383,171	383,171
Other comprehensive loss for the period					
Remeasurement of the defined benefit liability	-	-	(2,498)	-	(2,498)
Income tax on other comprehensive income	-	-	500	-	500
Total other comprehensive loss for the period					
	-	-	(1,998)	-	(1,998)
Total comprehensive loss for the period					
	-	-	(1,998)	383,171	381,172
Balance at 30 June 2015 (Unaudited)	28,286,813	6,481,916	(264,829)	(12,017,353)	22,486,546
	Equity attributable to owners of the Company				Total equity
	Share capital	Share premium	Reserves	Accumulated losses	
Balance at 1 January 2016	28,286,813	6,481,916	(165,233)	(10,110,930)	(24,492,566)
Profit for the period	-	-	-	667,325	667,325
Other comprehensive loss for the period					
Remeasurement of the defined benefit liability	-	-	(11,986)	-	(11,986)
Income tax on other comprehensive income	-	-	2,397	-	2,397
Total other comprehensive loss for the period					
	-	-	(9,589)	-	(9,589)
Total comprehensive profit for the period					
	-	-	(9,589)	667,325	657,736
Transactions with owners, recorded directly in equity					
Dividends (Note 10)	-	-	-	(1,144,797)	(1,144,797)
Total transactions with owners, recorded directly in equity					
	-	-	-	(1,144,797)	(1,144,797)
Balance at 30 June 2016 (Unaudited)	28,286,813	6,481,916	(174,822)	(10,588,402)	24,005,505

PJSC Kubanenergo

Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

1 BACKGROUND

(a) The Group and its operations

In 1993 the Krasnodar Production Association of Power and Electrification "Krasnodarenergo" was reorganized into Kuban Power and Electrification Open Joint Stock Company (hereinafter referred to as OJSC "Kubanenergo" or "the Company") in accordance with Decree No. 922 of the President of the Russian Federation "On Particular Features of Transformation of Public Enterprises, Associations, Organizations of Fuel and Energy Complex into Joint Stock Companies" dated 14 August 1992, with Decree No. 923 of the President of the Russian Federation "On Organization of Management of the Electric-Power Complex of the Russian Federation under Privatization Conditions" dated 15 August 1992, with Decree No. 1334 of the President of the Russian Federation dated 5 November 1992 "On Implementation in the Electric-Power Industry of Decree No. 922 of the President of the Russian Federation "On Particular Features of Transformation of Public Enterprises, Associations, Organizations of Fuel and Energy Complex into Joint Stock Companies" dated 14 August 1992".

Due to amendments in Civil Code of Russian Federation, the new brand title of the company's organizational and legal form was approved by the Annual General Meeting of Shareholders held on 22 June 2015. Open Joint Stock Company Kuban Power and Electrification (OJSC "Kubanenergo") was changed to Public Joint Stock Company Kuban Power and Electrification (PJSC "Kubanenergo")

The Company's registered office is located at 2A, Stavropolskaya Str., Krasnodar, Kras nodar Region, Russia, 350033.

The Company's principal activities are electricity transmission and technological connection services.

The Kubanenergo Group (hereinafter referred to as "the Group") comprises PJSC "Kubanenergo" and its subsidiaries presented below:

Subsidiary	Principal activity	Ownership, %	
		30 June 2016	31 December 2015
OJSC "Ozdorovitelniy kompleks "Plamya"	Recreation	100	100
OJSC "Pansionat otdyha "Energetik"	Recreation	100	100
OJSC "Energoservis Kubani"	Repair services	100	100

According to the decision of the Arbitration Court of Krasnodar region dated 2 September 2015 the insolvency (bankruptcy) procedure of OJSC "Ozdorovitelniy kompleks "Plamya" was started. As a result, the Company lost control over the subsidiary and disclosed the disposal of the subsidiary in the consolidated financial statements for the year ended 31 December 2015.

(b) Group formation

In the past few years the Russian electric utilities industry has gone through a reform designed to introduce competition into the electricity sector and to create an environment in which the companies can raise the capital required to maintain and expand current capacity.

On 1 July 2008 the Unified Energy System of Russia (hereinafter referred to as "RAO UES") ceased to exist as a separate legal entity and transferred shares of the Company to Open Joint Stock Company Interregional Distribution Grid Companies Holding, a newly formed state-controlled entity, which was renamed to Joint Stock Company ROSSETI in April 2013.

Due to amendments in Civil Code of Russian Federation, the new brand title of the company's organizational and legal form was approved by the Annual General Meeting of Shareholders held on 30 June 2015. Open Joint Stock Company Rosseti (OJSC "Rosseti") was changed to Public Joint Stock Company ROSSETI (PJSC "ROSSETI"). The new edition of Company's Charter with the changed company's name was registered on 17 July 2015.

As at 31 December 2015 and at 31 December 2014, the Government of the Russian Federation owned 86.32% of the voting ordinary shares and 7.01% of preference shares of PJSC ROSSETI, which in its turn owned 92.24% of the Company.

As at 30 June 2016, the Government of the Russian Federation owned 86.32% of the voting ordinary shares and 7.01% of preference shares of PJSC ROSSETI, which in its turn owned 92.24% of the Company.

(c) Relations with the state and current regulations

PJSC Kubanenergo

Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

The Group's business is a natural monopoly which is under the influence of the Russian government. The government of the Russian Federation directly affects the Group's operations also through state tariffs.

In accordance with legislation, the Group's tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commissions. The Federal Service on Tariffs and the Regional Energy Commissions was dismissed on 21 July 2015, and its authorities have been transferred to Federal Antimonopoly Service.

Currently, the system of tariff setting of the Russian electric utilities industry is undergoing a reform process. The Regulatory Asset Based (RAB) tariffs setting system is being implemented in the Russian Federation.

(d) Russian business environment

The Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated interim condensed financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

For the six months ended 30 June 2016 and in 2015, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. In December 2014, the Rouble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%. As on 30 June 2016 the key rate was 10.5%. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

2 BASIS OF PREPARATION

(a) Statement of compliance

These interim condensed financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting for the six month ended 30 June 2016. The interim condensed financial statements should be read in conjunction with the financial statements for the year ended 31 December 2015 prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The consolidated interim condensed financial statements are prepared on the historical cost basis except for property, plant and equipment at 1 January 2011 that were measured at carrying amounts included in the consolidated IFRS financial statements of OJSC ROSSETI as part of the Group's first time adoption of IFRSs as at January 1, 2011.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated interim condensed financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

(d) Use of estimates and judgements

The preparation of the consolidated interim condensed financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial period is included in the Note 15 - commitments and contingencies.

3 SIGNIFICANT ACCOUNTING POLICIES

PJSC Kubanenergo

Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

Except for the adoption of the new standards and interpretations effective as at 1 January 2016, the accounting policies applied by the Company were consistent with those applied in the financial statements as at and for the year ended 31 December 2015.

(a) New standards and interpretations not yet adopted

A number of new Standards and amendments to Standards are not yet effective up to the date of issuance of the financial statements, and have not been applied in preparing these financial statements:

- IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
- IFRS 15 Revenue from Contracts with Customers and amendments to IFRS 15 Revenue from Contracts with Customers. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
- IFRS 16 Leases. IFRS 16 is partly or fully retrospectively effective for annual periods beginning on or after 1 January 2019, with earlier application permitted under the simultaneous application of IFRS 15.

The Company is currently assessing the impact of these standards on the financial information. The Company does not intend to adopt these standards early.

- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates in respect of sale of contribution of assets between an investor and its associate or joint venture.
- Amendments to IAS 12 entitled Recognition of deferred tax assets for unrealized losses.
- Amendments to IAS 7 entitled Disclosure Initiative.

These amendments are not expected to have any impact or impact significantly on the Group's financial information.

(b) Changes in accounting policies

In 2016 the Group applied several other new standards and amendments for the first time. However, they do not significantly impact the consolidated interim condensed financial statements:

- Annual Improvements 2012-2014 Cycle.
- Amendments to IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets.

4 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Trade and other receivables

The fair value of non-current trade and other receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Management believes that the fair value of current trade and other receivables approximates their carrying amount. This fair value is determined for disclosure purpose.

(b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 OPERATING SEGMENTS

The Group has one reportable segment, as described below, which is the Group's strategic business unit. This strategic business unit offers electricity transmission services including technological connection services in separate geographical regions of the Russian Federation (Krasnodar region and Republic of Adygeya) and is managed in common. The "other" segment includes insignificant operating segments such as rent services and repair and

PJSC Kubanenergo**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016 (Unaudited)***(in thousands of Russian Roubles, unless otherwise stated)*

maintenance services. None of them meets any of the quantitative thresholds for determining reportable segments in the six months ended 30 June 2016 or 2015.

Segment reports are based on the information reported in statutory accounts, which differ significantly from the consolidated interim condensed financial statements prepared under IFRS. Reconciliation of items measured

as reported to the Management Board with similar items in these consolidated interim condensed financial statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Segment capital expenditures are the total costs incurred during the period to acquire property, plant and equipment.

Key segment items presented to and analysed by the Management Board are presented in the tables below:

(i) Information about reportable segments

For the six months ended 30 June 2016:

	Kubanenergo	Other	Total
Revenue from external customers	19,044,820	14,862	19,059,682
Inter-segment revenue	667	2,024	2,691
Total segment revenue	19,045,487	16,886	19,062,373
Segment operating profit / (loss)	1,646,435	(13,615)	1,632,820
Finance income	61 419	-	61 419
Finance costs	(916,908)	(26)	(916,934)
Segment profit / (loss) before income tax	758,694	(13,651)	745,043

For the six months ended 30 June 2015:

	Kubanenergo	Other	Total
Revenue from external customers	15,358,265	12,641	15,370,906
Inter-segment revenue	704	5,068	5,772
Total segment revenue	15,358,969	17,709	15,376,678
Segment operating loss	612,200	(18,413)	593,787
Finance income	356,03	-	356,033
Finance costs	(1,176,571)	(360)	(1,176,931)
Segment loss before income tax	291,168	(20,802)	270,366

As at 30 June 2016:

	Kubanenergo	Other	Total
Segment assets	64,426,149	90,639	64,516,788
<i>Including property, plant and equipment</i>	<i>53,735,774</i>	<i>33,132</i>	<i>53,768,906</i>

As at 31 December 2015:

	Kubanenergo	Other	Total
Segment assets	61,955,753	74,208	62,029,961
<i>Including property, plant and equipment</i>	<i>48,106,305</i>	<i>52,032</i>	<i>48,158,337</i>

(ii) Reconciliation of reportable segments profit/(loss) before income tax

PJSC Kubanenergo**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016 (Unaudited)***(in thousands of Russian Roubles, unless otherwise stated)*

Reconciliation of reportable segment profit/(loss) before income tax is presented below:

	Six months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2015 (Unaudited)
Total segment profit before income tax	745,043	270,366
<i>Adjustments for:</i>		
Borrowing costs capitalised to property plant and equipment	5,226	42,380
Revenue from electricity transmission	25,276	76,182
Depreciation and loss from property plant and equipment disposal	398,139	291,094
Accrual of provision for unused vacations and bonuses	(14,624)	(5,833)
Impairment of accounts receivable	(29,758)	(88,930)
Recognition of long term employee benefits	3,393	(46,609)
Recognition of expenses	(26,500)	-
Other adjustments	(27,926)	2,108
Profit before income tax for the period per Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income	1,078,269	540,758

The Group performs its activities in the Russian Federation.

For the six months ended 30 June 2016 the Group had two major customers - distribution companies in Krasnodar region of the Russian Federation with individual turnover over 10% of the total Group revenues. The total amount of revenues for these major customers for the six months ended 30 June 2015 was RUB 15,281,383 thousand or 80.2% of the Group's total revenues (for the six months ended 30 June 2015: RUB 12,897,693 thousand or 84.0%).

6 REVENUE

	Six months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2015 (Unaudited)
Electricity transmission	17,910,268	15,120,186
Connection services	1,093,549	199,810
Rental income	7,162	7,533
Repairs and maintenance	2,580	7,480
Other revenue	46,123	43,430
	19,059,682	15,378,439

7 OPERATING EXPENSES

	Six months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2015 (Unaudited)
Electricity transmission	6,953,446	6,586,290
Purchased electricity for compensation of technological losses	3,746,632	2,981,813
Personnel costs	2,584,672	2,319,045
Depreciation and amortization	1,426,676	1,284,544
Legal claims	1,042,315	(395,274)
Raw materials and supplies	406,374	369,950
Repairs, maintenance and installation services	178,085	173,277
Rent	97,025	19,499
Security services	96,690	96,213
Electricity and heat power for own needs	58,680	55,309
Business trip expenses	55,846	52,011
Managing services	38,242	38,242
Insurance	37,991	38,079
Consulting, legal and audit services	5,305	118,203
Recovery of impairment of trade and other receivables	(438,842)	(3,940)
Other expenses	898,049	420,827

PJSC Kubanenergo**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016
(Unaudited)***(in thousands of Russian Roubles, unless otherwise stated)*

	Six months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2015 (Unaudited)
	17,187,186	14,145,972

8 OTHER OPERATING INCOME

	Six months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2015 (Unaudited)
Insurance compensation received	45,423	40,748
Non-contractual consumption of electricity	23,155	32,359
Incomes from non-paid receiving of property, plant and equipment	9,515	3,602
Incomes from inventories received from liquidation of property, plant and equipment	2,887	-
Incomes from non-paid receiving of inventories	2,255	20,424
Write-off accounts payable	771	3,613
Fines and penalties received	169	935
Write-off of property, plant and equipment, including prepayments for property, plant and equipment	(12,900)	-
	71,275	101,681

9 PROPERTY, PLANT AND EQUIPMENT

The cost of property, plant and equipment at 1 January 2011, the date of transition to IFRSs, was determined by reference to their carrying amounts included in the consolidated IFRS financial statements of the parent - PJSC ROSSETI.

PJSC Kubanenergo
Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016 (Unaudited)
(in thousands of Russian Roubles, unless otherwise stated)

	Land and production buildings	Transmission network	Equipment for electricity transmission	Other	Construction in progress	Total
<i>Cost/Deemed cost</i>						
Balance as at 1 January 2015	6,942,601	27,794,971	12,326,743	5,928,965	3,505,875	56,499,155
Additions	981	1,710	5,951	19,928	2,176,325	2,204,895
Transfers	42,602	255,513	294,323	109,272	(701,710)	-
Disposals	(343)	(1,532)	(3,158)	(14,267)	(10,657)	(29,957)
Reclassifications	1,564	633	(8,459)	6,262	-	-
Balance as at 30 June 2015 (Unaudited)	6,987,405	28,051,295	12,615,400	6,050,160	4,969,833	58,674,093
Balance as at 1 January 2016	7,150,299	34,640,288	13,336,956	6,496,358	3,158,744	64,782,645
Additions	3,505	2,274	8,155	14,661	1,822,454	1,851,049
Transfers	168,925	396,541	536,656	7,802	(1,109,924)	-
Disposals	(104)	(14,919)	(7,195)	(16,468)	(4,811)	(43,497)
Reclassifications	(8,099)	(15,702)	(107,421)	131,222	-	-
Balance as at 30 June 2016 (Unaudited)	7,314,526	35,008,482	13,767,151	6,633,575	3,866,463	66,590,197

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Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016 (Unaudited)

(in thousands of Russian Rubles, unless otherwise stated)

	Land and production buildings	Transmission network	Equipment for electricity transmission	Other	Construction in progress	Total
<i>Depreciation and impairment</i>						
Balance as at 1 January 2015	(1,895,446)	(7,048,767)	(4,648,183)	(3,204,407)	(305,018)	(17,101,821)
Reallocation of impairment charge	(3,739)	(14,106)	(26,272)	(10,587)	54,704	-
Charge for the period	(109,823)	(482,034)	(360,189)	(288,892)	-	(1,240,938)
Disposals	220	879	1,257	4,953	175	7,484
Reclassifications	(747)	(131)	3,969	(3,091)	-	-
Balance as at 30 June 2015 (Unaudited)	(2,009,535)	(7,544,159)	(5,029,418)	(3,502,024)	(250,068)	(18,335,204)
<i>Carrying amounts</i>						
Balance as at 1 January 2016	(2,123,229)	(8,067,995)	(5,421,686)	(3,785,005)	(145,519)	(19,543,434)
Reallocation of impairment charge	(11,257)	(3,404)	(2,811)	(1)	17,473	-
Charge for the period	(118,237)	(618,033)	(379,867)	(282,986)	-	(1,399,123)
Disposals	85	6,673	4,319	15,075	2	26,164
Reclassifications	(27,617)	(1,516)	74,898	(100,999)	-	-
Balance as at 30 June 2016 (Unaudited)	(2,225,021)	(8,684,275)	(5,725,147)	(4,153,916)	(128,034)	(20,916,393)
<i>Carrying amounts</i>						
At 1 January 2015	5,047,155	20,746,204	7,678,560	2,724,558	3,200,857	39,397,334
At 30 June 2015 (Unaudited)	4,977,870	20,507,136	7,585,982	2,548,136	4,719,765	40,338,889
At 1 January 2016	5,027,070	26,572,293	7,915,270	2,711,353	3,013,225	45,239,211
At 30 June 2016 (Unaudited)	5,089,505	26,324,207	8,042,004	2,479,659	3,738,429	45,673,804

PJSC Kubanenergo**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016 (Unaudited)***(in thousands of Russian Roubles, unless otherwise stated)***10 EQUITY**

	30 June 2016	31 December 2015
	(Unaudited)	
Par value	RUB 100	RUB 100
Number of ordinary shares authorised, issued and fully paid	282,868,130	282,868,130
Total share capital (in thousands of RUB)	28,286,813	28,286,813

Dividends

The Company's statutory financial statements form the basis for the distribution of profit and other appropriations. Due to differences between statutory accounting principles and IFRS, the Company's loss in the statutory accounts can differ significantly from that reported in the consolidated interim condensed financial statements prepared under IFRS.

At the annual shareholders meeting held on 24 June 2016 the decision was made to pay dividends for the year ended 31 December 2015 in the amount of RUB 1,144,797 thousand.

11 EARNINGS PER SHARE

The calculation of earnings/loss per share is based upon the profit/loss for the period and the weighted average number of ordinary shares outstanding during the period. The Company has no dilutive potential ordinary shares.

<i>In shares</i>	Six months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2015 (Unaudited)
Issued shares at 1 January	282,868,130	282,868,130
Weighted average number of shares for the six months ended 30 June	282,868,130	282,868,130
	Six months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2015 (Unaudited)
Weighted average number of ordinary shares for the period (thousands of shares)	282,868	282,868
Earnings attributable to the owners of the Company	667,325	383,171
Earnings per share - basic and diluted (in RUB)	2.36	1.35

12 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings.

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Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	<u>30 June 2016 (Unaudited)</u>	<u>31 December 2015</u>
Non-current liabilities		
Unsecured bank loans	10,088,836	3,000,000
Bonds issued	7,000,000	7,000,000
Minus current portion of unsecured long-term loans	(7,528,836)	-
	<u>9,560,000</u>	<u>10,000,000</u>
Current liabilities		
Current portion of unsecured long-term bank loans	7,528,836	-
Unsecured bank loans	-	7,000,000
Unsecured borrowings	2,289	1,072
Interests payable	71,346	71,346
	<u>7,602,471</u>	<u>7,072,418</u>

Terms and conditions of outstanding loans and borrowings were as follows:

	<u>Nominal interest rate (fixed),%</u>		<u>Year of maturity</u>	<u>Carrying amount</u>	
	<u>30 June 2016 (Unaudited)</u>	<u>31 December 2015</u>		<u>30 June 2016 (Unaudited)</u>	<u>31 December 2015</u>
PJSC Sberbank*	9.33%-11.90%	9.33%-9.39%	2016	7,000,000	7,000,000
PJSC "ROSSETI"*	10.44%-12.63%	10.44%-12.63%	2019-2025	7,000,000	7,000,000
Gazprombank (JSC)*	12.70%	12.70%	2018	2,560,000	2,560,000
Rosenergobank (JSC)	12.70%	12.70%	2017	528,836	440,000
Other	0%	0%	2016	2,289	1,072
				<u>17,091,125</u>	<u>17,001,072</u>

*Loans and borrowings from the government - related entities

The carrying amounts of loans and borrowings approximate their fair value.

13 OTHER PROVISIONS

	<u>Six months ended 30 June 2016 (Unaudited)</u>	<u>Six months ended 30 June 2015 (Unaudited)</u>
Balance at 1 January	1,907,775	2,310,293
Provisions raised during the period	1,110,807	204,062
Provisions reversed during the period	(68,492)	(599,336)
Provisions used during the period	(445,879)	(283,748)
Balance at 30 June	<u>2,504,211</u>	<u>1,631,271</u>

Provisions relate to the legal proceedings against the Group and unsettled disagreements with distribution selling entities regarding the purchased electric power for the compensation of technological losses and the electricity transmission services and also untimely payment of accounts payable.

14 FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2015.

PJSC Kubanenergo

**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016
(Unaudited)**

(in thousands of Russian Roubles, unless otherwise stated)

15 COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 30 June 2016 the Group has outstanding commitments for the acquisition and construction of property, plant and equipment of RUB 1,169,070 thousand (31 December 2015: RUB 1,171,596 thousand).

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not generally available. The Group does not have full coverage for its stations business interruption or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

The Group was involved in the number of court procedures (both as a plaintiff and as a defendant) arising in the course of business.

As at 30 June 2016 and 31 December 2015 the Group was in dispute with distribution selling entities related to purchase of electricity for compensation of technological losses and electricity transmission services. In the opinion of management the probability of negative outcome of the disputes was probable and recognized a provision of RUB 2,504,211 thousand (as 31 December 2015: RUB 1,841,627 thousand).

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation official pronouncements and court decisions which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation official pronouncements and court decisions. However the interpretations of the relevant authorities could differ and the effect on these financial statements if the authorities were successful in enforcing their interpretations could be significant.

Environmental matters

The Group and its predecessors have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group entities periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation management believes that there are no significant liabilities for environmental damage.

Other contingencies

The Group believes that all Group's sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of legislation that regulates the lease of Unified National Electricity Network property ("last-mile") by the Group there is a risk that customers may challenge that the Group has no legal ground to invoice them and hence recognize revenue for electric power transmission services provided via leased "last-mile" grids and courts agree with the customers' view. The potential amount of such claims could be significant, but cannot be reliably estimated as each claim would have individual legal circumstances and respective estimation would be based on a variety of assumptions and judgments, which makes it impracticable. The Group did not recognize as at the reporting date any provision for those actual and potential claims as it believes that it is not probable that related outflow of resources or decrease of benefits inflow will take place. The Group believes that expected changes in legislation will further reduce the level of risk.

PJSC Kubanenergo**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016 (Unaudited)***(in thousands of Russian Roubles, unless otherwise stated)***16 RELATED PARTIES TRANSACTIONS*****Control relationship***

Related parties include shareholders, affiliates and entities under common ownership and control with the Group and members of the Board of Directors and key management personnel which comprised of General Director, Deputies General Director and Directors of the branches. The Company's parent as at 30 June 2016 and 31 December 2015 was PJSC ROSSETI. The party with the ultimate control over the Company is the Government of the Russian Federation which held the majority of the voting rights of PJSC ROSSETI.

In the normal course of business the Group enters into transactions with other entities under common government control including Russian railways, state-controlled banks and various governmental bodies. Prices for electricity, electricity transmission and connection services are based on tariffs set by federal and regional tariff regulatory bodies. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

The Group's parent company produces publicly available financial statements.

Transactions with the Company's Parent, its subsidiaries and associates

Transactions with the Company's Parent, its subsidiaries and associate include transactions with PJSC ROSSETI, its subsidiaries and associates, and were as follows:

Revenue

	Transaction value for the six months ended 30 June		Outstanding balance	
	2016 (Unaudited)	2015 (Unaudited)	30 June 2016 (Unaudited)	31 December 2015
Parent company				
Other	592	12,649	-	-
Transactions with other PJSC ROSSETI's subsidiaries				
Rent	24	634	-	-
Other	19,802	37	260,978	237,527
Allowance for impairment of other receivables	-	-	(167,116)	(167,116)
	20,418	13,320	93,862	70,411

Expenses

	Transaction value for the six months ended 30 June		Outstanding balance	
	2016 (Unaudited)	2015 (Unaudited)	30 June 2016 (Unaudited)	31 December 2015
Parent company				
Managing services	38,242	38,242	-	-
Other	7,636	7,636	5,414	5,297
	45,878	45,878	5,414	5,297
Transactions with other PJSC ROSSETI's subsidiaries				
Electricity transmission	2,258,845	2,347,897	-	-
Rent	5,940	6,004	569,132	350,834
Connection services	249	1,981	89,635	82,643
Construction companies	-	-	1,433,384	1,433,384
Other	43,948	5,874	774,412	879,134
	2,308,982	2,361,756	2,866,563	2,745,995
Capitalized installation and construction activities	-	-	85,458	62,092
	2,354,860	2,407,634	2,957,435	2,813,384

PJSC Kubanenergo
Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016
(Unaudited)
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Borrowings

	Transaction value for the six months ended 30 June		Outstanding balance	
	2016 (Unaudited)	2015 (Unaudited)	30 June 2016 (Unaudited)	31 December 2015
Parent company				
Bonds issued	-	-	7,000,000	7,000,000
Interest on bonds issued	401,706	-	-	71,346
	<u>401,706</u>	<u>-</u>	<u>7,000,000</u>	<u>7,071,346</u>

For more details about bonds repurchased by PJSC "ROSSETI" see Note 12.

Dividends payable

	Transaction value for the six months ended 30 June		Outstanding balance	
	2016 (Unaudited)	2015 (Unaudited)	30 June 2016 (Unaudited)	31 December 2015
Parent company				
Dividends	1,055,978	-	1,055,978	-
	<u>1,055,978</u>	<u>-</u>	<u>1,055,978</u>	<u>-</u>

For more details about dividends see Note 10.

Management remuneration

The Group identifies members of Board of Directors, members of Management Board and top managers of the Company and its subsidiaries as key management personnel.

There are no transactions with key management personnel and close family members except their remuneration in the form of salary and bonuses which were as follows:

	Six months ended 30 June 2016 (Unaudited)		Six months ended 30 June 2015 (Unaudited)	
	Board of Directors	Other key Management Personnel	Board of Directors	Other key Management Personnel
Salaries and bonuses	-	54,382	6,291	39,227

As at 30 June 2016 current amount of liabilities of post-employment defined benefit plan, provided in the Consolidated statement of financial position, includes the liabilities related to members of the Board of Directors and key management personnel amounting to RUB 1,230 thousand (as at 31 December 2015: RUB 1,068 thousand).

Transactions with government-related parties

In the course of its operating activities the Group is also engaged in significant transactions with government-related entities. Revenues and purchases from government-related entities are measured at regulated tariffs where applicable.

Revenues from government-related entities for the six months ended 30 June 2016 constitute 5.82% (for the six months ended 30 June 2015: 0.75%) of total Group revenues. The electricity transmission revenue from government - related entities for the six months ended 30 June 2016 constitutes 0.71% (for the six months ended 30 June 2015: 0.46%) of total Group revenues.

Electricity transmission costs from government-related entities for the six months ended 30 June 2016 constitutes 0,01% (for the six months ended 30 June 2015: 2.42%) of total transmission costs.

Pricing policies

Related party revenue for electricity transmission is based on the tariffs regulated by the government.

PJSC Kubanenergo

**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016
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17 EVENTS AFTER THE REPORTING PERIOD

The facts of economic activity after reporting date on 30 June 2016, which have impacted or can impact on the financial state or results of the Group's activity in the future, are not revealed.